
TO *SERVE* AND TO *PRESERVE*:
IMPROVING PUBLIC ADMINISTRATION
IN A COMPETITIVE WORLD

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Tempora mutantur, et nos mutantur in illis
(Times are changing, and we along with them)

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FOREWORD

The overarching objective of the Asian Development Bank is the reduction of poverty. The Bank fully understands that to help its member countries meet this long-term objective, the countries' own economic and social policies must be sound and directed toward poverty reduction. In turn, the execution of such policies depends crucially on the efficiency and effectiveness of the country's public administration. The integrity of the government apparatus must be strong as well: the evidence shows conclusively that corruption is not only bad for economic activity, but is particularly harmful to the poor. Good governance, anti-corruption, and economic growth are the cornerstones of a successful poverty reduction effort.

Moreover, the rapid changes in the international context—globalization—in growth of alternative service delivery, and in information technology mandate a review of the ways in which the public sector is administered and governments interact with their people. Vast new opportunities now exist to improve the quality and access of public service provision in developed and developing countries alike. At the same time, however, these rapid changes carry costs and risks, and especially for the poor and vulnerable groups. The twin challenge of improving the effectiveness of public administration while assuring that the poor do not carry the costs of adjustment and get left behind, calls for a perspective that is forward-looking but does not lose sight of the social fundamentals that are to be protected. Hence the title of this book: governments in the 21st century must learn to *serve* the public in better and more responsive ways while acting to *preserve* the social cohesion and basic values of society.

In this task, the Bank can help its member countries not only by financial assistance, but also by putting at their disposal the basic conceptual framework, the principles of good public administration, and the lessons of international experience. This book is the fifth in an ADB series in public administration and civil service issues. We hope that this as well as the earlier books in the series can serve to foster good governance and thereby contribute to poverty reduction in the world. This book, too, benefited from the advice and comments of key ADB staff as well as of top specialists from the major international financial institutions and from

academia—acting as “peer reviewers” in their individual capacity. We are grateful to each and all of them for their active cooperation and contributions.

Tadao Chino
Tadao Chino
President
Asian Development Bank

PREFACE AND ACKNOWLEDGEMENTS

Today, we know much more and much less than yesterday. Once again, as in the Industrial Revolution, several established certainties about the administration of the *res publica*, this “public thing” as the ancient Romans called it, have been swept away by phenomenal technological advance and seismic shifts in the international distribution of power. At the same time, a variety of public management experiments intended to mimic private sector practices and market outcomes have shown a new potential for both vast benefits and severe risks. The rethinking of the role of the state and of its interface with the private sector is in full swing.

During this interregnum, as Christoph Bertram calls the transitional era in which we are living (*Foreign Policy*, Summer 2000), the least responsible approach for a book on public administration would be to give a false sense of certainty about the direction of current trends, and to attempt to give single “right” answers to the various questions facing public administration in future years. It is all the more necessary, therefore, to identify clearly the main questions themselves; recapitulate the basic principles of public administration; provide a menu of systemic choices and administrative practices, along with their rationale and probable costs and benefits; and give a balanced and informed account of the state of play and of international experience in improving the functioning of government. This is what this book tries to do.

This does not imply a wholly neutral attitude and lack of point of view. While the solutions to the challenges of improving public administration must be largely country-specific and partly home-grown, the underlying criteria of good government administration remain universal, and will be as relevant in the next 100 years as they were in the time of Confucius, Plato, Pepys, Mosca or Weber. In particular, a well-known dictum by a 19th century British political personality, Lord Acton, remains paramount: “Power corrupts; absolute power corrupts absolutely.” The overarching challenge remains, therefore, to create robust checks on the exercise of official (and private) power, and to guard against the emergence of absolute power anywhere. Only then does it become meaningful to explore ways in which to improve the efficiency and effectiveness of government action. Indeed, one of the most encouraging developments of

the past decade has been the “official” recognition of the pernicious impact of corruption and of the importance of good governance for development.

Central to development, equity and stability is the *manner* in which the resources mobilized from the population at large are expended by governments to fulfill the roles assigned to the state—in one word, governance. This book is the fifth in an ADB series dealing with the efficiency, integrity, accountability and effectiveness of government action. *Like the previous four, this book highlights international experiences and illustrations in developing, developed, and transition countries, with special but not exclusive reference to Asia and the Pacific. However, it extends beyond this, to a comprehensive coverage of public administration issues—except only the important issues of legal reform and judicial systems, which are too vast and delicate to be summarized in this context.

Again as in the other books in this series, our approach is unapologetically pragmatic, and our objective is a readable and balanced synthesis. We have consistently tried to eschew advocacy of (or opposition to) any particular “model”; reflect fairly the pros and cons of different approaches; distill the best and the worst of international experience with public management innovations; and spell out as far as possible the requirements for success of administrative reform in developing countries and transition economies.

The book is intended for a multiple audience comprising not only public sector management specialists and economists, but also policy-makers, the media, high-level public officials, and the many civil servants who labor in the administrative vineyards of developing countries. Accordingly, we wanted to avoid the feel of pedantry and the discontinuity that are typically generated by vast numbers of footnotes and bibliographical references. (Also, some of the subject matter is general knowledge, included in this volume for the sake of completeness and readers’ convenience. We have therefore kept to a minimum the customary detailed footnotes, and have instead given “all purpose” credit at the beginning of each section to the authors and sources primarily utilized for the drafting of the section.

* The previous four are: *Key Themes and Priorities in Governance and Capacity Building*, 1998; *Managing Government Expenditure*, 1999; *Simplification of Customs Procedures*, November 1999; and *Governance, Corruption, and Public Financial Management*, November 1999. All published by the ADB, they are available through the ADB External Relations Office or the ADB website “adb.org”.

Because of its multiple audience, this book requires in each chapter a progression from the basic to the highly technical. Some readers will therefore want to skip the more basic sections; others may instead wish to stop when the discussion turns to the more technical aspects. Also, some duplication is desirable for the convenience of the diverse readers. Accordingly, Chapter 1 reproduces the same summary of key points shown at the end of each of the other chapters, in order to provide a self-contained overview of the entire field—an “executive summary” of the factual dimensions of the book. The last chapter does the same with the major recommendations and sequencing of reforms in public administration in developing countries and transition economies, in order to provide a bird’s eye view of the likely directions of improvement—an “executive summary” of reform possibilities.

Part I describes the machinery of government—the mechanisms for policy formulation and coordination, the organization of central and subnational government, the distribution of responsibilities between levels of government, and the role and governance of non-governmental public entities. Part II covers the mobilization and utilization of the financial, material and human resources of government—financial management in central and subnational government, procurement, employment and compensation policy, and personnel management and training. Part III discusses the interface between the state and the citizenry, including the mechanisms of voice and exit, participation, and the role of the media and the NGOs. The final Part IV discusses the role of performance measurement, information technology, and anti-corruption measures; summarizes the developed countries’ experience with public management reforms; and outlines the strategy and sequencing of possible improvements in public administration in developing countries and transition economies. An analytical index and a highly detailed table of contents help the reader navigate through the book.

As in the case of *Managing Government Expenditure* (ADB, 1999) the importance of the subject and the scope of this volume called for a consultative process from the very beginning, drawing from the best of international expertise advice on the initial conception and feedback on the various drafts. In this process, our closest partners were from the Public Management Service of the OECD, and particularly Anne-Marie Leroy, Frédéric Boudet, and Janos Bertok, who contributed Chapters 17 and 20. Robert Beschel and Nicholas Manning of the World Bank contributed Chapter 2, and from the ADB Helena Ireen Baylon, Marilyn Pizarro and Clay Wescott contributed to Chapters 5 and Chapter 19.

As mentioned, the active involvement of other colleagues, both at the ADB and external, was instrumental as well, particularly during the technical workshop held in Manila in November 1999 to brainstorm about the core issues and review a first rough draft of the book. The list of commentators is shown below. To them all go our sincerest thanks, but we do wish to single out Dolores Bonifacio, Tony Hughes, Kim Young-Pyoung, Jon Quah, Art Stevenson, and Clay Wescott. The standard disclaimer applies with special force in this case, given the scope of this book and the institutional roles of many of our commentators: responsibility for this book and the views expressed is the authors' and to them should be attributed any remaining errors.

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We began this effort in June 1999. That it has been completed in only about one year must be credited to the enabling environment provided by the Asian Development Bank and its Regional Technical Assistance Grant (RETA 5813), the full support of the Strategy & Policy Department, and the outstanding efforts of our direct associates: Helena Ireen Baylon, who provided research assistance, Lorna del Rosario and Merly Mallion, who organized the November 1999 Manila workshop, Me-an Asico, who edited the final manuscript, and, once again, Ruby Grace de Vera, who provided editorial assistance and was in charge of all aspects of production and communications so essential for this project.

Salvatore Schiavo-Campo and Pachampet Sundaram

Chapter 1

Public Administration in the 21st Century

Adaptability is not imitation. It means power of resistance and assimilation.
—Mahatma Gandhi

The readers will find in this book no universal blueprints and very few flat prescriptions, and may well come out of it with more questions than answers and a greater feeling of uncertainty. We believe this is an advantage in these fluid times, when basic trends are being altered in ways that make all predictions suspect. *An attraction to the fashionable can be as costly as an attachment to the traditional.* However, the readers will find here a reasonable menu of different systems and practices in government administration, along with their probable costs and benefits, as well as a fair and informed account of international experience with administrative reform. Readers will also find in this book the basic principles of public administration and a consistent point of view, grounded on the fundamental criteria of good governance, good economics, and good sense.

A second caution is necessary as well. The question of the mechanisms by which political accountability is obtained and governments are elected and dismissed is very important, but is outside the scope of this book. Certainly, the discussion throughout this volume is largely predicated on the existence of *some* government legitimacy, *some* measure of legal and political accountability, and *some* separation of powers among the executive, legislative, and judicial branches of government. However, we discuss public administration issues here mainly in their instrumental aspects. There is a distinction between the *policy* question of “what” is to be done, and the *management* question of “how” it is to be done—between the objectives and the instruments. As stressed in Chapter 6, excessively hard boundaries between policy and implementation eventually lead to both unrealistic policies and bad implementation. Also, an “implementation” question at one level is a “policy” question at another level. Nonetheless, the distinction

between the soundness of the administrative instruments and the goals that they are meant to achieve remains a useful starting point. Moreover, when the analysis focuses on the instrumental, it is more generally applicable regardless of the economic orientation, strategic priorities, or policy choices of the country in question.

This chapter first provides a broad context for the analysis of public administration, showing that a number of important developments, external and internal, are changing the nature of public administration in fundamental ways. The main themes subtending the entire book are brought out in this first section, to permit each subsequent chapter to focus on the policy and practical aspects specific to the issues at hand. (The reader may therefore wish to refer back occasionally to the discussion below in order to recall the broader context of those issues.) The second section discusses the process by which to reach decisions concerning the role of the state and modalities of government intervention. That section also summarizes the main aspects of government regulation, which affects every other issue discussed in the book and thus needs to be summarized up front rather than located in a separate chapter. The final section of this introductory chapter assembles the “key points” segments of all the subsequent chapters—thus providing a map of the book for the thorough reader, as well as a stand-alone summary. (This summary should be read, however, in conjunction with the concluding chapter on directions of improvement.) An appendix to this chapter provides a brief summary of the basic concepts of state, government and public administration.

THE CONTEXT OF PUBLIC ADMINISTRATION

Globalization: A Smaller Planet, Spinning Faster

A cursory Internet search yields over 300 entries for “globalization”. Yet, interdependence among individuals, among groups, among nations, has always been a reality. Since the 14th century, global interdependence has been increasing because of the constant reduction in economic distance—due to improvements in transport technology, tariff cuts, creation of international institutions, telecommunications, etc.—but the acceleration witnessed in the last 10-15 years is spectacular. Thus, “globalization” is more than just a catchy term for an old phenomenon. There may be no difference in kind between, say, the invention of the clipper ship and that of the computer. However, the difference in *degree and speed* of impact is so vast as to constitute in effect a new phenomenon—particularly

when coincident with the rapid liberalization of external financial transactions. The core of the globalization debate is thus not the continuing decrease in economic distance *per se*, but the concern that in the last decade economic distance has been shrinking *faster than can be reasonably managed* by the international system—let alone by an individual country.

Globalization has an impact on most dimensions of government administration in most countries, and constrains the ability of national governments to act independently. Gone are the days when major decisions on the extent and manner of state intervention could be taken in isolation, without considering their reverberations to and from the outside world. This reality cuts two ways. On the one hand, there is a new constraint on many governments' ability to sustain inefficient policies and/or carry out large-scale internal repression; on the other hand, the implementation of their independent social policies and redistributive objectives is hampered as well.

The economic and social benefits from globalization can be immense, but the costs can be high as well, *and the distribution of costs among groups and countries is different from the distribution of benefits*. Globalization also has an impact on the concentration of economic power, between and within countries. The answer to this problem is not a retreat into national isolation or a weakening of international rules—quite the opposite. It is as impossible to reverse the globalization process as it would be to make television or the Internet disappear. Indeed, efforts at reversing globalization may even be counterproductive, as they divert attention from the need to counteract the possible negative impact of the globalization tendency on income distribution and effective competition. The operational challenge is to *strengthen the international and regional management* of the process, primarily to (i) slow down the external transmission of destructive developments in any one country; (ii) prevent overreaction; and (iii) protect vulnerable groups and countries from carrying the brunt of the adjustment and being left farther and farther behind.

Decentralization: A Double Squeeze on Central Government

Gone, too, are the days when central government administration had the virtual monopoly of state power. As economic distance between any two areas is reduced, the “space” for the center naturally shrinks. Globally, the nation state occupies the “center”, and the reduction in economic distance has meant a loss in effective national administrative autonomy

(and, in the case of the European Union, the voluntary “uploading” of substantial powers from the component member states to the supranational entity). But central governments have been squeezed from below, as well. The greater mobility of persons and goods, and ease of communication and information flows, have brought a number of public activities within effective reach of local government. Combined with a stronger civil society and a more assertive population, these developments have led to pressures on the center to “download” authority and resources. As *an overall trend*, internal decentralization may be as unstoppable as globalization.

At the same time, decentralization of certain functions generates the need for greater centralization of other functions (or for stronger central supervision). And the need to meet the challenges of globalization is itself a centralizing factor. The vector resulting from the contrasting forces of centralization and decentralization will of course differ in different countries. Hence, instead of arguing about “decentralization” or “centralization”, it is more useful to review the overall geographic assignment of state functions in the light of the new context, and ask (i) which functions are suitable for greater decentralization (and which are not); (ii) what is needed to make such decentralization effective; and (iii) what modifications in central government role are necessary to protect the country from the risks and costs of decentralization.

The parallel between globalization and decentralization is close. The management of decentralization calls for strong national action, just as the management of globalization requires strong international interventions. Also, like globalization, decentralization carries a potential for large overall benefits as well as risks and losses for the more vulnerable areas and groups. Internally, as well as externally, the intermediate administrative space is shrinking. In the 19th century state, this space was normally occupied by the province, acting as intermediary between the national government and the local governments. The intermediate administrative entity typically enjoyed a double monopoly position: as sole interpreter of government policy vis-à-vis local governments, and as sole provider of information and of upward feedback to the center. With the reduction in economic distance *within* countries, this state of affairs has been changing. In future years, “decentralization” may entail primarily a leapfrogging of administrative powers and resources from central to local government (rather than through the province), *plus* a further devolution from the province itself. In addition, confronted with the erosion of its autonomy vis-à-vis the global market and external entities, national governments are likely to repossess

responsibilities and resources previously assigned to the provinces. On all these counts, the importance of intermediate levels of government administration may be substantially reduced. Their role may have to evolve away from direction and control toward facilitation and technical assistance. (These trends will obviously manifest themselves differently in federal states than in unitary states.)

The International Political Environment

The end of the Cold War had four fundamental implications for the role of government and for public administration throughout the world. Three of these are discussed below and the fourth implication—the recognition of the role of good governance—is discussed in the following section.

New countries, new systems

The end of the Cold War opened the door to a massive transformation in Eastern Europe, the former Soviet Union and, indirectly, in the centrally-planned economies of Asia. These diverse countries are frequently lumped together under the designation of “transitional economies”. The common designation is useful insofar as the changes in public administration required by greater reliance on the market mechanism and a streamlined role of the state are similar. However, the common designation can be misleading because, in addition to the substantial country diversity, the structural challenges are very different.

The maximum degree of systemic transformation has been faced by the newly independent countries of the former Soviet Union. Radical changes in economy and society have occurred in the past—e.g., the People’s Republic of China in the last century. New states have emerged throughout history, too—e.g., many of the former colonies of western powers, or some components of the former Austro-Hungarian empire. But never before had history witnessed a complete reversal in economic system *at the same time* as the coming into existence of brand new political entities. The enormity of the double challenge of nation-building and economic transformation in the countries of the former Soviet Union is still insufficiently understood and recognized. Certainly, the transition is far from complete on either front.

In Central and Eastern Europe, the command economy also gave way to a market economy, but in nation-states that had been in existence

for generations or centuries. The transformation challenge was massive, certainly, but was confined to the economic and social system. Although the transition is still uneven between different countries, at the end of the century most of Central and Eastern Europe was far closer to a market-economy system with representative governance than to the previous centrally-planned model.

The circumstances of the Asian centrally-planned economies, Cambodia, People's Republic of China, Lao People's Democratic Republic and Viet Nam, are different. These countries are in transition too, in the direction of greater reliance on the market mechanism, some reduction in state intervention, and external openness, but more in an evolutionary way and within the same national as well as political parameters. (References and illustrations on transitional economies are provided throughout the book, as and when relevant to the subject at hand.)

The dark side of ethnicity

The 1990s gave a new lease on life to ethnic conflict and narrow-based nationalisms. As is well known, the decade was stained by murderous internecine conflict (sometimes spontaneous, usually manufactured or fomented for power purposes), ranging from the labor-intensive genocide of one million Rwandan Tutsis and moderate Hutus in 1994, to "ethnic cleansing" in the former Yugoslavia, spasmodic brutality in parts of Indonesia, and many other parts of the world. These conflicts revalidated at the end of the century the prediction made at its beginning by the American political scientist W.E.B. Dubois, to the effect that ethnicity would be the dominant question of the 20th century.

For public administration, the implications of the ethnic factor concern mainly the need for extreme caution when introducing into multi-ethnic countries "contractual" and performance management practices developed in homogeneous societies, as well as the design of decentralization. Decentralization, long viewed as a "technical" issue (albeit one of high order) must in future years be carefully weighed in light of the new centrifugal and fragmentation tendencies in many countries and of the risk of ethnic conflict. (This is one of the themes of Chapter 5, which discusses decentralization at length; fiscal federalism is covered in Chapter 8.) Of the many breakups of countries witnessed in the 1990s, only one (Czechoslovakia) occurred peacefully. The argument is two-edged, of course: in some circumstances, only genuine decentralization can prevent ethnic tensions from eventually erupting into overt conflict.

Similar issues apply to long-neglected caste minorities and low-status social groups in certain countries. Albeit of the same ethnicity, religion, and language as the majority population, these groups have been treated in effect as oppressed ethnic minorities. The same considerations of justice and conflict prevention are relevant to their predicament.

A peace dividend?

The end of the Cold War also changed the perspective on “national security” and therefore on military expenditure—not only for the great powers but for most countries. As Table 1.1 shows, world military expenditure fell in real terms by 22 percent from 1989 to 1992, from the equivalent of US\$ 1,047 billion (at 1995 prices) to \$811 billion. As can be expected, three fourths of the expenditure decline was accounted for by the former Soviet Union. But the trend continued after the dissolution of the Soviet Union, with military expenditure falling to \$720 billion in 1995 and \$677 billion in 1998 (at 1995 prices). Overall, world military spending decreased by more than one third between 1989 and 1998. The peace dividend was even more pronounced in relative terms, with military spending absorbing almost 7 percent of gross domestic product (GDP) in 1989 and just 3 percent in 1998. In the developing world, however, military spending declined markedly only in Africa (to less than half the 1989 level), remained about the same in Latin America and actually increased significantly in Asia and the Middle East. (See statistical appendix II for country-by-country details.)

Unfortunately, the reduction in military expenditure did not correlate with diminished conflict. This was partly due to the reemergence of ethnic hostility, noted earlier, and “labor-intensive” localized conflicts—cheap but highly efficient producers of human suffering. In addition, reflecting the logic of globalization, the shift of conflict to the internal arena has also entailed formation of transborder networks of financial support, sometimes involving diaspora groups (e.g., the Sri Lanka civil conflict), and sometimes the drug trade (e.g., Myanmar). The manipulation of trans-border trade and external support has contributed further to the erosion of central government authority, and to the growth in transnational organized crime.

An extended discussion of the implications of military spending in developing countries would not be appropriate in this book.¹ However, some general considerations emerging from the literature on the subject are useful to frame the issues for the reader.

Note, first and foremost, that there is no necessary connection between military expenditure and the security of the nation or of its people. It is often argued that military unpreparedness invites attack. However, the opposite can also be true. The Greek historian Thucydides identified 2,500 years ago what later came to be called the *security dilemma*: “What made war inevitable was the growth of Athenian power and the fear which this caused in Sparta”.² When actions by one state to enhance its security through higher military spending are seen by another state as threatening, they may lead it to take countermeasures, and the higher military spending actually diminishes security for both states. It is not really a paradox that the safest and most secure country in Central America has been Costa Rica, which for 50 years has had no army or other military apparatus. Consistent with the security dilemma, knowledgeable observers (e.g., former Costa Rican President and Nobel Peace prize winner Oscar Arias³) believe that this is precisely *because* Costa Rica has no army. Or, concerning internal security, consider the sad reality in much of Africa that the worst threat to the African citizens are their own African soldiers.

Second, in countries where a military apparatus is considered justified on grounds of genuine national security, it does not necessarily follow that increases in military expenditure bring about an improvement in security. The relationship, to the extent that it exists, is far more complex, and depends among many other things on the composition of expenditure, the suitability of military hardware, motivational factors, etc. (Chapter 9 discusses the issue of military procurement and how it relates to the quality, suitability, and price of the equipment purchased.)

Next, in cases where it is concluded that a military apparatus is necessary; that the aggregate level of military expenditure is appropriate; and that its composition is suitable—the opportunity cost of the expenditure must still be reckoned with. Especially in developing countries, military spending inevitably crowds out development expenditure. As shown in Table 1.1, despite the “peace dividend”, developing countries still spend on the military about 40¢ for every government dollar they spend on health and education. The ensuing adverse impact on development and on long-term poverty reduction must rank as a fundamental consideration in the debate on the appropriateness of military expenditure.⁴ Returning to the example of Costa Rica, that country’s respectable economic performance for 50 years and excellent social indicators are unquestionably related to the higher level of government expenditure on basic social services permitted by not spending for military purposes.

Nevertheless, in many developing countries the reduction of military spending must be managed very carefully. Military establishments faced with the prospect of sharp contraction of resources and influence may react destructively, and often have done so. Demobilizing of soldiers, too, raises delicate security, political, and human issues that call for analysis, reflection, and concrete assistance programs—from advice and help in the disarmament process to assistance for reintegrating the former combatants into productive civilian pursuits.

The Governance Context

The link between good governance and economic development has long been understood by many scholars, development practitioners, and, above all, by the average man and woman in the developing countries themselves. However, a variety of considerations (primarily the Cold War) kept governance away from the official concern of development institutions, and hence outside the technical advice and financial support for public administration improvements. Since the end of the 1980s, perceptions and policies have changed dramatically.⁵ Even the remaining alleged exception to the link between governance and development (the East Asian “miracle”) collapsed under the weight of the financial crisis that began in Thailand in July 1997 and quickly spread to Indonesia, Republic of Korea, and to a lesser extent to other Asian countries. It is now clear that fundamental public and corporate governance weaknesses were among the structural causes of the crisis. Since then, although the financial crisis was effectively over by 1999, good governance has taken center stage in East Asia as well.

The four pillars of governance

There is a general consensus that good governance rests on four pillars: accountability, transparency, predictability, and participation.⁶ Accountability means the capacity to call public officials to task for their actions; transparency entails the low-cost access to relevant information; predictability results primarily from law and regulations that are clear, known in advance, and uniformly and effectively enforced; and participation is needed to supply reliable information and to provide a reality check for government action.

It is clear that none of these four components can stand by itself; each is instrumental in achieving the other three; and all four together are instrumental in achieving sound public management. (For example,

accountability is hollow in the face of administrative secrecy, and meaningless without predictable consequences.) Furthermore, all governance concepts are universal in application but relative in nature. Accountability is a must everywhere, but does not become operational until one defines accountability “of whom”, “for what”, and “to whom”; transparency can be problematic when it infringes on necessary confidentiality or privacy: full predictability of inefficiency or corruption is not a great advantage; and it is impossible to provide for participation by everybody in everything. The relevance of these concepts to the various aspects of public management will be brought out throughout this volume. (Chapters 13-16 discuss these issues in detail.) A few general considerations are provided below.

Predictability of government action and consistent application of the rules is needed by civil servants to plan for the provision of services and by the private sector as a signpost to guide its own production, marketing, and investment decisions. *Transparency* of administrative information is a must for an informed executive, legislature, and the public at large—normally through the filter of competent legislative staff and capable and independent public media. (It is essential not only that information be provided, but that it be relevant and in understandable form.) Appropriate *participation* by concerned public officials and employees and by other stakeholders is required for the sound formulation of public policies and programs; participation by external entities, for monitoring operational efficiency; and feedback by users of public services, for monitoring access to and quality of the services. Finally, *accountability* is essential both for the use of public money and for the results of spending it.

Accountability is key

Although all four pillars of governance are interrelated, accountability is at the center, and underpins most of the discussion in this book. Because, through overuse, the term “accountability” has acquired mantra-like qualities (and has no exact translation in many languages), it is helpful to unbundle it at the outset. Effective accountability has two components: (i) answerability and (ii) consequences. First, answerability (the original meaning of the word “responsibility”) is the requirement for public officials to respond periodically to questions concerning how they used their authority, where the resources went, and what was achieved with them. (The dialogue itself matters more than any bean counting or mechanistic recitation of outputs.) Second, there is a need for predictable and meaningful

consequences (not necessarily punitive; not necessarily monetary; not necessarily individual). Third, because government must account both for the use of authority and of public resources and for the results, internal administrative accountability must be complemented by external accountability—through feedback from service users and the citizenry. Strengthening external accountability is especially necessary in the context of initiatives for greater decentralization or for managerial autonomy, when new checks and balances are required to assure that access to and quality of public services is not compromised as a result, especially for the poorer areas or segments of the population.

Corruption and Public Management

The phenomenon of corruption should not be viewed in isolation, but as part and parcel of the broader issue of governance and effective public management. Hence, the international recognition in the late 1990s of the serious problem of corruption was a logical outgrowth of the understanding of the link between governance and development at the beginning of the decade. Corruption has occurred from the earliest of time in all societies. Virtually every aspect of public administration can be a source of corruption—large procurements and major public works projects,⁷ tax administration, debt management, customs, ill-designed privatizations, etc.

Definitions of corruption can be extremely complex. The simplest definition is also the most powerful: *corruption is the misuse of public or private office for personal gain.*⁸ “Misuse” (unlike “abuse”) covers both sins of commission (i.e., taking illegal actions), and sins of omission (i.e., deliberately turning the other way). And the inclusion of the term “private” in the definition of corruption underlines the fact that there cannot be a bribe received without a bribe given. In the context of developing countries, this underlines that much corruption is externally generated. Clearly, attention needs to be paid to “imported corruption” as well as to the homegrown variety.

Quite aside from the moral and legal considerations, there is now solid evidence that corruption harms operational effectiveness; distorts resource allocation away from the more efficient to the less honest; and typically hurts the poor the most. Many economists, country officials, and development professionals have long been aware of the inefficiencies and inequities of corruption. However, it is only recently that the taboo on the

“C word” has been removed. In contrast to just a few years ago, corruption is increasingly seen as neither beneficial (“grease for the machine”), nor inevitable (“the way the system works”), nor respectable (“everybody does it”). This new consensus is being translated into actual policies of international organizations and governments around the world.

A remarkable, indeed historic, convergence of actions and policies has occurred in this area in just two years, 1997 and 1998. The World Bank enacted an official policy against corruption in September 1997. Other multilateral development banks (MDBs) followed suit rapidly. The anticorruption policy of the Asian Development Bank was approved in July 1998, and anticorruption cooperation among the MDBs has been strengthening since then.⁹ At the same time, the International Monetary Fund (IMF) promulgated the Code for Fiscal Transparency. Finally, the Organisation for Economic Co-operation and Development (OECD—the “developed countries’ club”) succeeded in negotiating in December 1997 a landmark convention against bribe-giving, which entered into force in February 1999. For the first time in history, the convention makes the bribing of foreign officials a crime at par with national laws concerning bribery of national officials—in all member countries of the OECD.¹⁰ Although the process is only beginning, most of the implementation lies ahead, and corruption will of course never entirely disappear, for the first time in contemporary history there is a concrete opportunity to reduce substantially “the cancer of corruption”.¹¹ (These and related topics are discussed in Chapter 17.)

The Institutional and Cultural Context

Although the governance principles are universal, their implementation is country-specific. Administrative systems and procedures must be solidly grounded on the economic, social, and implementation capacity realities of the specific country. In public administration, claims of universal “models” or “best practices” should be received with special skepticism. The applicability of any public management innovation generated externally must be carefully analyzed in the light of the local context and rejected, adopted, or adapted as needed.

The institutional context

Particularly important to determine such applicability is an evaluation of the country’s institutional framework and of the availability of relevant and reliable data and sufficient skills. The challenge of institutional assessment

is complicated by the reality that the majority of norms by which society runs are informal norms (including informal incentives or penalties), which are typically not visible to the outside observer. This explains the well-known paradox of countries where formal administrative systems and processes appear robust and coherent, while in reality government efficiency is poor, corruption is endemic, and public services are badly inadequate. Indeed, informality is predominant in some countries, with the informal economy supplying more goods and services than the government but at a high cost in terms of efficiency, equity, and development.¹² The norms, or rules, are distinct from the organizations that function under them.¹³ Because the total stock of rules comprises both formal and informal rules, many technical “improvements” have failed because they were in conflict with the less visible informal rules and incentives. (This is especially true in very small countries and in multiethnic societies.)

To use a mundane example, where the family is the principal social unit and custom calls for the main meal to take place at midday, the implementation of “flexitime” working arrangements is difficult. Or, a performance bonus scheme for civil servants may be apparently well designed but fail to produce improvements if it is inconsistent with an informal rule that managers use their power to help members of their own ethnic or regional group. Indeed, under these circumstances, the “innovation” may lead managers to manipulate the performance pay system in the interest of “their” people, and thus lead to more conflict and a less efficient system.

This leads to three basic points, among others:

- A design failure to take into account key informal rules is likely to lead to a failure of the administrative reform itself. Yet, it is very difficult for outsiders to be aware of these informal rules—and this is a major argument for local “ownership” and participation.
- Durable institutional change takes a long time (a result of what Douglass North called “path dependence” [North, 1990]). The expression “rapid institutional change” is an oxymoron, except *possibly* as a result of a political revolution.
- Government ministries and organizations can be merged, restructured, and created, but no change in behavior (and hence in administrative outcomes) will result unless the basic rules, procedures, and incentives change as well. For example, creating an anti-corruption commission will do little to improve public integrity unless the framework of rewards and penalties is changed as well.

The meaning of capacity building

Few other contemporary terms have generated so much confusion and unnecessary debate. At the narrow extreme, “capacity building” has been defined as only training. At the broad extreme, the term has been applied to *any* change that affects administrative organization or had an institutional dimension—however minimal. We view “capacity building” in any given sector as having four components, each unlikely to have a significant effect on the efficiency and effectiveness of the organization without some improvement in the others

- institutional development, i.e., a move from a less efficient to a more efficient set of rules and incentives, as reflected and measured by a reduction in transaction costs within the sector;
- organizational development, i.e., adaptation of the organizational structure to the more efficient rules, and/or rationalization of functions and responsibilities;
- human resource development by formation of sector-relevant skills, i.e., training (discussed at length in Chapter 12); and
- informatics development, i.e., the judicious introduction of information and communication technology (discussed in chapter 19).

A question of culture

In many countries (especially in developing countries where the experience of colonization froze in its tracks the normal pattern of cultural change and adaptation) the nature and exercise of government authority is explained more by cultural factors—including the role of gender and ethnicity—than by formal legal and administrative rules. The multiple roles played in many developing countries by government leaders—in business, tribal chief roles, and the churches—explain why the machinery of government works differently from its formal design, and why ethnic and kinship loyalties often predominate over the formal responsibilities.

While cultural factors do make a major difference on how governments are run and the public sector is managed, recognizing their importance must not lead to immobility or relativism. *First*, cultural factors do not explain why some countries succeed in crafting effective impersonal institutions alongside kinship and ascriptive criteria, while other countries in the same cultural matrix do not. In East Asia, for example, Confucian values are alleged to emphasize paternalism over legalism, and family loyalty

has been used to justify personalism and nepotism in public transactions. But, however they may be interpreted, Confucian values do not explain the varying record of success of different Asian countries in the same tradition (ADB, 1996). The experience of Singapore and, more recently, the Republic of Korea shows that strong political leaders with broad legitimacy can move society away from ascriptive standards, and establish an efficient and responsive public administration based on merit criteria. (Singapore has also been admirably uncompromising in its intolerance of ethnic intolerance.)

Second, there is a temptation to use cultural specificities as a justification for more mundane objectives, such as trade protectionism. The difficult but important challenge is therefore to differentiate between those cultural values that are genuine and positive from those that are codewords used as cover for vested interests. In the case of East Asia, there are unquestionably cultural values that have fostered economic and social progress—primarily, an attitude of cooperation between the public and private sectors, and a propensity for hard work. “Asian values”, however, have also been used to justify the cronyism and closed circles of influence and privilege that eventually led to the financial crisis of 1997-1999. (Since then, references to “Asian values” to justify practices inimical to good governance have been conspicuous for their absence.)

Beyond Dichotomies

The field of public administration and development has been sown with false dichotomies that have made clear debate and sensible solutions difficult. Fortunately, the more egregious instances (briefly mentioned below) appear to have run their course.¹⁴ This return to good sense can open the way to the sober debate that is needed in most countries on the appropriate role and modalities of government intervention in future years and, equally important, on the complementarities and partnership between public and private sectors.

Public versus private

In a nutshell, the conventional wisdom of the late 1960s and 1970s held that government action was inherently superior to the private sector, and that developing countries could expect to make progress only through public ownership and management of major industrial enterprises. The demonstrated failure of this approach was succeeded in the 1980s by its

converse: far from being “the” solution, government was seen in many countries as “the” problem. (A major corollary was the belief that private management practices can and should be applied to public administration. This is not always the case, as discussed at length in subsequent chapters.) Recent years have witnessed the plain but fundamental recognition that both public and private sectors in a society behave within the same set of institutional parameters: the operational concepts are power, size and competition—and not ownership per se. Government can be part of the solution, part of the problem, or both—depending on what it is asked to do and how its activities are supported and monitored.

Efficiency versus control

Measures to give more autonomy to public managers (or to devolve authority to lower government levels) are often resisted from fear of losing necessary central control. Conversely, advocates of those measures tend to view precisely the loosening of central control as one of the advantages of delegation. These opposing viewpoints reflect the same false dichotomy. A plethora of detailed controls is inimical both to operational efficiency and to robust **control**; but to disregard the need to introduce more effective control in a context of delegation of authority makes public managerial autonomy survive only until the first major scandal breaks out.

The alleged trade-off between efficiency and control is especially damaging in the fight against corruption. When confronted with a new anticorruption stance by the political leadership, the reflexive tendency of the bureaucracy is to buy cover, by introducing a variety of new controls and/or apply more literally and rigidly the controls that do exist. (This is more prevalent in government than in large private corporations—because public and media scrutiny focuses on public activity.) This tendency is understandable, particularly in countries where public administration has been demonized and trust in civil servants has eroded. Yet, as explained in chapters 9 and 17, such tightening-up protects against minor misappropriations at the much higher cost of clogging up the operational channels, and does nothing to prevent large-scale corruption to boot. (As the Minister of Public Works of a certain developing country once told one of the authors: “Don’t be naïve: the bigger “it” is, the easier it is.”) As noted, there is no contradiction between efficiency and control, so long as the control mechanism itself is efficient.

Unfortunately, the consequences for the civil servant are asymmetrical. There is no visible result—and thus no reward—from acting selectively to protect public resources while enabling efficient operations, but severe personal consequences are likely in the event that something goes wrong. It is rational for the civil servants to act to protect themselves even when they are well aware of the adverse impact on efficiency. There is no easy solution to this dilemma, but a greater degree of public trust in civil servants would help, as would strong political and managerial support, combined with swift and severe penalties for demonstrated malfeasance as opposed to penalizing honest mistakes or discouraging the flexibility needed to enable operational efficiency.

Results versus process

Chapter 18 will examine at length the question of performance and its measurement. Suffice to note here that *performance is a relative and culture-specific concept*. Government employees could be considered “well-performing” if they always stick to the letter of the rules, in a system where rule compliance is the dominant goal; if they account precisely for every cent of public money, in a system where protection of resources is the dominant goal; if they obey without question a superior’s instructions, in a strictly hierarchical system; if they compete vigorously for individual influence and resources, in a system where such competition is viewed positively; if they cooperate harmoniously for group influence, in a system where conflict is discouraged; and so on. This is not to say that all performance notions are equally efficient, but only to recognize that there **are** different notions. Administrative cultures evolve in response to concrete problems and incentive structures. Even when an administrative culture has become badly dysfunctional, it is still necessary to understand its roots if one wishes to improve it in a durable way. Overall, while process is meaningless without reference to results, an exclusive focus on results without protecting norms of fairness and due process is not sustainable. Thus, the results/process dichotomy makes it less likely that public performance will actually be improved in a lasting manner.

Public administration versus public management

The reader will have noticed that we use the terms “management” and “administration” interchangeably (and will continue to do so). Much has been made of an alleged distinction between the two terms, and a substantial literature on the “new public management” has emerged.

“Management” does have a more dynamic, “with it”, ring, but all major dictionaries list management and administration as synonyms.

There is some merit in the broad distinction between the traditional paradigm of government behavior—usually associated with public “administration”—and a new paradigm of “management”. Traditionally, public service was defined by the two Ps of probity and propriety, while recent years have emphasized the two different Ps of policy and performance.¹⁵ Here again, reality suggests that no contradiction exists. Procedures are not ends in themselves, but results orientation without respect for due process will not only destroy the process but eventually produce bad results as well.¹⁶ The “new paradigm” of public administration/management for the 21st century should therefore include all *Four Ps: Policy, Performance, Probity, and Propriety*. Like the legs of a chair, all four are needed to assure the soundness and durability of the administrative system.

THE ROLE OF GOVERNMENT: DIRECT INVOLVEMENT VERSUS REGULATION

The irreducible minimum roles of government are to keep the peace, enforce the laws, and assure a stable environment. However, governments in most countries have taken on a variety of responsibilities beyond these basic roles. Currently, whether from globalization, or the end of the Cold War, or the informatics revolution or other broad trends, in virtually every country there has been a rethinking of the extent, direction, and exercise of the role of the state. This process is still in its infancy and will eventually change government and its relationship with citizens locally, nationally, and internationally, and improve its flexibility and effectiveness. In future years, therefore, public administration is less likely to resemble the satirical description given in Box 1.1, which is reproduced here because it is time to lighten the discussion a little.

Box 1.1***Administratium*: New Chemical Element Discovered**

The heaviest known chemical element was recently discovered at a major research university. The element, named *Administratium*, has no protons or electrons. It has one neutron, 80 assistant neutrons, 20 vice neutrons and 120 assistant vice neutrons, giving it an atomic mass of 221 particles—which is held together by the continuous exchange of particles called morons. Since it has no electrons, *Administratium* is inert. However, it interacts with productive reactions, and causes them to be completed in about ten times the time normally required. The element tends to concentrate at certain points such as governments, large corporations, and international agencies, and can usually be found in the newest and best-appointed facilities.

Administratium has a half-life of about three-four years, at which time it does not continue to decay, but undergoes reorganization and reform. In this process, assistant neutrons, vice-neutrons and assistant vice neutrons instantly exchange places. Studies have shown that the mass of *Administratium* actually increases after each reorganization.

Caution must be exercised when in contact with this element, as its behavior can be highly contagious, it is toxic at any level of concentration, and can easily destroy productive reactions when it is allowed to accumulate. Attempts have been made to determine how the damage from *Administratium* can be controlled, and its growth limited, but results so far are not encouraging.

Source: Anonymous, circa 1996.

What Should the Government Do? Forward to the Basics

Returning to a serious vein, in fluid times such as the years ahead guidance should be sought in the fundamental concepts. Among these, a key justification for government action remains the concept of public goods and services. Briefly, the market mechanism fails in regard to goods and services that are “nonrival” and “nonexcludable”. “Nonrival” means that anyone’s consumption of the good in question does not reduce the amount available for others; “nonexcludable” means that nobody can be prevented from consuming the good once it is made available to anyone. The classic example is clean air—nonrival because everyone can breathe as much of it as needed regardless of how many others are breathing it; and nonexcludable because it is impossible to monitor and charge for individual consumption. Accordingly, there is no private incentive to “produce” clean air (or, rather,

to prevent air pollution) because the costs of doing so cannot be recovered through the market. Such public goods and services will therefore be underproduced in the absence of specific government action—whether direct production, fiscal measures, or regulation—to correct the failure of the market mechanism.

A second key justification for government intervention is the existence of “natural monopolies”, i.e., goods or services where economies of scale are so high as to prevent any competitor from entering the market once the first company has begun production in large enough amounts. Completely insulated from competition, natural monopolies also systematically underproduce, to keep prices at the profit-maximization level, and stifle technical progress. Government direct production, or regulation of price and access, or a breakup of the monopoly company, is needed to approximate the outcome of a competitive market.

It is important to recognize the dynamic nature of these concepts. A good or service which partakes of the characteristics of a public good or of a natural monopoly, may become suitable for the market mechanism as a result of technical or institutional changes. For example, cost reductions through technological improvements have introduced competition and weakened the natural monopoly element of telecommunications, and thus the justification for direct government ownership. But new public goods can emerge, too. Thus, to the extent that its benefits and costs spill beyond national frontiers, globalization has created new *international* public goods—e.g., a healthy global environment, international financial stability—with the ensuing need of international public action to protect them.¹⁷ There are also *regional* public goods, e.g., the use of a river basin common to several countries such as the Mekong in Indochina, for which there is a symmetrical case in favor of regional public action.

In addition to the two above basic justifications, of course, there is a diversity of reasons for government action, for equity, social reasons, or other public interest—as decided by the population of each country in the exercise of its sovereignty through its representative organs of governance. Nothing can be said in general about these other state responsibilities, except that the public interest to be served should be specific and demonstrated, the cost to the community should be considered, and the process of deciding whether and how government intervenes should be transparent and accountable.

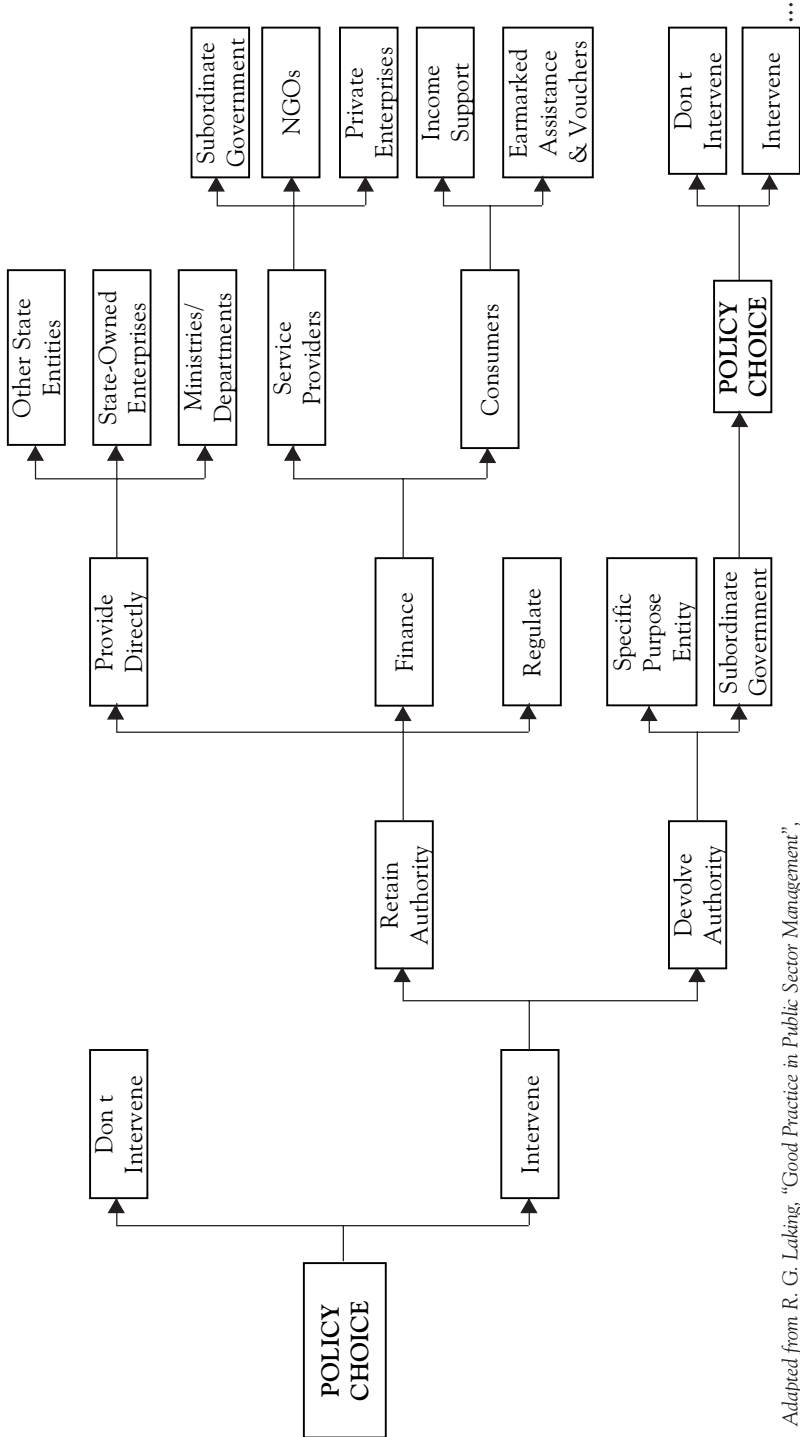
How Should the Government Do It?

A “decision tree” for public administration

The boundary between the functions best left to private action and the functions to be entrusted to the government will naturally be drawn by the citizens of each country in accordance with their circumstances and preferences. But the following hierarchy of decisions can help clarify the choices and their sequence.

How often should these decisions on the role of government be revisited? Clearly, life does not begin anew everyday, and most government programs are intended to continue indefinitely. Thus, the “zero-based budgeting” approach of the late 1970s, which called for yearly reviews of every government program from the ground up, was quickly abandoned as impractical and of little benefit. However, the process of annual budget formulation (Chapter 7) is indeed the right occasion for systematically submitting major expenditure programs to the critical scrutiny entailed by the decision tree. Also helpful is the introduction of “sunset” provisions in the enabling legislation for new programs—i.e., the automatic termination of the program in the absence of a specific decision to extend it. It is prudent to load the cards heavily in favor of the termination of programs and organizations, as the inertia for public organizations to subsist way past any useful purpose is notoriously strong. (For example, it may be advisable to require a qualified majority vote for extending life of a program/organization beyond the specified sunset date.)

Figure 1.1: A “Decision Tree” for Government Intervention¹



¹ Adapted from R. G. Laking, “Good Practice in Public Sector Management”, World Bank, July 1996.

Whose ox is being gored?

The major problem with the above decision scheme (and similar ones) is that it assumes away the distributive impact of any one of the decisions depicted in it. It is an axiom of economics and politics—indeed, of organized group life in general—that most decisions entail both winners and losers. Aggregate efficiency is an important criterion, but it is certainly not the only one, and not even the main criterion in most political environments. The question of whether a particular activity is appropriate to the domain of the state, or a certain service suitable for private delivery, etc., will be answered differently by different interest groups and individuals. The essence of a good political system is to manage the inherent conflict of interests in a peaceful manner and through a process that society as a whole believes fair and effective. This may well require a departure from a “technocratic” application of decision criteria to determine the role of government.

In this context, one should remember the distinction between majority, unanimity, and consensus. Beyond arithmetic majority rule, sustainable legitimacy requires guarantees for the rights of minority groups and systematic opportunities for minority opinions to be heard. Unanimity is obviously an impossible and undesirable decision rule. But “consensus” does not require unanimity. A consensus entails that no significant segment of society is so strongly opposed to the decisions as to put at risk its continued cooperation with the system as a whole. Hence, the formulation of administrative changes affecting large groups of citizens must always incorporate meaningful participation of major stakeholders, and their implementation should be mindful of the legitimate interests of those concerned.

Nevertheless, the hierarchy of issues shown in the decision tree is generally applicable in all countries. If it is not applied ideologically or mechanically, the approach can be very useful as a starting point to clarify the public/private boundaries in specific instances (although, as noted repeatedly, the answer will differ in different countries and at different times).

Government Regulation¹⁸

In the decision tree shown above, as soon as it is determined that there is a good enough reason for government intervention in a specific activity, the next question is whether to choose direct government involvement of some sort, or indirect government influence through

regulation. The subject of regulation is complex and extremely varied. Also, government regulation has an impact on virtually every topic discussed in this book. It is therefore not advisable to attempt to deal with it in a separate self-contained chapter. We have decided instead to summarize the key considerations below—by way of introduction—and include in each subsequent chapter appropriate mention of the main regulatory aspects of the topics under discussion. We recommend that interested readers delve into the extensive literature on government regulation, with special reference to the sector of their special concern.¹⁹

Effective regulation to achieve a specified public interest is an essential function of government. A good regulatory system supports national economic activity, development, and equity in many ways—defining property rights and avoiding needless litigation, fostering competition, correcting market failures, and promoting efficient and equitable social and environmental policies. However, excessive regulation, especially when non-transparent and arbitrarily enforced, raises transaction costs for the economy as a whole and generates a variety of risks, including corruption.

Regulations are promulgated by different government entities. Legislative delegation of regulatory powers to central government administrative agencies is an accepted feature of most countries' public administration. But regulation is a major activity of provincial and local governments as well. The regulatory activity of subnational government is of two kinds: in an autonomous capacity under the doctrine of "original powers", or through the delegated administration of national regulatory programs. Indeed, it is subnational regulations that affect most activities of daily importance to the citizen, including licenses, land use, building codes, etc.

Central government regulations may be administered by the government departments themselves, or delegated to other entities. In turn, regulatory power can be delegated either to a separate bureau under regular ministries, or to a fully separate agency exercising powers of licensing, rate-fixing and safety regulation (e.g., in the United States (US), the Occupational Safety and Health Administration, and the Interstate Commerce Commission, respectively). The number and importance of such commissions has grown in many developed and developing countries, following the opening up of many sectors of the economy to competitive providers, and the resulting public concern to make sure this opening does not harm the environment and the consumer.

Categories of regulation

There are three broad categories of regulations:

- economic regulations, which affect directly the market, such as on pricing, competition, market entry, or exit;
- social regulations, which protect public interests such as health, safety, the environment, and social cohesion; and
- administrative regulations, through which governments collect information on a variety of subjects and intervene in individual cases under specified criteria.

Each category in turn contains important differences. Economic regulations can range from a requirement of government approval prior to marketing a product (as for example approval by the Food and Drug Administration in the US before a new drug can legally be sold), to mere disclosure of information (e.g., the statement of health risks required in most developed countries to be attached to the sale of cigarettes). At national and local levels, economic regulations have vested broad discretion in regulatory agencies in areas like the issue of licenses and the fixation of fees and rates. Standards are normally adjusted during use, within the broad rules, rather than starting *de novo* every time a judgment is needed.

Judicial review of regulatory actions

In addition to the disclosure by public agencies of their regulatory actions under information laws, external checks are needed to ensure accountability. In most countries, judicial review is the main forum for challenging administrative actions and seeking redress. Judicial review covers a number of issues: whether the agency or the ministry violated constitutional provisions or statutory obligations; failed to adhere to procedural requirements; was arbitrary and capricious; abused discretion; or acted without substantial evidence. In addition to judicial review, challengers of the agency's actions may seek criminal prosecution, money damages, or injunctive relief. In many countries, the individual employees may be held liable (and not only the agency). Some countries, such as India, provide for the challenge of administrative actions in consumer courts. The weakness and inadequacy of the judicial system in most developing countries, and the reluctance of many political executives to abide by court orders, reduce the effectiveness of judicial protection.²⁰ Nevertheless, when well-meaning officials are buffeted by political pressures, the judicial

pronouncement can enable them to take the right course of action and at the same time afford relief to the citizen.

Reconciling regulatory conflicts

A first potential conflict is a “vertical” one, between national regulations and the actions (or preferences) of decentralized government bodies. Minimum national standards are needed in areas like environmental protection, use of natural resources, health and safety, international obligations (e.g., the European Union rules), protection of minorities, etc. Such national standards may well conflict with the needs of devolution and local autonomy, or may be inconsistent with the ability of local government to enforce them, when funds to do so are not provided centrally (the so-called “unfunded mandates”).

A second area of potential conflict is a “horizontal” one, between national regulations and the objectives of specific central government entities. National laws and regulations may conflict with management discretion and operational goals of the entities. This occurs most often in the area of personnel—rights and obligations of civil servants, privacy and integrity protection, affirmative action, etc. Recently, in countries that have moved toward managerial flexibility based on contractual relationships, a conflict has arisen between the traditional principles of equality of treatment of employees and the differentiated treatment of employees in different agencies. Conflict may also emerge between the essential provisions for accountability and transparency of public administration, and the reluctance of individual agencies to disclose the bases of decisions or invest time in adequately informing the public.

Special problems of government regulation in developing countries

Government regulation operates in very different ways in different countries. While the formal regulatory framework may appear substantially sound, realities often differ—especially in developing countries. The extent of legislative oversight of executive action is uneven in depth and quality; the organization of the judiciary and the administrative tribunals varies, depending on the country’s administrative tradition; the formal rules coexist with custom; most importantly, the weaker administrative, managerial, and judicial capacity in many developing countries make the enforcement of administrative regulations unpredictable, uneven, and largely dependent on power relationships. The major problems in developing countries are

weak enforcement capacity; collusion between the regulators and the regulated; and an opaque and discretionary rule-making process—combined with the excessive number of regulations, many of which are archaic and unnecessary.

Weak enforcement capacity in safety, health, land use, environment, and other public interest regulations permits flagrant violations of key regulations, with especially damaging impact on the poor. In the financial sector, weak enforcement of banking laws or of capital market rules, can cause the collapse of institutions and result in major economic problems, as illustrated most recently by the 1997-1999 financial crisis that hit East Asia.

The absence of arm's-length relationship between the regulator and the operator restricts not only competition but accountability as well. A case in point is the telecommunications sector, where the original public sector operator often succeeds in de facto retaining the power to license new operators and fix tariffs. Similar conflicts of interest are seen in civil aviation, communication technology, and utilities.

Beyond the sheer volume of regulations in developing countries is their haphazardness and inconsistency. Many regulations are open-ended and ambiguous, exposing the citizens to the discretion of petty officials. (For example, the cost of red tape and corruption for a government exporter in Bangladesh can be more than three times the cost of setting up the business—World Bank, 1996b). The “red tape” problem is aggravated by the lack of transparency and of citizens’ access to information on the current regulations and to the procedures for dispute resolution. Indeed, the single most important source of corruption is an overcomplex, opaque, and overlapping regulatory framework; accordingly, the strongest single anticorruption measure is regulatory simplification and streamlining.

Volume, cost, and quality of government regulation

Regulatory inflation has been evident in most countries in the second half of the 20th century. The French Council of State (*Conseil d'Etat*), which rules on the legality and propriety of administrative and legal proposals, called the situation a “regulatory hemorrhage”. In France, between 1960 and 1990, the annual production of laws increased by 35 percent, and that of decrees by 25 percent. Australia saw a doubling of subordinate legislation between 1982 and 1990. The Indian Commission on Administrative Law estimated the number of Central Acts in force in 1998 at around 2,500,

and felt that half of them could safely be repealed. In the US, the comprehensive Code of Federal Regulations swelled from 54,834 pages in 1970 to over 138,000 pages in 1995. The trend is not very different in other countries, both developed and developing. In addition to national regulations, there is the mass of ministerial, agency-level, and municipal orders, decisions by independent administrative authorities and tribunals, and government circulars—not to mention the regulations of international bodies (e.g. the European Commission or the World Trade Organization) that countries and companies must comply with. Not only is there a plethora of laws and regulations, but they change so quickly that citizens (and sometimes the frontline employees) do not know their current content.

Aside from the risk of corruption inherent in excessive and opaque regulation, the cost of regulation has four main components—rarely taken into explicit consideration when enacting the regulation:

- fiscal costs to government of administering the regulation (in the US, such costs increased five-fold between 1970 and 1995);
- administrative and paperwork costs for businesses and citizens. (in OECD countries, this cost is estimated at 1.7 percent of GDP);
- costs of compliance—i.e., the cost of buying new equipment, reconfiguring production processes, relocation, and cost escalation due to delays in receipt of permit (in OECD countries, such compliance costs are estimated to be in the range of 10 percent of GDP);
- indirect costs to the economy, in the form of reduced competition and innovation, and lower investment.

Other things being equal, the quality of regulation is inversely related to the volume of regulation. This is largely because enforcement becomes more and more difficult the greater the number of rules to be enforced. Government regulation is indeed a case where typically “less is more”. But the effectiveness of enforcement is also a function of the quality and appropriateness of the rules themselves. Unrealistic regulations, petty nuisance rules, and either trivial or draconian penalties, lead to weak enforcement and widespread evasion, especially in developing countries.

As a broad principle, if the cost to the private operator of respecting the regulation is greater than the penalty from violating it (weighted by the probability of being caught), the regulation has little chance to be respected. Hence, an unrealistic or excessively cumbersome rule, which raises the cost of compliance, also reduces the probability of compliance (and may open

up bribe possibilities). Thus, bad quality regulations raise transaction costs for the economy as a whole and fail to satisfy the legitimate purposes of government regulation to boot.

Deregulation?

The rush to regulate should not be succeeded by a rush to deregulate. There is a very strong case for streamlining and reducing the regulatory framework in most countries, and the burden of proof should be shifted onto those who would retain a particular rule rather than abolish it. However, pell-mell deregulation that does not carefully consider the original purpose of *each* rule and anticipate the reasonable consequences of removing it, is a risky and unnecessary approach.

A variety of well-publicized efforts at deregulation or regulatory simplification have been undertaken in many countries for years. Regulations are hardy weeds, however, partly because most of them serve specific interests and partly because they generate the employment of regulators, who are understandably unhappy at the prospect of losing the basis of their jobs. Some deregulatory progress has been made, but much more slowly and in fewer countries than the widespread rhetoric could lead one to believe. As a very broad generalization, it is almost certainly true that these efforts have significantly reduced government regulation below what it *would have been* in their absence. It is doubtful, however, that deregulation efforts have so far made much of a dent in the volume of regulation overall—with the signal exception of a few countries. It is at local government level that deregulation has been more effective.

Many countries have established specialized offices at ministerial level for streamlining regulatory mechanisms across the government. These include, for example: the Office of Regulatory Affairs in Canada; the Deregulation Unit in the United Kingdom (UK) Cabinet Office; the Office of Information and Regulatory Affairs in the US Office of the President; the Economic Deregulation Board in Mexico, and Japan's Administrative Reform Committee (advising the Prime Minister). Such offices are most effective if they are independent, horizontal across government, have the right expertise, are able to take the initiative, and are linked to centers of oversight and political authority (OECD, 1997).

From Three to Four Es

The classic “three Es” of public administration are economy, efficiency, and effectiveness. *Economy* refers to the acquisition of goods and services of a given quality at lowest cost and on a timely basis. (It is the main criterion of efficient government procurement—see Chapter 9.) *Efficiency* subsumes economy, as it refers to production at the lowest possible *unit* cost (for a given quality). *Effectiveness* refers to the extent to which the ultimate objectives of the activity are achieved. For example, in a vaccination program, the criterion of economy calls for procurement of quality vaccine at lowest cost and in good time; efficiency calls for maximum number of vaccinations given the resources available; effectiveness entails the highest reduction of disease. (See Chapter 18 for a full discussion.)

Can we then conclude that a public management system that operates economically, efficiently, and effectively is necessarily a good system? No, for two reasons. First, as noted earlier, due process must be respected or the credibility of government will be impaired over time. Second, someone must look out for the long term and the needs of minorities and the poor. Thus, a fourth “E” must be added to the mix: *Equity*. Unless a government takes into fair consideration the circumstances and needs of the poorer and disadvantaged groups in society, the most “efficient” system will not be sustainable, owing to the cumulative internal tensions and to the withdrawal of that voluntary cooperation, which is the cement of good governance. In the short run, there may be a conflict between efficiency objectives and equity objectives; in the long run, there is none.

Hence the title of this book: in the course of the difficult adjustments of public administration imposed by the new global context and technological trends, it is imperative to keep in plain sight both the requirement of *serving* the public well and the requirement of *preserving* the cultural, ecological, and social capital of the country.

PUBLIC ADMINISTRATION AND THE CIVIL SERVICE: A BIRD’S-EYE VIEW

This section assembles the “key points” from all subsequent chapters, thus providing an executive summary of the factual contents of the entire book. (Policy considerations and recommendations are assembled in the last chapter.) First, however, one needs an idea of the magnitude of government, that is, the quantitative scope of our subject matter.

How Big is Government?

The more practical indicators of government size are the percentage of population (or of total employment) accounted for by government employment, and the ratio of government expenditure to GDP. The ratio of government expenditure to GDP is obviously much higher than the ratio of government employment to total employment, due to the fact that a larger proportion of government expenditure is allocated to goods, services and equipment than the proportion that goes to employee salaries. Although these two indicators correlate very closely with one another (and the ranking of countries by relative government employment is very close to the ranking by relative government expenditure), government expenditure provides a more intuitively meaningful indicator of government “size”.

Worldwide, at the end of the century central government accounted for about 35 percent of total GDP. (Advocates of activist government would say it “contributed” 35 percent; advocates of minimalist government would say it “absorbed” 35 percent.) Certain important facts appear evident. First, despite the well-publicized efforts of recent years to reinvent, right-size, contain, limit government, central government expenditure increased in relative size between 1980 and 1999, from less than 32 percent of GDP to more than 34 percent. (General government size probably increased by more, as local government expenditures were pushed up by decentralization moves in many countries.) However, the aggregate change masks substantial regional differences—and mainly a significant expansion of central government in industrial countries combined with a reduction in the rest of the world. Central government expenditure rose in the industrial countries of the OECD from 34 percent of GDP in 1980 to almost 40 percent in 1999. In the rest of the world, it fell from over 28 percent of GDP to less than 26 percent. What is perhaps of greater concern for developing countries is that the entirety of this decline was accounted for by public investment expenditures, which fell in relative terms by more than one third, to just 4 percent of GDP.

The aggregate trends can be misleading in other ways as well. Within the OECD group, for example, the increase in government size came about largely in continental Europe, which generally reaffirmed its commitment to an extensive system of social protection. A few countries (notably New Zealand and to a lesser extent Ireland and the Netherlands) showed a significant reduction and the other countries remained at about the same relative levels. Major regional and country differences exist in the rest of the world as well.

In any event, the size of government cannot be discussed in isolation from an assessment of the population preferences concerning the role of the state and of the effectiveness of government action. A very small government can still be too large if it is inefficient and wasteful; and a large government can still justify expansion if the citizens wish it to undertake additional tasks and it has demonstrated its effectiveness. Also, the increase in central government in the last two decades was accompanied by a considerable improvement in the fiscal situation. The overall fiscal deficit declined almost across the board (from 4.9 percent to 3.8 percent of GDP in industrial countries, and from 3.9 percent to 2.6 percent of GDP in the rest of the world), giving to the non-government sector greater financial room to maneuver, and reducing pressure on interest rates. Government expenditure in industrial countries has become larger but more affordable at the same time.

Clearly, then, broad generalizations must give way to a country-specific and detailed analysis if sensible answers are to be given to the question of whether a country's government is too big, too small, or just right. What is beyond question is the plain reality that government everywhere is large enough to be a major positive influence on the economy if it is effective, and a major drag if it is not. The effectiveness of public administration is therefore a relevant subject everywhere, and its improvement is a major challenge in every country. The remainder of this chapter summarizes the key points of each aspect of public management, as they are shown at the end of each of the subsequent chapters.

Government Machinery and Organization

Policy formulation and coordination

The policy formulation and coordination function is fundamental for the smooth running of government. Effective mechanisms for policy formulation and coordination are closely correlated with a more predictable policy framework, better regulation, lower corruption, and a stronger rule of law. These factors, in turn, have an important impact on entrepreneurship, investment, and administrative effectiveness—all of which require clear guidelines and a sense of direction from the top.

Central policy formulation and coordination mechanisms take a different form in parliamentary and presidential systems of government—more structured and “collective” in the former, more flexible and dependent

on leader's personality in the latter. In all cases, however, they are intended to perform five basic tasks: (i) providing adequate information and early notice about impending policy issues; (ii) ensuring prior consultation of all relevant government stakeholders; (iii) giving supporting analysis and spelling out options; (iv) recording and disseminating policy decisions; and (v) monitoring implementation of the decisions.

For the good conduct of the above tasks, four guiding principles emerge from the international experience: (i) discipline, to exclude policy decisions that cannot be financed or implemented; (ii) transparency of decision making, while preserving the confidentiality needed for frank debate; (iii) predictability of policy direction, avoiding frequent reversals of policy decisions; and (iv) "structured choice," i.e., an orderly process that brings to the attention of policymakers only important issues and screens out trivial matters.

A strong and effective secretariat is therefore a must for effective policy coordination. In presidential systems, the secretariat function is normally placed in the office of the president. In parliamentary systems, it can be either in the prime minister's office or in a "cabinet secretariat," which serves the cabinet (or council of ministries) as a collective group. Policy secretariats can vary in size and function. The Singapore Cabinet Office with 15 civil servants is at one extreme, with the Office of the US President with over 4,000 staff at the other extreme, and the British Cabinet Office and Prime Minister's Office in the middle, with about 200 staff combined. However, in all cases the office must at least assure an orderly flow of "traffic" and facilitate the decision-making process.

Finally, for the policy formulation and coordination process to work well, in addition to a well-functioning central office, there must be good cooperation at all levels of the bureaucracy. This cooperation requires both formal mechanisms such as committees and interdepartmental working groups, and informal networks of communication and cooperation among civil servants, which the government should encourage and support.

Organizational structure of central government

The central government in all countries is organized into various ministries (sometimes called departments), and various supporting units within or outside the ministries. Function has become the prevailing principle for establishing ministries and organizing the work of government. In turn,

functions are grouped according to the criteria of nonfragmentation, nonoverlap, span of control, and homogeneity. These criteria determine also whether a new function requires setting up a new ministry. In addition to function, new ministries sometimes are set up to signal new policy thrusts, e.g., on environmental protection. Of course, the country's administrative and cultural traditions are also relevant to how government is organized.

The approach is generally to group functions into as homogenous units as possible, to facilitate the exercise of distinctive authority by ministers, without overlap or gaps, and thus foster accountability. However, overlapping jurisdictions may sometimes have advantages in generating internal debate and providing citizens alternative avenues for services.

The pressure to cut public expenditure and downsize government administration has pushed several countries to reorganize and reduce the number and size of government ministries and departments in various ways. This tendency was reinforced by the moves toward decentralization and the demand of subnational government units for more authority and resources. In transitional economies, the effort to restructure the economic and political systems has naturally required extensive reorganization of central government.

As a general rule, the number of ministries must neither be so large as to impede coordination, nor so small as to place an excessive workload on each ministry and cloud accountability. In practice, the number of ministries varies enormously between countries, from close to 100 ministries in some countries to fewer than 10 in others. Each ministry serves an average of 43 million people in the People's Republic of China, and 1,300 people in the Cook Islands.

Thus, the number of central government ministries does matter, not only for coordination, but also to keep down the costs of government and contain the pressures for bureaucratic expansion. Broadly speaking, most countries could manage very well with 12–18 central ministries. However, reducing the number of ministries by itself produces no advantage and in some cases can weaken accountability by producing hybrid entities.

The organization of regulatory bodies is an important influence on the effectiveness of the regulatory function, which is an essential function of government in any country. As noted earlier, regulation has expanded vastly in the 20th century. In part, this expansion was related to increasing concern with safety, public health, environment, consumer protection, banking and

financial stability, etc. But also, a veritable regulatory hemorrhage has occurred in most countries, with new regulations added without deleting obsolete ones, or an unnecessary detail in regulations to address a valid public purpose. An excessive amount of regulation not only carries costs for the government and the economy, but worsens the quality of regulation and weakens its enforcement. Accordingly, a worldwide movement toward deregulation began around the late 1980s. In this movement to deregulate, which is appropriate and timely, care must be taken nevertheless not to eliminate inadvertently rules that are necessary and efficient. Therefore, just as new regulations should be subject to a realistic cost-benefit test, so should proposals to remove regulations. Because resistance should be expected from the entities responsible for administering the regulations under review, a serious effort at reducing regulations must include the elimination or merger of some regulatory bodies themselves.

Organizational structure of subnational and local government

Every country has levels of government below the central national government. Subnational government entities have different powers, resources, and organizational structure, depending on whether the country has a unitary or federal political system, as well as its colonial experience, persistence of customary forms of local administration, and the character of the independence movements. Generally, however, subnational government is subdivided between an intermediate level (regions, provinces, or districts) and local government (at the municipal and village level). In some administrative systems, subnational entities have only the powers specifically delegated to them by the central government; in other systems, they operate on the "general competence" principle, by which they can exercise all powers not expressly reserved to central government.

In many countries, the rights and powers of local government are explicit in the constitution or in national legislation; in other countries, they remain unspecified, and hence are generally dependent on the attitude of the central government of the day. Moreover, in most developing countries, the actual functioning of local administrative systems is strongly influenced by cultural norms and customs. Especially in Africa and in the Pacific, formal structures have often been grafted onto traditional modes of local administration. Therefore, when assessing possible improvements in the effectiveness of local government administration (including those suggested below), it is important to look beyond these formal structures to the role of customary systems and traditional leaders.

There are major differences between local administration in rural areas, in cities, and in megacities with over 10 million inhabitants. In rural areas, the frequent structure of government in developing countries is that of a village council with elected members at the base, a second-tier level of government to represent a group of villages, and a top tier of government at district level with indirectly elected members. In cities, the organization of municipal government is largely a function of the services it provides.

City government is normally organized to deliver services (such as waste disposal, water supply, internal transport, fire fighting, parks, and similar services) for the direct benefit of the local population. In a minority of cases, municipal governments are appointed by central or provincial authorities—a system that in developing countries partly reflects a central distrust of local authority inherited from the former colonial administration. In appointed municipal governments, management is typically much less responsive and personnel loyalties are divided. Within elected municipal governments, the more frequent problem is fragmentation of authority, especially when the executive head (the mayor) is elected by the members of the municipal council. The main alternatives are separate direct election of both the mayor and the council, and the mayor-in-council model, whereby the majority party elects a slate of councilors along with a person to head the group. In the direct election model (resembling the presidential political system), the mayor has the strongest degree of authority, derived from the personal electoral mandate. In the mayor-in-council model (resembling the cabinet system described in Chapter 2), councilors are responsible for their departments but also function as members of a collective executive under the leadership of the mayor. Whatever the manner of election of the mayor, the local political authority usually benefits from establishing a strong administrative executive (city manager or similar role).

The expansion of megacities (urban agglomerations with more than 10 million people) is the most striking feature of late 20th century urbanization. By 2025, megacities such as Bangkok, Calcutta, Jakarta, Manila and Seoul will account for some 400 million people in Asia alone. A megacity typically comprises a core area, a metropolitan ring, and an extended metropolitan region. Therefore, the conventional single-municipality model is clearly inadequate, as responsibility for services in megacities is badly fragmented and cannot be associated with specific municipal boundaries. Megacities are in special need of good governance and strong coordination and planning, to deal with environmental degradation and extreme human poverty. Interagency coordination is

essential and the central and intermediate levels of government must necessarily play a major role.

Decentralization: what, when, and how

Decentralization has been transforming the structure of governance in many countries in recent decades. It has taken place for different reasons, and mainly improving the effectiveness of public service delivery; raising the quality of governance by empowering the local communities; and reducing the risk of national fragmentation along regional and ethnic lines. The term “decentralization” encompasses a variety of different measures, depending on the degree of autonomy of the subnational entities from the central government. Obviously, such autonomy is greater in federal states than unitary states. Generally, the decentralization continuum progresses from deconcentration through delegation to full devolution. Deconcentration is the first stage of decentralization: it shifts responsibility for a service to central government staff working in the region, province or district, but does not transfer the central government authority. Delegation involves, in addition, the granting of exemptions from certain central rules and broad authority to plan and implement decisions without direct central government supervision. Devolution entails the full transfer of certain functions from the central government to subnational government units—although the central government normally retains some monitoring and financial role.

The economic rationale for decentralization rests on Oates’ “decentralization theorem”, which states that a public service should be provided by the jurisdiction having control over the minimum geographic area that would internalize the benefits and costs of such provision. The theorem is pretty difficult to apply in practice. A simpler rule is the “subsidiarity principle” applied by the European Union, according to which taxing, spending, and regulatory functions should be exercised by the lowest possible level of government unless a convincing case can be made for assigning these functions to higher levels of government.

The potential gains of decentralization derive basically from the close contact local government institutions can have with local residents. Decentralization can (i) open up public participation in government decision making; (ii) create opportunities for more accountable government; (iii) provide more transparent government; and (iv) ease financial strain on the central government. Decentralization can therefore result in more flexible

and effective government administration—since government can tailor its services to the different needs of society, and foster political stability and national unity—since civil society organizations are given a stake in maintaining the political system.

However, decentralization also carries potential costs and risks, especially when it is an ad hoc reaction to an urgent problem instead of a carefully designed structural reform. Decentralization can cause duplication, waste, underemployment of government staff and equipment, coordination problems, and regional inequities and societal conflicts. Decentralization also has a positive or negative impact on governance. The generic test is whether the legitimacy and quality of governance are higher at local level than at national level. If the answer is no, decentralizing into a comparatively worse governance climate will tend to worsen the quality of governance in the country as a whole.

Concerning *geographic decentralization*—the manner in which state territory is divided into smaller areas with specific authority—the basic principle is to match area to function, i.e., first define clearly the nature and scope of government functions, and on this basis delineate the area within which the functions are to be performed. Other approaches include the *community approach*, which considers social geography; the *efficiency approach*, which considers the costs of producing the service; the *management approach*, which considers the relative organizational capacity of levels of government; the *technical approach*, which based on the resources, landscape or economy of different regions; and the *social approach*, which considers the natural affinity of inhabitants of the different parts of the national territory.

The desirable degree of decentralization, of course, depends largely on the specific function under consideration. Actual experience and sound theory show that certain functions are closely associated with particular levels of government. For example, defense or monetary policy is most often assigned to the national government; education, health, and social welfare to the provincial levels; fire protection and water supply to local government. However, different functional assignments are possible, especially in the case of small city-states, and any general classification of functions should be considered indicative rather than prescriptive.

Political decentralization shifts decision-making powers to lower levels of government and entails setting legal and regulatory provisions to ensure that (i) a favorable political environment for decentralized decision-making is created; (ii) decentralized entities coordinate and cooperate with each other; (iii) decentralization initiatives are sustained and acquire a degree of political permanence; (iv) decentralized entities act in conformity with national standards; and (v) citizens have access to local decision making.

Political decentralization is linked with *administrative decentralization*, i.e., creation of new organizations and local performance of certain administrative tasks. However, the reverse is not true: administrative decentralization does not necessarily require political decentralization. As noted, through deconcentration, subnational government can perform a myriad of administrative tasks and yet have no autonomous decision-making powers.

In a decentralized setting, coordination and close intergovernmental relations are critical not only for the strategic coherence of government but also for the preservation of a national identity.

*Non-ministerial government bodies and
corporate governance of public enterprises*

Direct government delivery of public services is only one option for government intervention. Public services may be also delivered by autonomous public entities, private businesses, or nongovernmental voluntary organizations. The basic distinction is between service policy, service financing, and service delivery. Depending on the nature of the service and on administrative capacity, appropriate government involvement is a continuum—from full and direct involvement in all aspects of service provision to only setting a few basic rules.

The destination between the policy function and the implementation function has recently led some developed countries to a complete separation between the government organization charged with setting policy and an “executive agency” entrusted with service delivery—fully autonomous and responsible for results. The conceptual justifications for such complete separation have been the need for the leadership to “focus” on policy without operational distractions, or the risk of “capture” of policy by the bureaucracy that delivers the service. However, when policy is fully divorced from implementation, a policy focus can easily become a policy ivory tower. Also,

while separation reduces the risk of capture by bureaucratic insiders, it creates a new risk of capture of the public service by private outsiders. When, as in developing countries, government has a weak capacity to measure results and monitor behavior of autonomous entities, the executive agency model is especially hazardous.

Aside from executive agencies, the drive for alternative modalities of service delivery has led to the growth of various nonministerial government bodies. Because they are intermediate between direct service delivery by a regular ministry and a fully autonomous executive agency, such bodies have more autonomy and flexibility than the former but are subject to a greater degree of government control than the latter.

Historically, public enterprises (i.e., enterprises majority-owned by the state, directly or indirectly) have played an important role in the continuum of service delivery. Their rapid and largely excessive growth in the 1960s and 1970s, combined with the technological and informatics advances of the 1980s and 1990s, has produced in most countries a bloated parastatal sector badly in need of reforms. Among these reforms, privatization is the best known and often the most appropriate. However, a number of public enterprises will remain in the public sector indefinitely, and others will take a long time to privatize. Clearly, there is a need for efficient ways to manage and control these enterprises and protect their assets—corporate governance. Corporate governance is therefore a component of public enterprise reform, not an alternative to reform. The main dimensions of corporate governance are as follows.

Corporatization is the setting up of a separate legal entity for the enterprise, which thus becomes subject to ordinary commercial law. It has resulted in major efficiency gains, and has the added advantage for developing countries and transitional economies of classifying legal title and sorting out property rights. Resistance to corporatization comes typically from enterprise managers and their patrons in government, rather than from the employees, if the corporatization process is managed fairly and transparently.

The problem of *selecting an agent* to represent the state has different solutions. Experience suggests that the best solution, on balance, is to create a central public agency to exercise the state ownership rights in the public enterprises, but without managing the enterprises themselves.

The challenge of *improving management* can be met primarily by better selection of managers and evaluation of performance, both of which call for developing independent channels of evaluation, locating the authority for managers' selection and removal in one entity, and severing the links between managers and their patrons in the ministries.

The main options for an arm's length relationship between the government and the enterprise, which still protects the public interest and the enterprise assets, are a board of directors and a performance or management contract. There are various ways to structure *boards of directors*, but the common problem is to assure effective board control over enterprise management. The effectiveness of *performance contracts* (between the government and a public manager) depends largely on the availability of reliable information, strong administrative capacity, a pool of competent public managers, and genuine commitment from both sides. Consequently, performance contracts have been effective only in the few countries that possess those characteristics, and ineffectual elsewhere. *Management contracts* (between the government and private management groups) have often been a blank check for private managers to strip the company assets or milk its profits, and are to be avoided unless they entail large equity participation by the private managers. Even then, close monitoring by government is a must, and management contracts are therefore extremely risky in developing countries.

Managing Government Resources

Managing central government expenditure

Although public expenditure management is separate from tax and customs administration, good expenditure is very difficult without reliable forecasts of revenue as a starting point.

The management of central government expenditure has three key *objectives* and one requirement for sustainability. The three objectives are expenditure control, allocation of resources in conformity with policy priorities, and good operational management. These objectives may be mutually conflicting in the short run but are complementary in the long run, provided that the requirement for sustainability is also met. This requirement is that the budgeting system must abide by due process and meet the criteria of good governance, including transparency.

Because the budget should be the financial mirror of government policies, its coverage must be comprehensive (including all revenues and expenditure, whether financed locally or through foreign aid, and using the same classification for all expenditure categories), and it must disclose all decisions that have a fiscal impact (e.g., loans) or carry a fiscal risk (e.g., loan guarantees).

The *preparation of the budget* should start with a top-down approach, whereby a medium-term macroeconomic framework allows the definition of the initial spending ceilings—both for overall expenditure and for expenditure in each sector. Next is a bottom-up stage, in which the ministries and agencies formulate their spending programs consistent with both the policy priorities and the spending ceilings. The budget is then finalized through a process of iteration and negotiation between the ministry of finance and the spending agencies. Without a hard spending ceiling to begin the process, the budget preparation turns into a list of sectoral “needs,” which are then difficult to reconcile with overall available resources. But, conversely, without iteration and negotiation to ensure overall consistency between aims and availability, overall fiscal discipline may be achieved at the cost of good sectoral allocation and sound operational management.

It is also important to frame the annual budget within a multiyear perspective, both because expenditure flexibility is very limited on a year-by-year basis while changes in policies require significant reallocation of resources, and because of the need to assess the future costs of today’s decisions (especially public investment decisions). Partial multiyear approaches may be useful in moving toward a comprehensive multiyear perspective (sometimes called Medium-Term Expenditure Framework, or MTEF). A sector expenditure program (SEP) is a multiyear program comprising all expenditure for one sector; a public investment program (PIP) is a multiyear program comprising one category of expenditure for all sectors.

Good *budget execution* begins with good budget preparation, but entails more than just assuring compliance of actual spending with the budgeted amounts. There must be mechanisms to adapt to intervening changes, and to achieve a balance between external control and the operational flexibility needed by managers. In particular, among other things, budget funds should be released on time and in predictable amounts; transfers between budget items, and some carryover of expenditure to the following year, should be permitted but clearly regulated; and internal controls on commitments and

verification should be complemented by a strong monitoring and audit system.

Among the *accounting* systems, cash accounting is the simplest, and is adequate for expenditure control; accrual accounting is the most comprehensive, and the most demanding to implement. Most countries find it appropriate to use *modified accrual accounting*, which covers, in addition to cash, liabilities and financial assets. Whatever the basis of accounting, good, clear, transparent, and reliable bookkeeping and reporting are a must.

Without strong external *audit*, the expenditure management cycle is incomplete and risky. An independent audit entity, external to the executive branch, is essential, and should be well staffed and with complete access to requisite information. However, its effectiveness depends among other things on good management controls and internal audit within the spending entities themselves. Operational effectiveness and integrity cannot be achieved only by external scrutiny. Also, before expending resources and staff on audits of performance and efficiency, the basic audits of compliance and financial integrity must be strong and effective.

Managing local government expenditure and fiscal decentralization

The *distribution of fiscal responsibilities* between central and subnational government should be governed by the principles of

- clear responsibilities for each level of government;
- stable and predictable revenue-sharing arrangements;
- providing incentives for increased efficiency of local government; and
- uniform accounting and budgetary rules for subnational government entities.

It is also important for expenditure control and good resource allocation to define fiscal targets to cover general government as a whole, thus avoiding the temptation to dump fiscal problems on local government; to put in place mechanisms to control local government borrowing and sanction expenditure overruns as well as accumulation of arrears; and to assure sound accounting, reporting, and audit.

The potential benefits of *fiscal decentralization* include higher service efficiency—as local government is closer to the users; more effective tax administration; and improved resource allocation and equity. The potential

costs are a mirror image of the potential benefits. Fiscal decentralization can worsen service efficiency when local authorities are unresponsive; reduce resource mobilization when local authorities are less honest or capacity is weaker; and foster inequities when local government is “captured” by powerful local interests. The cost-benefit balance of fiscal decentralization depends, therefore, on the specific country and local situation. Generally, as mentioned earlier, the key influence is the relative quality of governance at central and local levels of government. When local government is more representative and accountable than national government, fiscal decentralization can be presumed to carry a net benefit. Local capacity, however, needs to be expanded commensurate with the new responsibilities.

How *fiscal imbalances* can be dealt with is the key implementation issue in fiscal decentralization. Vertical imbalances between central and subnational government result in general from a mismatch between revenue and expenditure assignments. Horizontal imbalances between subnational government entities at the same level result from differences in wealth and tax revenue between different regions and localities in the country.

Concerning *vertical imbalances*, expenditure responsibilities should in principle be assigned to that geographic level of government where they would benefit only the residents of the region. In practice, however, many public services have unclear benefit regions or carry implications for the country as a whole. Generally, the central government should be responsible for national functions (e.g., defense and international relations); services that benefit several jurisdictions; and services whose local administrative costs would outweigh the local benefits.

Tax assignment to local governments must be accompanied by coordination across jurisdictions—to avoid distortion and undesirable competition in offering tax incentives—and by rules preventing double taxation or tax loopholes. Accordingly, taxes assigned to central government should cover mobile tax bases and tax bases that are unevenly distributed across regions; and taxes assigned to local government should be those that cover immobile tax bases as well as tax bases that are easily administered. Therefore, local value-added taxes are generally to be avoided as they carry the risk of competitive tax reductions or, conversely, of local protectionism by setting tax rates higher for purchases from outside suppliers. The corporate income tax, too, fails the tests of a good local tax, with its high compliance costs, incentives for tax avoidance, and uncertainty of revenue. Assigning personal income taxation to local government has advantages as well as

disadvantages. Sales taxes are well suited for local government if they are levied on local businesses. The revenue sources best suited for local administration are local property taxes and motor vehicle taxes, as well as user charges.

As a general rule, *revenue sharing* to remedy overall vertical imbalances should be from the top down, because assigning most taxing power to local government and then sharing revenue upward would weaken the key macroeconomic and redistributive functions of central government. On the other hand, relying entirely on downward transfers would reduce local financial accountability and disempower local government. Local government revenues should therefore comprise an appropriate mix of own-tax revenues as well as some revenue sharing from the top. Revenue sharing can be on a derivation basis, whereby revenue is shared on the basis of where it was collected; on a grant basis, whereby the revenue is redistributed according to a formula or to the cost of collecting the tax; or on a piggyback basis, which allows subnational governments to add a percentage amount to the central tax.

Horizontal imbalances are corrected by intergovernmental fiscal transfers, which can be conditional or unconditional, and open-ended or subject to caps. A variety of considerations apply to the different types of transfers. More important than just filling fiscal gaps, however, is the role of fiscal transfers in redistributing resources to assure that all regions have the same financial capacity to provide *basic* public services, assuming they exert the same effort to raise income from their own sources and operate at an average level of efficiency. (The Australian system of grants from the center to the states is particularly effective in this regard.)

As noted earlier, good fiscal federalism requires robust controls on expenditure overruns, arrears, and borrowing by subnational government. When local borrowing carries an implicit national government guarantee, it creates a contingent liability for the national government while encouraging imprudent behavior by both local government and the lenders. In principle, therefore, central government guarantees for local borrowing should be minimized and local credit allocation insulated from political influence from the center, while private capital markets are strengthened as the preferred channel for credit to local governments. This is particularly difficult to accomplish in developing countries and transitional economies, where capital markets are undeveloped, and direct central control of subnational government borrowing remains generally necessary.

Acquiring goods and services: public procurement

Government procurement of goods, services, and public works accounts for a large proportion of public expenditure in all countries, and is one of the major sources of corruption in many countries. Clearly, the procurement function is very important, and yet it typically does not receive commensurate attention from senior leadership in most governments.

The government and the private sector differ significantly in the way they conduct their purchasing operations. The main criterion for sound procurement in both sectors is *economy*, i.e., the timely acquisition of goods and services of a given quality at the lowest cost. In public procurement, however, other criteria also apply: import substitution, fostering competition, and protection of consumers. In most countries, environmental considerations and additional social criteria, such as affirmative action for small business, minorities, women, and depressed regions, are also relevant.

The legal framework for public procurement consists of general contract law, specific procurement regulations, and procedural manuals. The framework has been shaped in recent years by the international trade regime and the advocacy by multilateral donor agencies of guidelines to prevent corruption and fraud.

In managing the public procurement process, centralization is required for setting the standards, monitoring the outcomes, and providing an appeal mechanism. It may also be advisable in the short run to retain central procurement for strategic and critical supplies such as information technology. In most cases, however, actual procurement operations should be decentralized to the concerned ministries and agencies, within the framework of the central procurement standards, rules, and oversight.

Procurement procedures must be clear, simple, and made available to the public. Procurement decisions should be recorded and communicated in writing, along with the reasons behind them. Accountability agencies should be able to determine after the fact who made the crucial decisions and why. Tender opportunities in large contracts should be widely publicized to attract an adequate number of qualified bidders. Shared databases on contractor performance are needed at the national and regional levels, to limit the likelihood that the wrong contractors will be selected, and to weed out contractors with a record of dishonesty or incompetence.

Competitive bidding is the rule in public procurement. However, there is justification for giving preference or set-aside quotas in local contracts for goods and services to small businesses and informal enterprises, cooperatives, and disadvantaged groups, provided the costs are not excessive and that unsustainable subsidies are not required over time. Also, construction contracts for local works and services lend themselves to direct contracting to community associations, without competitive bidding. Some degree of domestic preference is legitimate for developing countries, as recognized by international organizations, to boost local business and small suppliers' capacity. Governments should avoid, however, cost-plus direct selection, or the captive purchase of the production of ailing public enterprises to enable their survival.

As mentioned, competition is the rule in public procurement. (Private sector procurement relies to a large extent on semi-permanent commercial relationships with specific suppliers.) The different forms of procurement are international competitive bidding, national competitive bidding, shopping, and direct (or "sole source") selection. For large purchases and contracts, competitive bidding is almost always preferable. The stages of competitive bidding include setting clear specifications; issuing public notice and invitation to bid; bid opening and evaluation; and contract award and conclusion. The process must incorporate safeguards to ensure its integrity and impartiality, and to prevent collusion, corruption, and fraud.

After the contracts are concluded, they must be carefully monitored. Several types of controls and reporting, including audits and citizens' complaints, can be used to deal with contractual problems, but there is no substitute for close government supervision of the execution of a clean contract.

Government employment and compensation policies

The goal of government employment and wage policy is neither to minimize employment nor to compress wages but to achieve a workforce with the size, motivation, professional ethos, and accountability needed to provide quality public services; reduce transaction costs for the private sector; design and implement economic policy; execute budgets and investment projects; and preserve the key assets of society. A skilled, motivated, and efficient civil service with a professional ethos is one of the key requirements for good government. While such a civil service is not sufficient to produce good governance, experience shows that a very bad civil service is sufficient to produce bad governance.

Worldwide, general government civilian *employment* averages around 5 percent of the population. Government employment is relatively largest in industrial countries, and relatively smallest in sub-Saharan Africa and East Asia. During the last two decades, not including teachers and health personnel, local government employment has grown to almost the same size as central government administration (not including education and health workers).

Generally, the size of government employment is positively correlated with per capita income—confirming the so-called “Wagner’s Law” —and negatively correlated with average wages.

Concerning *wages*, the central government wage bill absorbs about 5 percent of GDP, and general government about 8 percent of GDP. The heaviest fiscal weight of government wages is in the Middle East and North Africa, which have the highest average public wages. Worldwide, public sector wages are about 70–80 percent of comparable wages in the private sector. This is broadly justified by the greater security of employment. However, vast differences in wage adequacy exist between regions, with Asian government employees at the higher end and civil servants in anglophone African countries at the lowest end of the spectrum.

In the last two decades, major changes in employment and wages have occurred.

- Central government employment has contracted by about 40 percent. This reduction was partly offset by growth in local government, primarily in Latin America, but general government employment declined overall.
- A smaller but significant relative decline has occurred in government wages as well.
- Consequently, the weight of the government wage bill has declined on both counts in most countries.

Concerning employment policy, an assessment of the right size of government employment must be country-specific and consider the functions assigned to the state, the organizational structure of government, the degree of administrative centralization, the availability of resources and information technology, and the constraints on staff mobility. There is no hard and fast rule on the right size of government, and any staff retrenchment should normally be a part of a comprehensive civil service reform program.

When the civil service is badly overstaffed, or the wage bill is unsustainable, retrenchment by itself may be inevitable. Even so, it is essential to design it correctly, to avoid deskilling the government, demoralizing employees, and risking social conflict. Experience shows that it is cost-effective to take the time and resources needed to tailor severance compensation to employee characteristics, avoid seniority-targeted retrenchment and seniority-weighted compensation, and put in place strong measures to prevent the recurrence of overstaffing.

Concerning wage policy, the key objectives are

- equal pay for equal work,
- differences in pay should be related to differences in responsibilities and qualifications,
- comparability (not equality) of government pay and private pay, and
- Periodic revision of the government compensation structure.

Identifying nonwage benefits is a major problem, particularly because they tend to proliferate during times of fiscal stringency. Salary inequalities between men and women are also persisting, and are widest in developing countries. Salary compression has been another chronic problem of civil service compensation. Because wage reduction has entailed in practice larger cuts at higher levels, incentives have been eroded, and decompressing the wage structure is a normal component of civil service reform programs. In any event, the worse response to inadequate salaries is grade inflation and ad hoc remedies.

In recent years “performance pay” has been introduced in some countries. The evidence shows that performance pay schemes have been at best marginally effective, and at worst have reintroduced political control over the civil service and heightened ethnic tensions in plural societies. Nevertheless, greater merit orientation in the compensation system is a must, including nonmonetary incentives such as public recognition, national honors, and career development options.

Managing government personnel

The management of government personnel is influenced by the circumstances and social values of a country. (An emphasis on social equity, for example, would lead to special measures to protect minorities.) Moreover, countries vary widely in their personnel management practices. But all

government personnel systems, regardless of the country, must fulfill four functions: planning, recruitment, development, and sanction/discipline.

Personnel planning is needed to monitor the growth of government employment, ensure the effective use of staff, and implement the staff recruitment and development strategies of the government. Planning starts with the identification of the personnel requirements of the government.

Jobs can be classified according to the rank-in-person criterion, by which the employee's rank is independent of his specific duties, or the rank-in-post criterion, which assigns a specific rank to each position. Each system has its advantages and disadvantages. Rank-in-person systems tend to become inbred and top-heavy, while rank-in-post systems hamper mobility and recognition of individual performance. However, all job classification exercises are time-consuming and costly. If data are weak or the process is subject to manipulation, personnel requirements may be better defined through simple demand and supply forecasting. In any event, it is critical to establish a simple but reliable personnel database and keep it up to date.

Recruitment in the public service should be based on the principles of merit and nondiscrimination, modified as appropriate by social goals such as redressing past discrimination or assuring regional equity or including minorities and women. Recruitment procedures can be somewhat different in different countries. However, the best way to assure merit and nondiscrimination in recruitment is through open competition based on clear criteria and transparent procedures. Advancement, too, requires nondiscrimination and the recognition of merit through performance appraisal. Merit and performance assessments, however, can be manipulated. (Chapter 18.) Accordingly, in countries with governance weaknesses, seniority must retain a major role in advancement decisions to insulate government employees from political interference and avoid a perception of favoritism and discrimination. The issue is not whether to evaluate employees' performance, but how to do so fairly, reliably, and without compromising the effectiveness of the work group. When country and agency circumstances do permit a fair and reliable evaluation, formal performance appraisal should cover only observable behavior, entail a dialogue between manager and staff, and rest on frequent informal feedback rather than an isolated annual exercise. Generally, the more complex performance appraisal techniques do not produce benefits commensurate to their cost and the disruption they create. In performance appraisal, simpler is better, provided that the system always includes confidential feedback from the individual's coworkers and subordinates.

Merit-based personnel systems can include an elite cadre, usually called the senior executive service (SES), whose members have higher managerial or professional responsibilities, enjoy better pay but less job security, and can be deployed wherever they are needed. Elite cadres are common in Asian countries, especially those in the British administrative tradition, but are also present in the French civil service and have been introduced more recently in other developed countries such as the US. In an SES of the closed or mandarin type (as in Japan, France, and India), the members are recruited at a relatively young age through a centralized agency; are groomed, trained, and socialized as a group; and become eligible for eventual leadership positions in a variety of government agencies. In an SES of the open type (as in Canada and the US), recruitment is flexible, decentralized, and market-oriented. Each government agency sets its qualification standards, and applicants from both within and outside the career civil service can enter horizontally into the SES at any age. In both open and closed elite systems, the greater mobility of the senior staff permits developing broad policy-making skills and spreads the available expertise.

The personnel system should be neither fully centralized nor fully decentralized. Good personnel management must not only conform to the overall strategies of the government but also meet the needs of individual ministries and agencies. Generally, the individual agency defines its own personnel needs; has the major role in individual recruitment decisions; and is responsible for managing the employees, once they are recruited. The central personnel unit sets personnel procedures for recruitment, promotion, and discipline and monitors their application; assists the government agencies in recruitment, normally by administering central examinations; provides a means for redress of grievances; and maintains the government personnel database.

Accordingly, in many countries public service commissions (or similar bodies) play the central role in protecting merit and nondiscrimination in all aspects of government personnel management, while respecting other legitimate concerns, and responding to the personnel needs of the individual government agencies. Too often, unfortunately, such bodies have become a source of red tape, unnecessary rigidities, and bureaucratic delays, which lead government agencies to take shortcuts in recruitment and reduce the transparency of the entire system. In those cases, the solution is not to move to a wholly decentralized personnel system but to improve the functioning of the public service commission.

The rights of government personnel are constrained by obligations stemming from the nature of public service, such as neutrality, impartiality, and equal treatment of all citizens and sectors. Subject to reasonable restrictions related to those obligations, employee rights are mainly

- job protection and due process (normally spelled out in the contract, but subject to overall civil service regulations);
- equal opportunity and nondiscrimination (modified, as noted, by other social goals such as gender or minority protection);
- freedom of speech (albeit usually with restrictions on political activity arising from the principle of political neutrality of civil servants);
- privacy; and
- right of association (including the right to unionize, except in essential services such as police or firefighting).

Most countries protect these rights through special procedures for grievance redress, but enforcement is often weak. An inefficient administrative apparatus for grievance redress coupled with weaknesses in the judicial system may deprive civil servants of an effective recourse against arbitrary treatment. In other countries, in contrast, civil service unions are such a strong political force that taking disciplinary action can be very complicated even when fully warranted, and necessary reforms in government employment and compensation can become difficult to implement.

Investing in government personnel

Training of government personnel should be viewed as an important element of personnel management and individual development, and can make a major contribution to greater administrative effectiveness. However, it cannot be a solution to a dysfunctional system. Training cannot be effective unless the new skills are well utilized and the training is linked to the staff career path and actual job responsibilities. Training in an inefficient organizational framework or delinked from incentives is a waste of time and resources. Therefore, training of government personnel should take place in the context of a well-formulated national training policy, linked to policies for career development, and providing room for sector-specific training and training of local government staff.

Training can be centralized through a central government unit which allocates all the funding and designs and administers all training programs,

or decentralized, with each ministry in charge of financing and managing the program. Generally, as in the cases of procurement and personnel management, a combination works best—with a central unit defining policies and allocating funds to sectors; ministries responsible for deciding on training content and participants; and the actual training delivered by competent educational institutions.

Regardless of whether administration of training is centralized or decentralized, a good training program must begin with a sound assessment of training needs, from the viewpoint of the individual staff as well as their ministry and the government as a whole. Too often, however, training programs are supply-driven and correspond to the preferences and current capabilities of training institutions (or of external donors) rather than the real needs of the civil servants and the skill-requirements of the government.

Assuming a good needs' assessment, the effectiveness of training depends on the motivation of participants and the quality of the training itself. The first factor is a function of the organizational and incentive framework within which the new skills are to be utilized. The second factor, training quality, depends largely on the capacity and competence of the training institutions. In-house government training institutions have the advantage of familiarity with the policies, "culture," and needs of the government agency concerned; outside providers have the advantage of flexibility and the capacity to cater to a variety of training needs. Again, a combination usually works best for formal training. However, the practice of ministry-specific training institutions is generally wasteful and should not be encouraged.

It is essential to note that much valuable staff training is informal and on-the-job. For this, the ministry concerned and government as a whole should create an environment where coaching and mentoring of subordinates are a normal and expected part of supervisor's responsibilities—and rewarded as such.

Training of developing countries' civil servants can benefit from a variety of international and regional programs delivered by multilateral organizations such as United Nation (UN), Asian Development Bank (ADB), World Bank, and the IMF, or by training institutions in developed countries, such as the Ecole Nationale d'Administration (ENA) in France. Networks among training institutions have also emerged, such as that supported by the Commonwealth Association for Public Administration and Management.

Scarcity of training opportunities or funding is thus not the basic constraint for developing countries, at least for senior staff. The effectiveness of training is constrained instead by the institutional and incentive problems noted earlier.

The Interaction Between the People and Their Government

“Voice” and “exit”

However important they are, periodic elections must be supplemented by other mechanisms for holding the government accountable for its performance in providing public services. *Exit* is the extent to which the users have access to alternative suppliers or to good substitutes for a service. *Voice* is the degree to which the citizens can protest or express their views, in order to influence access to or the quality of public services. Exit and voice are complementary, and their relative effectiveness is determined by the characteristics of the service and the circumstances of the country. But in general, the poor and marginal groups are particularly limited in both their exit possibilities and voice channels, and special encouragement and facilities are needed.

Concerning *exit*, even when there is no possibility of alternative suppliers the government should behave *as if* the users of the service had a choice, partly because doing so is an essential means of stimulating administrative efficiency. Because service provision is a continuum—from direct government financing and delivery to full delegation to the private sector—exit possibilities may not exist for an entire service, but should still be sought for specific aspects of service provision, or for a specific geographic area or user group. The clearest exit mechanism is provided by contracting out the service—i.e., transferring to the private sector the implementation of activities financed and previously delivered by the government.

Contracting out can reduce costs and can have other advantages. However, it also carries major financial, efficiency, and corruption risks, especially in developing countries, where the public administration has limited capacity to negotiate favorable contracts and, more importantly, to monitor their execution in practice. Particularly problematic in this respect are build-operate-transfer (BOT) arrangements, whereby the private operator finances the construction, recoups the investment through an exclusive concession, and transfers the assets to the government at the end of the period. Accordingly, contracting out still accounts for a minor proportion of public service delivery in most countries.

Various mechanisms have been elaborated in recent decades to increase citizens' *voice*. A *citizens' charter* is an explicit and public statement of service standards and obligations to serve as a guide for the government agency's behavior, and can vary from a general mission statement to a detailed quasicontract. Citizens' charters can be invaluable for establishing greater service orientation in government, but only when they are well-designed, forcefully implemented, and accompanied by the needed complementary measures (e.g., agency flexibility in rewarding or penalizing employees). Absent these conditions, citizens' charters can become a mere formality and harm the credibility of government.

Public consultation and feedback can take a variety of forms, including service user surveys, public hearings, consumer complaints procedures, and so on. Practices vary in different countries but in general, consultation must be followed by action, if it is to be effective. Lack of meaningful action impairs the credibility of consultation, leading to a decline in participation and eventually to recourse to exit options (or disruptive activities).

The exercise of voice also requires *grievance redress* mechanisms against government organizations and service agencies. Ideally, a good grievance redress system includes a convenient channel for the citizens to present their complaints; clear procedures setting out the responsibilities of the staff, prompt adjudication of the grievance, and communication to the complainant; incentives for employees to behave correctly toward the public; and several other measures. However, regardless of its specific features, the grievance process must always feed back into measures to make service delivery and regulatory administration more responsive.

The institution of the *ombudsman* can be a useful adjunct to a grievance redress system. An ombudsman is a person (or group) who receives and investigates citizens' complaints of inefficient or arbitrary actions by public officials, with a view to achieving a fair settlement. The authority of ombudsmen differs widely in different countries, and their effectiveness has been mixed. The institution succeeded in Scandinavia, where it originated, because of a supportive institutional and political environment. Even when the ombudsman is in fact a person of energy and integrity, lack of political support for the institution or of the basic mechanisms for accountability in government will render the office ineffective.

Social capital and participation

The effectiveness of government and the vitality of the economy depend to a great extent on society's stock of *social capital*. Social capital refers to the reservoir of trust and cooperation habits that are generated by the functioning of voluntary networks of reciprocity—from trading associations to cooperatives, sports clubs, etc. Social capital is economically beneficial as it facilitates the transmission of information about others' behavior and about technology and markets, thus lowering transaction costs and encouraging collective action. A well-known example is the success of community-based microcredit, such as that provided by the Grameen Bank in Bangladesh.

Unlike physical capital, social capital grows the more it is used. However, when greater cohesion within one group is used to the detriment of others, the impact on society as a whole may be negative, especially in religiously or ethnically diverse countries. Therefore, it is important for government not only to encourage networks of cooperation among citizens but also to foster positive linkages between different networks.

Government activities require the *participation* of stakeholders to succeed. Until recently, participation was conceived narrowly as feedback from public program beneficiaries to help implement program. This remains an important component of participation, but the concept has expanded to include participation in the upstream phases of project selection and design. True synergy between government activity and citizens' involvement is achieved when the intended beneficiaries are encouraged to participate in choosing the activity and designing it, in addition to cooperating in its implementation and signaling problems or possibilities for improvement. A badly designed project cannot be implemented well, and strict implementation of a well-designed program that does not address the real needs of the intended beneficiaries is not a great advantage.

A variety of participatory structures and approaches have been developed in different countries, with some success in improving administrative effectiveness and reducing poverty. Care must be taken, however, to prevent participation from undercutting the responsibility of representative government and weakening its accountability. In addition, the participatory groups themselves should be accountable in some explicit and transparent form. Finally, it is essential to avoid the risk of "capture" by powerful elites, and to ensure that the poor and marginal groups are effectively included in the participation and feedback mechanisms.

The scope and range of participation can be enhanced by *partnership* between government agencies and civil society. Such partnerships go beyond the micro aspect of participation and address also the relationship between groups, thus helping to build social capital for society as a whole. A good public-private partnership must not only deliver the program or service efficiently in the first place, but also enable the beneficiaries to shape the project and give voice to marginalized groups and minority interests. Private business, too, can contribute to successful partnerships for public service delivery and the development of social capital. Once again, it is important to protect against the risk that the initiatives only serve as a cover for vested interests or are subject to capture by powerful local groups.

Civil society and nongovernmental organizations (NGOs)

“Civil society” fills the space between the individual and the state, and comprises voluntary groups and associations of all kinds—professional, religious, cultural, etc. A strong and active civil society is the foundation for good governance, providing contestability for the government, productive relationships among people, opportunities to influence policy, advocacy for the poor, and mechanisms for participation. Civil society organizations, however, are not necessarily intended to act in the public interest, and also include associations and lobbies formed for sectarian or vested business interests.

Civil society organizations can be formal (e.g., trade unions) and governed by codified rules, or informal (e.g., squatters’ associations). Among *formal institutions*, public employees’ unions are sometimes viewed as inimical to reform, but instead can often help foster administrative effectiveness. Educational institutions, too, can perform useful civic roles, e.g., in retraining redundant government employees. In some developed countries, the judiciary system has been brought into civil society by public-interest litigation, and citizens’ groups have emerged to counterbalance the influence of business lobbies. Cooperatives can play a constructive role as well, provided that they are not coopted to become in effect agents of the state. *Informal institutions* are especially important in building trust at the local level and empowering disadvantaged groups. Unfortunately, they suffer from problems of chronic mismanagement and fluctuating participation and, when successful, are constantly in danger of capture by influential elites.

NGOs are frequently identified with civil society and, like all other civil society organizations, they are voluntary and independent of

government. However, unlike the other organizations that act to protect the interests of their members, NGOs are intended to help disadvantaged people or address broad public problems or both. In the last decade, NGOs have expanded substantially (they now channel over 20 percent of all official aid), mainly because of widespread concerns about big government, the search for alternative modes of service delivery, the shift to poverty reduction as the key goal of international aid, and the need to address the exclusion of minorities and weaker groups.

NGOs vary widely in mandate, size, and resources. The main distinctions are between advocacy NGOs (concerned with influencing public policy) and service NGOs (concerned with social service delivery, and generally more permanent), and between international NGOs (e.g., Save the Children) with large resources and political influence, and national or local NGOs. Even the largest national NGOs in developing countries cannot match the resources and reach of government and big business. However, international NGOs typically link up with national NGOs through funding and partnerships.

NGOs can help make government services more effective; mobilize local resources; provide checks and balances on the use of government power; and give the poor and disadvantaged the special advocacy they need. On the other hand, NGOs can also suffer from loose accountability, narrow perspective, opaque decision making, top-down management, and other problems. On balance, the substantial support for NGOs from government and donors has been amply justified, but is in danger of eroding unless these issues are credibly addressed (as many NGOs are currently doing).

NGO collaboration with government and donors can be helpful to both sides, but requires attention to several issues. On the NGO side, limited management capacity and dispersal of attention can compromise their effectiveness in service delivery. On the government side, too many actors are frequently involved, and coordination between central ministries and their local staff can be weak. Financial support from donor organizations has been important, but in some cases it has distorted the priorities of the NGOs themselves, and in other cases it has gone to NGOs created solely to get the money or to NGOs that were in effect proxies for the recipient government itself. Nevertheless, collaboration with NGOs has been effective on balance, and can expand much more, provided that the practical issues are carefully managed.

Transparency, information, and the role of media

Voice and exit mechanisms are inoperative without adequate information. Transparency in public administration has two main aspects: public communication by government, and citizens' right of access to information. Both are very difficult to implement if government records are badly managed in the first place. Good records management is the starting point of genuine transparency.

Public communication calls for an affirmative effort by government to disclose and disseminate relevant information or its activities. Transparency must be balanced, of course, with the need for confidentiality of internal debates and of information affecting individuals' right to privacy. However, disclosure should be the general rule, and withholding of information the exception. Because governments generate masses of data, professional public information officers are important—not to give a spin to government decisions, but to disseminate those decisions of greater importance to the citizenry and explain their rationale.

The public's *right of access* to government information is often embodied in Freedom of Information laws (FOI). FOI legislation, now common in developed countries, reverses the traditional presumption of secrecy, sets time limits for decisions on requests for information, and provides appeal procedures. FOI laws have opened access in many countries. They are costly to implement, however. Also, they tend to be used mainly by organized businesses and strong interest groups, rather than by individual citizens or weak and poor communities.

The *role of media* is essential for transparency in government, both as a chance to communicate to the public and explain relevant information, and as a watchdog on government actions and misbehavior of elected officials and civil servants. Of course, the media cannot perform these roles unless it is free to do so—free from both government interference and the influence of corporate interests in countries where the media is dominated by a few large owners.

It is also important that the media have sound professional and ethical standards and behave accordingly. Although it is highly inadvisable for government itself to intervene to professionalize the media or correct possible excesses, some accountability mechanism is needed, preferably from and by the media themselves but with appropriate participation from other

institutions and the public at large. (In addition, there are legal and judicial remedies for media misbehavior, such as libel laws.)

A distinction has recently emerged between old and new media. Old media comprises mainstream newspapers, radio, and TV. New media includes talk radio, tabloids, electronic journalism, etc. The new media offers exciting new possibilities for a better flow of information, particularly important to reap the benefits of globalization (or protect against its risks). However, its very speed encourages a slide to the superficial, and weakens the professional ethics normally associated with the old media. One key to a good balance between old and new media can probably be found in the “civic journalism” movement, which attempts to respond to the concern that both old and new media may be swayed by the better-organized groups to the disadvantage of the poor and weaker communities. Civic journalism can use both old and new media technologies to foster greater citizen input and a new partnership between the media and the rest of civil society.

Improving Administrative Integrity, Responsiveness, and Service

Fostering public integrity and preventing corruption

Integrity is a fundamental condition for governments to provide a predictable and effective framework for the economic and social life of their citizens. While the increased use of private sector methods in the public sector can improve public sector efficiency, it can also lead to a fragmentation of public service values, standards, and ways of operating. This situation requires enhanced mechanisms to strengthen public servants’ accountability for their new discretionary powers and to ensure that they adhere to standards of integrity as well as to citizens’ expectations. As traditional central regulations and controls are reduced, the role of values—and the public interest concepts they embrace—becomes increasingly significant, both as a guide for individual civil servants’ behavior and as the common reference point and unifying thread for the whole public service.

Although measures must be to some extent country-specific, the integrity framework should ensure in all countries that public servants’ behavior is in line with the purposes of the organization; public service operations are reliable; citizens receive impartial treatment on the basis of legality; and public resources are properly used. Transparency is a key incentive for civil servants to act ethically, and measures must be in place to permit public scrutiny and redress.

Governments should foster a culture in which the public servant and the citizen have a common understanding of the expected behavior of public office holders. The changing public sector environment requires regular updating of the rules, but impartiality, legality, and integrity remain the unchanging core values of public service. Within these values, specific standards should set boundaries for public servants' conduct—particularly in relation to the use of official information and public resources, receiving gifts or benefits, and working outside the public service. Specific professions entail specific standards, and special attention is needed for sensitive areas or where there is a high risk of conflict of interest, such as public procurement or tax administration.

Values and standards can be inculcated mainly through training the new recruits to the public service and through on-the-job training. In addition, public servants must have the possibility of turning to their superiors or (preferably) to an external entity to obtain advice on ethics-related questions.

Central institutions, such as public service commissions, as well as the supreme audit office should carry out and publish periodic reviews of the status of integrity in the public service.

Even in a system of sound ethics management corruption may occur. Corruption, defined as the misuse of public power for private gain, is harmful to economic efficiency and growth and particularly damages the poor and vulnerable groups. The main source of corruption is a complex opaque regulatory framework, but in general corruption is greater where accountability in government is weak. Taking actions against corruption is the shared responsibility of managers and external investigative bodies, with the active assistance of citizen groups, NGOs, and the media.

A sound legal framework to combat corruption is necessary but not sufficient. In addition, managers have a key role to play in monitoring compliance with standards, initiating disciplinary measures, and providing protection for whistleblowers.

There is a need to ensure that ethics promotion and anticorruption measures are consistent and complementary. Effective anticorruption efforts thus require a variety of interrelated initiatives, as well as strong political leadership from the top. Therefore, while a specialized anticorruption commission can make an essential contribution, it is useless or even counter-productive in the absence of the necessary complementary measures.

Attention is typically focused on punishing corrupt behavior. However, a balance must be struck between corruption prevention and enforcement. Reducing the openings for corruption (especially by streamlining regulations) can be as effective in fighting corruption as aggressive enforcement and harsh penalties. As a general criterion, the rules and the enforcement mechanisms should ensure that the expected benefits to the individual from corrupt behavior are smaller than the likely costs. This requires reducing the potential gains from corruption at the same time as any misbehavior is pursued swiftly and predictably.

Performance in public administration

Introducing a stronger performance orientation in public administration is important in most countries. However, this task is neither simple nor self-evident. Experience shows that mistakes and counterproductive results in this area have usually originated from neglect of the complexity and implementation difficulties of performance measurement. Many of these mistakes could have been avoided by identifying the real administrative problem, defining correctly the objective of intervention, and being realistic about actual monitoring and implementation.

“Performance” is a complex issue partly because the concept itself is not simple—with a subjective dimension in terms of individual effort and an objective dimension in terms of results. While it is important not to neglect entirely the subjective effort, and recognize it in appropriate ways, performance should be measured mainly in terms of results. However, the “results” themselves need to be defined carefully. They can be specified in terms of inputs (the resources used to produce a public service); or outputs (the service itself); or outcomes (the purpose achieved by producing the service); or good process. The performance criteria for inputs, outputs and outcomes are, respectively, economy, efficiency and effectiveness.

Each of these performance indicators has advantages and disadvantages. Exclusive focus on good procurement and utilization of inputs leads to a “means mentality”, which neglects the purposes for which the resources are obtained. Output indicators are more appropriate for activities close to the ultimate user but not for upstream public activities such as policy analysis. Outcome indicators are generally more relevant, but also less useful for allocating responsibility. And attention to due process, which is essential for the long term, becomes sterile formalism if it is viewed as an end in itself.

Because outputs are more quantifiable but more narrow, while outcomes are broader but also influenced by factors outside the control of the civil servant or organization in charge, there is an accountability trade-off—by which accountability can be either tight but narrow (through output indicators) or broad but loose (through outcome indicators). Consequently, it is important to use a combination of indicators of performance, and never to rely exclusively on any single indicator. In general, a good performance indicator must meet the “CREAM” criterion—that is, be Clear, Relevant, Economic, Adequate, and Monitorable. If any of these conditions is not met, formal performance measurement should not be introduced, and other ways of assessing and stimulating good performance should be considered.

If and when performance indicators are introduced, appropriate target levels need to be set. Targets that are too easy or too ambitious both lead to underperformance. The setting of challenging but achievable targets can be helped by “benchmarking”, i.e., comparison with standards of performance in similar organizations or for the same organization at different times. In general, comparisons with other organizations or other countries are problematic because the circumstances are rarely the same. For example, when evaluated by student achievement, schools in poor neighborhoods typically compare unfavorably with schools in rich neighborhoods, but for reasons that are not necessarily related to the performance of teachers or administrators. More reliable are time comparisons, provided that resources and other basic parameters have not changed between the two periods being compared. Finally, an interesting option is “process benchmarking”, which compares the performance of similar organizations in terms not of outputs but of the soundness of the procedures followed.

The role of information technology for improving public administration

During the 1960s, in developed countries it was the government that led in the introduction of information and communication technology (ICT) in support of business functions. With falling ICT costs in the 1970s, private industry went into the lead, where it remains today in most sectors.

There are several reasons for the slower adoption of ICT by public sector institutions, particularly in developing countries. These include

- higher costs of ICT introduction due to the large scale of public organizations;

- the inertia of existing options and habits;
- paper trail required for approval processing;
- security concerns;
- confidentiality of information;
- obsolete regulations and laws; and
- lack of understanding of ICT and of computer skills.

In the last decade, innovative local and national government agencies, largely in developed countries, have started applying ICT to a growing range of public services. The potential benefits of the new information and communications capabilities for the services provided by public agencies include

- lower administrative costs, through a significant reduction of information handling to meet compliance requirements;
- faster and more accurate response to requests and queries, including outside normal office hours;
- access to all departments and levels of government from any location;
- better enabling governments to harvest data from operational systems, thus increasing the quality of feedback to managerial and policy levels;
- facilitating the government-to-business interface; and
- expanding public feedback.

An important aspect of the current innovations is the sharing of information about the progress being made in improving government activities. In time, and as appropriate in the local context, successful initiatives will revolutionize the way governments operate and provide services.

With the growing demand for information, governments are increasingly selling information to users. Difficult issues are at stake here, and clear policies should be established for developing good practices in government information trading.

Successful ICT innovation by public agencies requires a willingness to take risks and top-level support. The large number and diversity of local governments in many countries can greatly facilitate the emergence of innovative ideas, provided that a political climate and organizational arrangements are established to nurture them. The focus of public sector ICT applications should be broadened to include not just more efficient administration, but also improved quality of frontline services offered to

customers and clients. ICT should be used to create a readiness for organizational innovation through the development of information and knowledge resources in ways that are sensitive to the needs of knowledge workers. In turn, public service staff should be trained to understand and communicate the nature of the new services they are providing and of the logic of the organizational changes made to support them. Finally, working partnerships should be set up among citizens, community groups, business enterprises, ICT vendors, and public agencies at all levels and across all functions.

Public administration improvements in OECD countries

Government expanded substantially in most OECD countries after World War II, and by the mid-1970s had become overextended and unaffordable. The resulting fiscal pressure prodded public administration reforms, which occurred in two broad waves from the late 1970s. The first wave—“less government”—consisted of reforms to control the growth of government spending. The second wave—“better government”—comprised reforms to improve services and relations with citizens. Currently, a “third wave” may be ongoing, to correct some of unforeseen side effects generated by the earlier reforms, and to reconcile the advantages of greater managerial autonomy with the need to preserve cohesion and integrity in the public administration.

The *first wave* of reforms included efforts to both control aggregate expenditure and make government more efficient. Helped by the stimulus provided by the fiscal discipline requirements of the European Union, by the end of the century these efforts had been successful in restoring fiscal stability in most OECD countries.

The goal of expenditure reduction required greater selectivity in government intervention as well as some downsizing of the government apparatus. Most OECD governments responded to this challenge by withdrawing from commercial activities, while maintaining their general commitment to social protection (e.g., pensions, universal health care).

Downsizing, too, was achieved largely by attrition and redeployment rather than by outright staff cutbacks. The specific content of personnel management reforms varied. Some countries (e.g., New Zealand) went as far as trying to establish a single public/private labor market with fixed-term contracts for public employees and maximum mobility from one sector

to the other, while other countries (e.g., Japan) have retained the traditional features of the lifetime career civil service. In most countries, however, managers have been given greater flexibility to make individual personnel decisions and to evaluate the performance of their staff.

The preservation of the social protection compact, in the face of more limited resources, required also efforts to make government more efficient. In most OECD countries, such efficiency improvements were attempted through corporatization of public enterprises; some regulatory streamlining; arrangements to contract out service delivery to private entities; and giving more authority to managers. Corporatization was largely successful in improving efficiency in public enterprises, but regulatory simplification was neither universal nor very far-reaching on most OECD countries, and contracting out is subject to severe limitations and risks. Accordingly, much of the hoped-for efficiency improvement in government rested on the assignment of greater responsibility to managers to manage their budgets and staff. However, managers' flexibility has been limited by the need to preserve the newly restored fiscal discipline and assure uniform treatment of government employees across all agencies. (In some cases, the added authority given to managers was counterbalanced by a greater role for the employee unions.) In many OECD countries, therefore, improvements in public administration efficiency were generally not as significant as the substantial improvements that were achieved in the aggregate fiscal situation.

The *second wave* of reforms—better government—was stimulated by the increasing pressure from the public for improved services and for a more responsive administration acting to serve the citizens rather than dictate to them. The two broad directions of reform consisted of moving closer to the citizens and assuring stronger accountability.

The former entailed mainly efforts to improve administrative responsiveness and service quality, and bringing the responsibility for some services closer to the users by decentralization. In turn, better service quality called for improving transparency in administration, opening up channels for participation, addressing client requirements, and increasing accessibility.

Enhanced accountability is the counterweight to providing more autonomy and flexibility to public managers. However, even when effectively counterbalanced by internal accountability, the greater autonomy of public managers carries the risk of diluting the accountability of the executive as a whole to the legislature. This raises issues such as whether top public managers

(rather than ministers) should report directly to the legislature, or whether legislative bodies are adequately equipped to oversee results, and similar difficult questions. One solution in some OECD countries has been to separate accountability for operational matters from accountability for policy. In any event, greater autonomy for public managers has entailed in most countries the need for stronger external audit and evaluation.

The speed and methods of administrative reform have been mostly country specific, but three approaches can be identified among OECD countries. A few countries shifted to a private sector approach in government, through introducing quasimarket mechanisms, splitting policy from implementation, adopting commercial accounting, etc. Other countries added new solutions to existing models, for example by giving more responsibilities to the voluntary sector. A third group of countries preferred ad hoc, pragmatic responses to specific problems, while maintaining their framework of rules and procedures. Common issues have emerged, however, and mainly the difficulties of measuring performance; ethical tension between delegation of authority and protection of integrity; risk of fragmentation and confusion in state intervention; demoralization from authoritarian introduction of top-down reforms; and uncertainty from never-ending change transformed into an end in itself. As noted, therefore, many OECD countries are now in what may be called *third stage* reforms—to preserve the good innovations of the previous years while jettisoning the ones that have proven to be too costly or counterproductive.

A CONCLUDING WORD

The “directions of improvement” summary sections at the end of each subsequent chapter are assembled in the concluding chapter of the book. It is clearly out of the question to summarize those brief summaries any further. We simply repeat here the concluding “messages” given at the end of Chapter 21, hoping that the duplication will be justified by the reader’s convenience.

- *Get the basics right.* Complex public management tools should not be considered unless and until the basic machinery functions reasonably well. This is not a prescription for standing pat, but a condition for progress itself—as the premature introduction of these tools dooms them to failure.
- *Look at what is done, not just what is written.* Unenforced rules are no rules at all. It is important to examine the reality of organizational and

human behavior in public administration in the specific country rather than only the formal appearance and regulations.

- *Adaptability is not imitation.* As Mahatma Ghandi's lead quote to this chapter implies, practices and reforms introduced elsewhere should always be considered with an open mind and, if appropriate, adapted to the local circumstances and objectives—but never simply transposed onto a different social and economic context.
- *Change when you should change.* Change is inevitable in fluid times, and will either be deliberately planned and implemented or will occur by default with far greater costs and unpleasantness. But conversely, change for its own sake or to keep up with “modernity” is wasteful and disruptive.
- *Don't make the same mistakes.* It is essential to be familiar with both good and bad international practice—and not only that of countries in the same specific administrative tradition. Often, it is by contrasting the different ways of doing things in different administrative cultures that the solution appropriate to the local circumstances can be found.
- *Don't look for quick fixes.* Reforms in public administration have a heavy institutional content, and there is no such thing as instant institutional change. Also, the area is by definition influenced by political considerations—which are rarely amenable to “technical” solutions and often require a period of gestation and acclimatization.
- *Put the right driver in the driver's seat.* Central leadership is needed, but a rigid top-down approach is unlikely to produce lasting change. An administrative improvement should be designed and implemented with the active participation of the key stakeholders. A variant of this criterion in aid-dependent developing countries entails that external donors should contribute to a reform agenda set by the local government, and not be allowed to drive the administrative reform process.
- *Question, question, question.* Diversifying the sources of advice can help. Competition can help screen out bad ideas as it helps screen out bad products. But it is only by challenging the specifics of the reforms being recommended that a government can be reasonably assure itself that the recommendation is worth taking.

Annex I

BASIC CONCEPTS²¹

Although most readers will be familiar with the basic concepts of state and government, they may find the brief recapitulation below a convenient reference.

The State

A state is an association of individuals in a defined territory that is supreme over all other associations and individuals residing in the same territory. The essence of the state is its monopoly of coercive power. This monopoly of coercive power is known as sovereignty, and its exercise can be delegated by the state to other entities on its own terms. The political process revolves around the acquisition of this sovereignty; the administrative process revolves around its executive utilization. The state operates through the medium of an organized government. The *legitimacy* of the exercise of government power derives from the consent of the governed, normally expressed through open and free elections.

The Government

Government is the totality of structures and organizational arrangements of those exercising sovereign authority. Government consists of three distinct organs, each with an assigned role essential to the exercise of sovereign power: the legislature, to make the laws; the executive, to implement the laws and run the administration; and the judiciary, to interpret and apply the law. In turn, the legislature can consist of one “chamber” (unicameral) or two chambers (bicameral), a “lower house” with certain responsibilities and an “upper house” (often called “Senate”) with both the concurrent and separate responsibilities. The judiciary can function on the basis of “common law” (the weight of accumulated judicial precedents) or codified law or a combination.

The Constitution

Definition

The constitution is the basic set of rules prescribing the institutions and procedures of government. Constitutions may be written (e.g., France, the US) or unwritten (e.g., the UK). Written constitutions are found not only in democratic systems but also in countries under authoritarian rule. In the latter, however, enforcement of constitutional provisions is weak or discretionary. Thus, the mere existence of a formal written constitution does not necessarily imply the existence and good functioning of democratic institutions.

The constitution is preeminent over all other laws and regulations. The supremacy of the constitution is maintained by the power of judicial review. In most countries, it is generally accepted that it is the sole prerogative of the courts to decide what the law is and what it means. The special status of the constitution is also ensured through its relative inflexibility as compared with ordinary laws, and special provisions for constitutional amendment. Constitutions may be classified as “flexible” or “rigid” according to the method by which they may be amended. Regardless of the formal amending process, the constitutions of some countries have been amended less than 20 times in a century, while the constitutions of many developing countries have been amended as many as 80 times over the last 50 years.

Supplements to the constitution

The constitution is supplemented by framework rules enacted by the legislature on fundamental matters such as the electoral system, delimitation of constituencies, organization of the judiciary, and the establishment of the civil service—called “organic law” in Europe. Constitutions are also supplemented and altered by the interpretations of the highest court, usually called constitutional court (as in Europe) or Supreme Court (as in the US).

Aside from formal law, the constitution is also supplemented and altered through usage and convention by a whole collection of rules, which, though not necessarily part of formal law, are accepted by society as binding. These rules, e.g., those on the functioning of the cabinet system, regulate the political institutions and form a part of the overall institutional framework of government.

Hierarchy of administrative law and regulations

Under the constitution, administrative law governs the administration of the public sector at all levels, including the public enterprises. Three basic statutes affect individual agencies: *Enabling acts* (or organic acts) create an agency, explain its powers and establish its jurisdiction; *authorization statutes* create programs or instruct agencies to undertake certain responsibilities; *appropriation statutes* provide funds, and mandate or prohibit certain actions. The government agencies' powers of regulation derive from these legislative statutes and thus, indirectly, from the people themselves. Regulations enacted under delegated powers of a statute carry the force of law so long as the ministry or agency which issued them had such authority and followed the prescribed legal process. Many countries (e.g., U.S., Korea) have enacted laws providing for public consultation prior to issue of these regulations.

Administrative rules are intended primarily to provide predictability; reduce the scope for arbitrary behavior; foster orderly and efficient agency operation; and provide a basis for accountability, as well as a defensible position for the agency when its regulatory decisions are challenged.

Orders and licenses are used in the course of an agency's performance of its duties, often through front-line employees. Orders are statements about the rights, duties, or legal status of those over whom the agency has jurisdiction. Service providers and government regulators issue an order each time they grants or disallow a claim, or a request for service. In the above sense, a license is a special form of order. Orders and licenses are part of the on-going function of adjudication and conflict-management. Adjudication occurs whenever a public agency makes a decision about an individual or organization regarding the person's situation, and affects the person's rights, duties, or status under the law.

Understanding the administrative roots

To understand a country's public administration "culture" and behavior, it is important to know the underlying constitutional and legal provisions and the tradition of enforcing them. As noted, the workings of the political system and its flexibility depend not only on the provisions of the written constitution, but also on the country's tradition of respect for the rule of law.

It is also necessary to look at the administrative history of a country. For example, countries with a British system of parliamentary government, civil service, and local government have evolved differently from countries that have followed the strong unitary French administrative tradition. Without knowledge of those different roots, it is difficult to arrive at a sound assessment of the administrative system and its rationale, and hence risky to try and change it for the better. Even when an administrative culture has become inefficient, it is necessary to understand its roots if one wishes to improve it in a lasting way.

In former colonies, the evolution of government has also varied according to the degree and modes of colonial control, and to the ideological predilections of the early post-independence leaders. In former British colonies, for example, where the principle of “indirect rule” was followed, colonial authority was largely limited to the central government and left the traditional forms of local government intact. In these countries, mostly in Africa, the traditional forms of administering rural areas persisted after independence. After independence, however, the central planning ideology of many leaders led to a dominant role of the state in the economy.

Forms of Government

The form of government is prescribed in the constitution. Forms of government are determined according to the distribution of powers among levels of government, and within the central government among the different organs of state. Governments can be classified as federal or unitary, and parliamentary or presidential. (In addition, in a *monarchy* the head of state is hereditary and usually for life, while in a *republic* the head of state is elected for specified periods. In a constitutional monarchy, the monarch has no executive powers.)

Federal government

In a federal constitution, the powers of government are divided between the government for the whole country (“federal”) and government for parts of the country (state or provincial) in such a way that each level of government is legally independent within its own sphere, has its own powers, and generally exercises them without interference from the other levels of government. In a few federal governments, the provinces may adopt their own constitution to lay down in detail the nature and functions of provincial institutions, provided that it does not conflict with the national constitution (which, as noted, is preeminent over all other laws in the state’s territory).

Examples of federal constitution are those of the United States, Canada, Australia, and India. Some countries, e.g., Canada and India, permit the central government to exercise limited control over the provincial governments, and also to veto provincial bills or disallow provincial acts, apart from the power of appointment of the provincial governor. Such governments are sometimes called quasi-federal.

It is important to compare the constitution with the actual practice of government over the years. In some cases, the independent status of the provinces has been preserved by the federal government and the courts. In others, the control of the federal government over the provincial governments has gradually become so great as to render the provinces as *de facto* administrative agencies of central government. This control has arisen partly from the forces of centralization, and partly from the dependence of the provinces on the federal government for financial assistance. In practice, these apparently federal countries operate like unitary governments with a substantial measure of legal decentralization.

Unitary government

In a unitary constitution, the national legislature is the supreme law-making body in the country. It may permit subordinate legislative bodies, but has the right to overrule them. As in federal governments, unitary governments also include a variety of possible arrangements and degrees of decentralization. A government that is unitary and highly centralized on paper may be almost federal in practice. Broadly, unitary governments may be classified into two groups—the “Westminster style” countries influenced by the British tradition, and the “Napoleonic style” countries influenced by the French model and based on the unity and indivisibility of the state (OECD 1997). In a number of countries (e.g., Italy, Spain, Sri Lanka), a new arrangement has emerged, whereby the regions under a unitary government are granted substantial degrees of autonomy.

Parliamentary system

In a parliamentary system, the executive branch of government is selected by a majority of members of the legislature and loses office when it no longer enjoys majority support, as shown by a formal “vote of no confidence”. Proposals by the executive are therefore normally passed into law by the legislature, as the executive is the creature of the legislative majority. Legislative rejection of an important proposal—e.g., the annual

budget—is equivalent to a vote of no confidence and thus leads to the resignation of the government. If a new governing majority cannot be assembled from among the members of the sitting legislature, new parliamentary elections ensue. Regular elections are, in any event, prescribed in the constitution. Members of the executive are normally selected from among the elected members of the legislature; the prime minister is the leader of government and usually (but not necessarily) the leader of the largest party in the legislature. The council of ministers is the organ composed of all executive members of government with an assigned portfolio of responsibilities. The cabinet is normally a subset of ministers holding the most important portfolios. (See chapter 2.)

Presidential system

In a presidential system, executive power is vested in a president elected (directly or indirectly) by the entire electorate for a specified term of office, and his or her position is therefore independent of the legislature. The president is empowered to nominate all ministers and other higher officers of government. In some cases (e.g., the US), their appointment requires the consent of the legislature; in the Russian Federation, only the presidential nominee for prime minister needs to be approved by the legislature; in other presidential systems, minister and other executive officers are appointed directly by the president. The executive officers of government do not have to be (and usually are not) members of the legislature, and owe loyalty solely to the president. France has a “coexistence” model of a popularly elected president with substantial powers (especially in defense and foreign affairs) and a prime minister elected by the legislature, in which the president’s party may or may not have the majority.

Common to all forms of government—federal, unitary, parliamentary or presidential—are constitutional and other provisions for checks and balances on executive authority from both the legislative and judicial organs of government, in their respective areas. Such checks and balances are essential to complement the political accountability of the government to the population, which is exercised through periodic elections. These issues, as well as the variety of organizational arrangements for central and local government, are examined in the subsequent chapters.

NOTES

- ¹ The interested reader is referred to Daniel Hewitt (1991); and to the several papers presented in G. Lamb and V. Kallab, eds. (1992).
- ² See his *Peloponnesian War*. For a contemporary elaboration of the security dilemma, see John Herz' *International Politics in the Atomic Age*, 1959.
- ³ In his presentation to the World Conference on Market Economy, Democracy and Development, Seoul, Republic of Korea, February 1999.
- ⁴ This is the recognition that led the international financial institutions to focus their attention on military expenditure. From the mid-1990s, decisions on the level and composition of aid have increasingly been influenced by considerations of the crowding-out impact of military expenditure on development expenditure in the recipient countries.
- ⁵ References to World Bank (1992a); ADB (1995b); ADB (1998f).
- ⁶ ADB (1995b).
- ⁷ Tanzi (1997).
- ⁸ ADB (1998c).
- ⁹ A Working Group of the multilateral development banks has been formed and meets periodically to exchange information on progress of activities and to coordinate efforts.
- ¹⁰ Until then, the US had been the only country to penalize US companies that bribed foreign officials, through the 1979 Foreign Corrupt Practices Act.
- ¹¹ In the words of World Bank President James Wolfensohn in his speech at the 1996 Annual Meetings of the World Bank and IMF, which in many ways set in motion the official chain of events.
- ¹² See, for the case of Peru, de Soto (1989).
- ¹³ See, among others, North (1991) and Williamson (1985).
- ¹⁴ This welcome move away from oversimplification was given official and articulate expression in the World Bank's 1997 World Development Report, "The State in a Changing World".
- ¹⁵ Stewart and Hansom (1988).
- ¹⁶ Chapter 15 discusses in some detail performance measurement and its applications to the budget process.
- ¹⁷ Ferroni, personal communication (1999).
- ¹⁸ This section draws in part from the articles by Bradburd (1992); Cooper and Newland, eds. (1997); OECD (1997b); World Bank (1997); and country profiles, Commonwealth Secretariat (1995a).
- ¹⁹ Perry, ed. (1989); OECD (1997e); Self (1972); Starling (1998); Fesler and Kettl (1991); Commonwealth Secretariat (1997b).

²⁰ The Roundtable of Chief Justices and Ministers of Justice (organized by the ADB in August 1997), expressed several concerns, similar to those summarized in a study of Bangladesh (World Bank, 1996b), and typical of many developing countries: "...procedures are cumbersome, the superior judiciary does very little monitoring, court facilities are inadequate, and there are few well-trained judges and law officers. The legal education system also leaves much to be desired, in terms of both quality and content, and judicial training facilities are similarly poor. All of these cause inordinate delays in legal verdicts."

²¹ See, among others, Herman Finer's *Theory and Practice of Modern Government* (1949), and K.C. Wheare's *Modern Constitutions* (1966).

Chapter 2

Central Mechanisms for Policy Formulation and Coordination

▪ **Robert P. Beschel Jr. and Nicholas Manning¹**

“A government will not endure long if the administration of it remains on the shoulders of a single individual; it is well, then, to confide this to the charge of the many, for thus it will be sustained by the many.”

— *Nicoló Macchiavelli, Discourses on the First Ten Books of Titus Livius, I.ix*

INTRODUCTION

In a well-known metaphor, central mechanisms for policy coordination and implementation can be compared to the brain or central nervous system of government. At some levels, the analogy is an imperfect one. Remove the head in any advanced organism and it will die immediately, whereas administrative decapitation would merely result in varying degrees of service degradation, at least in the short run. The German post office continued to deliver the mail even amid the ruins of Hitler’s Reich.

But in other ways, the metaphor is highly appropriate. The nervous system is essential for coordinating motion and for regulating various dimensions of human behavior. When it goes wrong, the result can be disconnected, uncoordinated action. Furthermore, recent research indicates that the brain is a highly resilient organ capable of rerouting neural networks in a variety of patterns as required. In a similar fashion, governments have found many different means of coordinating their activities. While certain principles are common to more successful mechanisms for policy formulation and coordination, their concrete manifestation in organizational structures and procedures varies significantly both between countries and within countries over time.

In many countries with a parliamentary system, particularly those that come from a European or Commonwealth tradition, the cabinet or

council of ministers plays the central role in policy formulation and coordination. In some countries, the two terms are used interchangeably. In others, the cabinet consists of the more influential ministers, and is thus a subgroup of the council of ministers. In this chapter, and throughout this book, we will use the term cabinet to refer to the highest decision-making body of government—whether it is composed of all ministers or of a subgroup. In cabinet systems, the principle of collective responsibility typically applies, in which all government ministers are pledged to support a decision collectively arrived at or to resign their posts. The work of the cabinet has typically been supported by a cabinet office or chancellery, operating either as a separate, stand-alone entity or in conjunction with the prime minister's office.

Presidential systems display greater flexibility than parliamentary systems. Typically, in countries such as the United States (US), the cabinet is a fairly weak body and most decision making is done either bilaterally between the president and his ministers (secretaries) or in trilateral arrangements between the president, the secretary concerned, and senior congressional figures. The US has found it necessary to evolve cabinet-like arrangements to coordinate policy in the area of national security and, more recently, economic policy. The French system relies heavily on the General Secretariat of Government (*Secrétariat Général du Gouvernement*).

As discussed below, centrally-planned systems have also typically relied on a range of collective mechanisms, such as politburos, juntas, and supreme councils, to formulate, coordinate, and implement policy decisions. Their work has in turn often been supported by secretariats, such as the central committee of the Communist Party and its apparat.

Deliberative bodies at the apex of political life have existed for centuries if not millennia; indeed, their roots could arguably be traced back to the councils of elders often found in traditional hunter-gatherer societies. However, the modern cabinet form of government emerged in Europe in the 19th century, from the wish to reconcile monarchical rule with emerging pressures for popular sovereignty. It was then exported by European colonial powers—Great Britain in particular—to Africa, South Asia, East Asia, and the Pacific.

The current geographic distribution of cabinet systems reflects this historical legacy. A survey of 182 countries reveals that about two thirds could be characterized as having cabinet-like forms of government, while

almost one half had governments that were strongly cabinet-like.² The highest concentration of cabinet-like forms of government is found in South Asia (100 percent) and the Organisation for Economic Co-operation and Development (OECD) countries (90 percent). The lowest concentration can be found in the Middle East and North Africa (21 percent), followed by Latin America (48 percent). In the middle are sub-Saharan Africa (78 percent), East Asia and the Pacific (70 percent), and Europe and Central Asia (70 percent).

As noted, for ease of discussion, the term “cabinet” will be used as a shorthand reference to the most senior body for collective decision making within government, and cabinet office as the secretariat function for this body. It must be noted, however, that such use covers a multiplicity of deliberative decision-making arrangements and of the institutions that directly support their work.

THE GUIDING PRINCIPLES OF POLICY FORMULATION

The fundamental objective of the policy formulation apparatus is to ensure high-quality decision making by the senior leadership. How does one measure the quality of decision making? Certain categories of decisions can be easily defined as “low quality”. Among these are decisions that are illegal, highly unrealistic, clearly unaffordable, or so flawed and unpopular that they are drastically modified or revoked shortly after they are declared. Box 2.1 lists a set of common problems in policy coordination. Beyond these obvious cases, it is difficult to assess the quality of decision making. Over the long run, broader outcomes of public sector performance, such as robust economic growth, increased foreign direct investment, a stable currency, a sustainable budget deficit, or improving social indicators, can serve as rough proxies. But all of the typical problems of performance measurement apply, including the role of intervening variables and the difficulty of establishing causal links. Case studies can shed light on the quality of individual decisions, but are hard to generalize. Because it is difficult to measure the quality of policy decisions, discussion of effective decision making tends to be dominated by a discussion of principles—how decisions should be arrived at, and what steps are necessary to put these principles into practice.

Four particularly important principles emerge from the literature on cabinet decision making: *discipline, transparency, stability, and structured choice*. By the principle of disciplined decision making, decisions should be

financially realistic, consistent, and capable of being implemented. While this principle may appear self-evident, in practice it is frequently flouted. In many countries, decisions are taken without an adequate consideration of their cost implications particularly their downstream burden on the recurrent budget. A study of two African nations, for example, revealed that over two thirds of cabinet decisions were never implemented—a clear sign that the process was producing bad quality decisions and was in need of serious restructuring.³

Stability in decision making is important as well. Erratic policy has been shown to be a major obstacle to promote investment and economic activity.

It is equally important that cabinet processes be transparent. The deliberations themselves are normally confidential; cabinet meetings are limited to ministers only or their designated alternates; the record of cabinet meetings contains only the conclusions with no hint at the underlying deliberations; and the minutes themselves have limited circulation. However, the *process* of bringing issues before the cabinet should be clearly understood and rigorously upheld; otherwise, powerful ministers will make “end runs” around the system to advance their own political or ministerial agendas at the expense of the whole. A rigorous process helps to reassure all ministries that if they play by the rules their concerns will receive cabinet attention.

A final principle of well-functioning cabinet systems is that of “structured choice.” Many decisions that flow to any cabinet are routine, such as endorsing relatively modest changes in a department’s staffing or approving diplomatic or military appointments. Often, such business can

Box 2.1
Common Problems in Policy
Coordination

- Failure to set major policy priorities, to make tough choices between conflicting objectives, or to translate these priorities into concrete operational decisions, most typically through the budget process
- A policy vacuum, due to discontinuity in government or weak and poorly articulated policy platforms
- Lack of trust between senior policymakers, leading to frequent “end runs” around formal decision structures
- Unclear organizational roles or conflicting agendas among line ministries, or both, combined with a failure to consult all ministries with a stake in a particular decision
- Poorly drafted and inadequately costed cabinet submissions, particularly with regard to downstream expenditures
- Presence of parallel, and often invisible and unaccountable, groups influencing policy from outside the formal government

be dispensed with rapidly. Yet in many countries, a process of steady accretion has occurred that results in a host of trivial matters being brought before the cabinet for decision. (In one Southeast Asian country, for example, a decision to relocate a single public toilet ended up being presented to the cabinet.) Cabinet offices must structure cabinet procedures, and the underlying legal and administrative regulations that feed into them, in such a fashion as to ensure that the cabinet is not swamped by trivial or inconsequential matters to the detriment of more serious business.

CRITICAL FUNCTIONS

Turning from broader principles to the specific tasks to be performed, a well-functioning policy formulation and consolidation mechanism should perform at least five tasks effectively.⁴ These are: (i) providing intelligence and early warning regarding the business likely to require decision; (ii) ensuring that all agencies and departments with a stake in a given issue are adequately consulted; (iii) providing supporting analysis and the careful consideration of options; (iv) recording and disseminating decisions; and (v) monitoring implementation and follow-through. Each will be discussed in turn.

The first task is to ensure that all participants in the policy-making process have adequate time to review items on the agenda. In many well-functioning systems, the agenda is typically circulated a specified period in advance (such as 48 hours). In addition, some cabinet offices, e.g. in the United Kingdom (UK), keep advance agendas to monitor workflow, avoid duplication and exploit commonalities between issues on the cabinet agenda, and ensure that the agenda is consistent with upcoming domestic and international events.

The second major task is to ensure that all agencies or departments with a stake in a particular issue are adequately consulted in advance. This allows the policy-making group to benefit from relevant sectoral expertise, and helps to improve consistency and to avoid overlaps and duplication. Consultation also improves “ownership” during implementation. One should avoid taking an overly mechanistic view of participation for, particularly in times of grave national crisis, there is a natural tendency to narrow the circle of decision making to facilitate consensus and prevent leaks. There may also be times when, for strategic reasons, certain ministries or departments are consulted later than others. However, as a general rule, it is important for purposes of information and long-term sustainability to include all relevant players in the deliberations. (See chapter 14 for a discussion of participation in general.)

Many governments have found that policy advice is often sharpened by contestability or the careful evaluation of alternatives. This function is often performed by central mechanisms for policy coordination, provided that they have the requisite capability. However, in a number of governments, this function is placed within the line ministries. Under these circumstances, the goal of the cabinet office is to manage the policy process so this analysis is conducted properly, and not necessarily to perform the analysis itself. This is particularly important with reference to the adequate costing of proposals.

The fourth essential task is recording and disseminating the policy decisions. A variety of approaches are used in this area. Under the principle of collective responsibility, in many Westminster cabinet systems, only the decisions are circulated. Some countries may circulate both the decisions and a brief summary of the arguments in favor. Other countries provide a fuller treatment of the discussion behind the decision.

The final task is that of monitoring implementation. In many developing countries and some developed countries, the passage of a cabinet resolution is no guarantee that a given decision will be implemented, particularly when the ministry concerned is hesitant to enforce it. It is therefore helpful to monitor the follow-through of individual cabinet decisions, at least on a selective basis.

A MULTIPLICITY OF PRACTICES⁵

The principles and functions outlined above are essential for effective policy formulation. The specific ways in which they are translated into bureaucratic practice may vary significantly. There are many different routes to effective policy formulation and coordination, none of which is inherently superior to the others. The practical advantages and disadvantages depend largely on country-specific circumstances and norms.

As noted, in parliamentary systems, mechanisms to coordinate policy include the cabinet itself; cabinet committees and subcommittees tasked with coordinating policy in specific areas on behalf of the cabinet; and a secretariat charged with administering cabinet operations. (Depending on the country, the secretariat may also be responsible for providing policy advice.) These are discussed below in turn.

Cabinet

The size of cabinets can vary significantly both between countries and within countries over time. After several decades of expansion during the postwar period, as governments took on a variety of new tasks ranging from environmental management to consumer protection, OECD countries in the past decade have generally reduced the number of cabinet ministers—even though this often means having to overcome significant political resistance. (See chapter 3 for the number of ministries.)

In determining the appropriate cabinet size, there are fundamental trade-offs between efficiency and manageability, on the one hand, and comprehensiveness and representation, on the other. A small size may ensure quicker decision making, but may run into problems with lack of ownership and inadequate access to information. At the other extreme, some Indian states suffering from chronic political instability have used the creation of cabinet positions to help keep coalitions together. The resulting expanded cabinet, which numbers over 90 ministers, has destroyed the notion of the cabinet as a compact and cohesive policy-making body. As noted at the outset, cabinet may consist of a subgroup of ministers. Thus, some countries, such as Australia and the UK, have attempted to address this problem by creating two tiers of ministers, cabinet ministers and noncabinet ministers.

The composition of the cabinet and cabinet meetings can vary significantly. In many Commonwealth countries, the cabinet is an assembly of senior politicians, whereas countries such as France and Spain have a tradition of appointing at least some technocrats. Some countries appoint only parliamentarians; others prohibit cabinet members from belonging to parliament. In some countries, junior ministers can be called upon to replace their minister if the latter is unable to attend; in others only the designated principal may attend.

The frequency of cabinet meetings can also vary. Most countries hold weekly cabinet meetings. Many countries hold additional meetings as well. Sweden holds up to 20 meetings a month; Norway 12; and in the Netherlands, meetings to set the annual budget may be held three or four times a week. In countries such as France and Norway, the frequency of meeting is fixed by statute. When the head of government enjoys some discretion over the setting of cabinet meetings, there can be significant variation depending on personality. In the UK, Prime Minister Wilson held 59 cabinet meetings a year; Prime Minister Thatcher only 35.

Cabinet meetings may be long (as in Ireland and the Netherlands) or short (as in the UK). However, taking frequency and duration together, at one end of the spectrum Dutch, Norwegian, and Swedish ministers spend up to 40 hours a month in cabinet meetings, whereas at the other end Belgian, French, Italian, and UK cabinet meetings take up as little as eight hours per month. The average appears to be around 12 to 15 hours per month.

Rules generally define the business that goes before cabinet, but these rules are often imprecise or incomplete. (For example, the Norwegian constitution stipulates that all “major issues” must be placed on the cabinet agenda.) In the UK, the matters that should go to the cabinet or its committees are questions that significantly engage the collective responsibility of government because they raise major issues of policy or because they are of critical public importance, as well as questions on which there is unresolved argument between departments. Only in a small number of countries are the rules precise and constraining. In Finland, for example, almost every government decision requires the formal blessing of the cabinet. In the Netherlands, all items requiring cabinet approval are stated in the rules.

An average cabinet will deal with 500-700 items per year (although this number rises to 4,000-5,000 in Finland). As noted earlier, most decisions are routine in nature. Policy decisions typically arise from within the sector ministries, and the role of the cabinet is that of choosing among the policy choices presented to it. In this context, cabinet *decides* policy but does not *make* policy. In well-functioning systems, policy making involves both the specific ministry concerned and the collective decision-making government body.

Cabinet Committees

In the light of the growing complexity of government decision making, the work of cabinets and councils of ministers is increasingly being supported by a network of cabinet committees and subcommittees, whose numbers have significantly expanded in OECD countries over the last two decades (see box 2.2). These committees serve a variety of purposes, but are typically used to identify contending views and interests and resolve them before the formal cabinet submission. They can also be used to develop policy recommendations, coordinate these recommendations, or oversee their implementation. The committees and subcommittees may be formal or

informal, permanent or ad hoc, with the latter typically being constituted to address one-off issues.

Cabinet committees typically have a more diverse membership than the cabinet itself, particularly with regard to informal or ad hoc committees. In addition to ministers or their designated representatives, such group may involve technocrats recruited for their substantive expertise, or in some cases may even involve individuals from outside the government.

Formal cabinet committees are often drawn from a particular subset of ministers with cross-cutting or overlapping portfolios. Under President Ramos, for example, the Philippines utilized eight cabinet “clusters”— including agro-industrial development, macroeconomy and finance, human resource and development, political affairs and national security, and water resources management—to enhance interagency coordination and expedite the implementation of major interagency programs and projects. These cabinet clusters met weekly or as often as necessary, and senior officials at the undersecretary or assistant secretary level were allowed to represent the secretary in cluster meetings.

**Box 2.2
Cabinet Committees**

In Western Europe, the average number of cabinet committees has significantly increased over the last decades. These committees identify contending views and interests and attempt to resolve them before the formal decision process. Committee decisions are ratified by the full cabinet, even if ratification is all but automatic. This is particularly significant in the case of the “kitchen” cabinet, an inner core of the most powerful ministers, including the head of government. These may meet to deal with a specific issue or may be permanent and general in scope.

In central and eastern Europe, there are signs that the number of cabinet committees is increasing. All cabinet committees operate with the authority of the cabinet, and the government must formally ratify their decisions.

Most countries use a combination of standing and ad hoc committees, with the exact mix varying over time. In the late 1990s, Australia had five standing committees addressing employment, security, expenditure review, parliamentary business, and legislation, and an additional ad hoc committee addressing violence. Four or five ministers belonged to each of the standing committees, which were chaired by the prime minister. In theory, issues must be discussed at cabinet committee before going to the full cabinet. However, in practice routine matters

are dealt with in committees and go to the cabinet merely for endorsement, while the more interesting items go straight to the cabinet.

Governments vary widely in their propensity to refer disagreements to a cabinet committee or address it within the full cabinet. One study of OECD cabinet governments noted that, on the average, slightly more than half of all disagreements are referred to cabinet committees for resolution. Practice varies, however. Virtually all controversial decisions are routed to cabinet committees in Belgium and France, and almost none in the Netherlands (which contributes to explaining the longer duration of full cabinet meetings in that country).

Secretariats

The office that supports the cabinet has a particular role in ensuring that the rules of debate are credible and efficient, and that there is a realistic prospect of agreement. The secretariat must be in a position to ensure that all major decisions are routed to the cabinet considerations. It must identify and withhold from the cabinet those items that are not legal, that raise obvious policy inconsistencies with prior decisions, or that have not been adequately vetted through the precabinet screening process. (In France, the legality of a proposal must be vetted by the Council of State before being presented to cabinet.) It must clarify the specific issues at stake and the decisions to be taken and provide the ministers with adequate time to consider them. It must then record the decisions and disseminate them to the relevant agencies.

Cabinet secretariats differ along a number of important dimensions. Many are associated with the office of the president or prime minister; others serve the cabinet as a collectivity. Some have responsibility for formulating policy proposals independently from the line departments, or of offering alternative policy recommendations. Others simply manage the process. Some are staffed exclusively or primarily by senior civil servants; others by political appointees; still others by some combination thereof. Their size differs significantly depending on the nature of the function they provide.

Singapore's Cabinet Office is at one extreme. The purpose of the office is only to provide secretarial and administrative support to the cabinet, and it plays no policy role. It is staffed entirely by civil servants, 15 in all, and its work entails receiving and checking the papers to be placed before

the Cabinet, arranging for their distribution, recording the proceedings of Cabinet meetings, arranging for the attendance of officers who may need to appear before the Cabinet, relaying decisions of the Cabinet to the bodies responsible for implementing them, and performing other functions required by the prime minister. The Cabinet itself typically initiates various policy reviews or changes, which are then handed over to professional staff in the relevant ministry for development.

The British system falls in the middle, both in terms of size and operations. It consists of a staff of about 100 under the Prime Minister's Office and another 100 under the Cabinet Office. The prime minister's policy staff is political and consists of only one civil servant and 12 advisers "shadowing" the departments, each responsible for briefing the prime minister in a major area of policy. The goal of the policy unit is to provide proactive advice, to ensure that policy priorities do not evaporate under the day-to-day demands of office, and to serve as an extension of the prime minister in questioning the submissions of various departments. (Occasionally, the unit will also initiate its own proposals.)

The British Cabinet Office is headed by the secretary of the Cabinet. Its work is organized into three areas: (i) defense and overseas affairs, (ii) European affairs, and (iii) domestic policy. It is primarily tasked with ensuring the smooth functioning of the Cabinet, as well as its committees and subcommittees. It prepares the cabinet agenda, briefs the chairman, draws up the minutes, and circulates the conclusions. Its briefing role offers the most scope for influencing policy. In a typical briefing, the chairman receives technical advice on the correct handling of the meeting, the lineup of positions and the likely supporters or opponents of a particular proposal, and ways of resolving the issues. The Cabinet Secretariat is staffed by civil servants on loan from other departments, typically for a secondment period of two years.

At the other extreme is Russia (discussed later). However, the largest and most powerful central body is probably the Office of the President in the US. For most of American history, the office was small and consisted only of the president and a personal assistant. It was not until the 20th century, particularly under the presidency of Franklin Roosevelt and his successors that the White House staff expanded to its present size of nearly 4,000.

In the US, the President's Cabinet meets infrequently and has little real power as a collective body. The individual departments are responsible for policy making in their areas of competence. However, depending on the energy and drive of the President's chief of staff and the national security adviser, a great deal of policy-making authority can be centralized in the White House. In any case, White House staff are responsible for all senior appointments down to three or four levels in the bureaucracy, and the Office of Management and Budget consolidates budget proposals from the line departments and presents them to Congress. Thus, the White House has control over both personnel and the budget.

Countervailing powers also exist. The analytic infrastructure of Congress—including individual legislative staffs, committee staffs, the Congressional Budget Office, and the Congressional Research Service, among others—is far larger than any comparable legislative support system elsewhere. This provides Congress with the ability to effectively challenge policies adopted by the executive branch. Furthermore, the powers given to Congress by the Constitution in the areas of budget and of approving senior appointments provide further contestability.

The Role of Elite Agencies in the Policy Process

In many countries, certain central ministries have acted as elite agencies to facilitate interministerial coordination in both the formulation and the implementation of policy. Normally, they tend to be the entities in charge of the budget and planning. The role of the finance ministry has been profound in policy coordination because of its decisive say in matters affecting taxation, expenditure, public services, and especially expenditure cuts in times of austerity. This role has been enhanced in developing countries undergoing structural adjustment, because of the need for coordinated macroeconomic and fiscal policies.

The Ministry of Finance in Japan has controlled over the years the budget process and fiscal policy, and the Ministry of International Trade and Industry influences the investment patterns throughout the economy. The Economic Planning Board is considered a superministry in the Republic of Korea, with control over both budget and planning. In Thailand, the Ministry of Finance, the Budget Bureau in the Prime Minister's office, the Central Bank, and the National Economic and Social Development Board (the alleged "gang of four") consult each other in budget preparation, inflation control, and economic policy. In Malaysia, an important role is

played by the Prime Minister's Department. The Economic Planning Unit within this department evaluates the impact of government policies and the quality of life in the economy. The Implementation and Coordination Unit monitors the implementation of program components and ensures that government policies and strategies are in line with the objectives of the national development policy and the Malaysian plan.

The Importance of Leadership Style

Finally, the personality of the chief executive matters greatly. Even in countries with well-established cabinet procedures, the style of the leader can have a major impact on both formal and informal flows of information and decision making. In his study of foreign policy decision making in the US, for example, Alexander George identified three broad styles of presidential decision making and several subvariants that operated within the formal policy structure, ranging from the competitive to the collegial and the formalistic.⁶

Case studies from countries as diverse as Australia, Malaysia, Philippines, Russia, and the UK have also underscored the importance of personal style. Some leaders are more authoritarian in their decision making; others use more collegial and consensus-based approaches. Some welcome freewheeling debate; others prefer more structured exchanges; some are proactive, reaching down into the bureaucracy to gather information and advice; others are more reactive, relying on formal channels and reporting relationships to bring items to their attention. And so on. Even with identical organizational structures, these different personal styles can significantly alter the rules of the game under which policy making takes place.

OTHER MECHANISMS FOR POLICY COORDINATION

As discussed, experience shows that central mechanisms for policy formulation and coordination play an essential role in ensuring the consistency, transparency, and predictability of government policy. However, they do not by themselves ensure effective policy coordination. Much of the day-to-day operational coordination takes place at lower levels of the bureaucracy, and for this reason governments have devised a wide variety of mechanisms for advancing both formal and informal collaboration. In a number of countries, particularly those in East Asia, the vast majority of policy issues are resolved through such mechanisms, and the cabinet is used primarily to ratify consensus arrangements that have been made at lower levels.

Formal mechanisms below cabinet level include senior task forces or review committees, as well as interdepartmental teams or working groups. These groups can stretch from the ministerial level down to the working level; can be standing committees with an indefinite life span or they can operate with a sunset provision; can deal with a wide range of issues or focus on a particular problem; and can be created by law, administrative orders, or simple administrative expediency. Other less direct mechanisms for coordination include speeches of senior officials, newsletters and other publications, and, more recently, government Internet web pages.

Spurred by the increasing use of interdepartmental working groups in the private sector, a growing body of literature is beginning to assess the prerequisites for successful collaboration.⁷ Successful teams and working groups typically require strong endorsement from senior management, and need to translate their common purpose into performance goals. They often involve a limited number of members (typically fewer than 25) with an appropriate mix of expertise, problem solving, and interpersonal skills. The intent is to develop a sense of mutual accountability, reduce organizational or departmental bias, and ensure that the team members will work to implement a collective solution within their individual administrative spheres of competence.

Many countries recognize the critical importance of informal networks in advancing collaboration and coordination. Sometimes, these networks develop naturally from bonds of ethnicity, religion, education, caste, or marriage—with obvious disadvantages as well as advantages. Frequently, governments have sought to foster informal channels of communication through the rotation or secondment of personnel to central departments or other line agencies for a specific period of time.

In many Commonwealth countries, the majority of cabinet office staff are seconded from line departments on the assumption that the cabinet office will benefit from their specific sectoral expertise and knowledge of how their agency works; the ministry will benefit from having one of its own on the “inside”; and the staff will benefit by gaining a broader and less parochial perspective on the functioning of government. Similarly, in former communist countries, senior bureaucrats were typically rotated between line ministries and the central committee. This is also true of the civil service in much of South Asia. India in particular has devised elaborate systems for the training and rotation of staff in leading cadres (such as the Indian Administrative Service) to ensure that central government staff have close relations with their

batch mates in other ministries and departments and are knowledgeable about operations at the district level (see chapter 12).

Coordination of policy within large ministries is also critical. To enhance cooperation among all the organizations reporting to a given minister—departments, service agencies, administrative tribunals, etc.—Canada has developed the concept of portfolio management. Its purpose is to improve coherence in policy formulation and decision processes within and across ministries, provide advice on legislative reforms, exchange information and experience, and work on horizontal issues. This approach is especially suitable for huge ministries with a large span of control.

Policy coordination mechanisms need not be confined strictly to executive departments. In many countries, ministries have developed congressional or parliamentary affairs offices tasked with maintaining good relations with the legislature, soliciting the views of influential lawmakers on matters of relevance to the department, and gaining their backing for priority policies and initiatives. The Philippines, for example, created the Legislative-Executive Development Advisory Council (LEDAC) in 1992 to serve as an advisory and consultative mechanism to ensure consistency in coordinating executive development planning and congressional budgeting. In India, members of parliament have consultative committees attached to various ministries. Party caucuses and coordination committees can also play an important role in coalition governments.

Indeed, policy formulation and coordination should not be confined to government. Many East Asian economies, for example, have used mechanisms such as business/government/labor councils to facilitate the flow of information between the public and private sectors, solicit the views of business and the unions on major policy initiatives, and receive input on how to facilitate investment and economic activity. New Zealand's efforts to enhance the contestability of policy advice has led to the creation of over 100 ministerial policy advisory bodies drawn from all sections of the community. In the US and other OECD countries, independent regulatory commissions often hold public hearings surrounding major policy initiatives, such as a proposed rate hike. In developing countries, these mechanisms are constrained by scarcity of advisors and participants with the requisite expertise, but the importance of dialogue mechanisms is even more important than in developed economies.

A TALE OF TWO COUNTRIES

The importance of the above functions and institutions is illustrated clearly by the contrast between Hungary and Russia. Even though Hungary and Russia are not representative of OECD or of developing countries, they faced the same challenge for evolving new arrangements for policy formulation, and illustrate the general implications of adopting different solutions to that challenges. For most of the postwar period, these states utilized virtually identical arrangements for policy formulation and coordination. However, after 1989 they pursued very different paths.

Under the communist regimes that ruled central and eastern Europe and the former Soviet Union, the Party's Politburo and central committee provided a generally effective means of formulating, coordinating, and implementing government policies.⁸ To be sure, the procedures for decision making were not perfect. They were slow, cumbersome, and excessively centralized. Government ministries played an entirely instrumental role in implementing decisions that were made elsewhere, and relatively trivial issues (such as the amount of reimbursement teachers should receive for travel) were routinely "kicked upstairs" for senior party officials to decide. Decision-making processes were opaque, and there was minimal capacity for sophisticated analysis of the expenditure implications of policy decisions. Considerable discrepancies existed between the official and unofficial rules of the game.

Nevertheless, there was a clear process and set of institutions for bringing issues to the attention of senior leadership, for evaluating them, resolving them, and communicating the resulting decision to the organs responsible for their implementation. In all Eastern European and FSU countries, the Politburo met regularly to decide issues that were often (but not always) vetted beforehand by the central committee. The principle of collegiality ensured that different viewpoints would at least receive a hearing before a particular course of action was adopted. The circulation of personnel between the various departments of the central committee and the line ministries for which they were responsible facilitated the flow of information both upward and downward. In the wake of the events of 1989 and 1991, the abolition of the politburo and the central committee removed the main mechanism for policy coordination in these countries, forcing a search for alternatives.

In the case of Hungary, after a period of trial and error, the Hungarians settled on a cabinet system with two major tiers of decision making. The Administrative State Secretaries (the highest civil service tier, roughly analogous to the Permanent Secretary position in the UK) meets on Tuesdays to vet initial proposals for cabinet. Regular cabinet meetings to approve the relevant decisions and decrees take place on Thursdays.

The Hungarian Government has taken a number of steps to regularize and streamline cabinet procedures. The size of the Cabinet itself was reduced from 19 members in 1993 to 15 members in 1996. The duration of cabinet meetings has been dramatically shortened. Initially, meetings had no structured order, and ministers would present material that was relevant to their particular area without prior coordination or consultation. This was changed to a fixed agenda, in which the Cabinet considers only issues that have been carefully vetted beforehand. About two thirds of these issues are routine and dispensed within a couple of minutes; the rest require more detailed consideration. The work of the cabinet is supported by the Prime Minister's Office, which has a staff of about 500 and is charged with assisting the prime minister in providing information and advice and coordinating the activities of the Government.

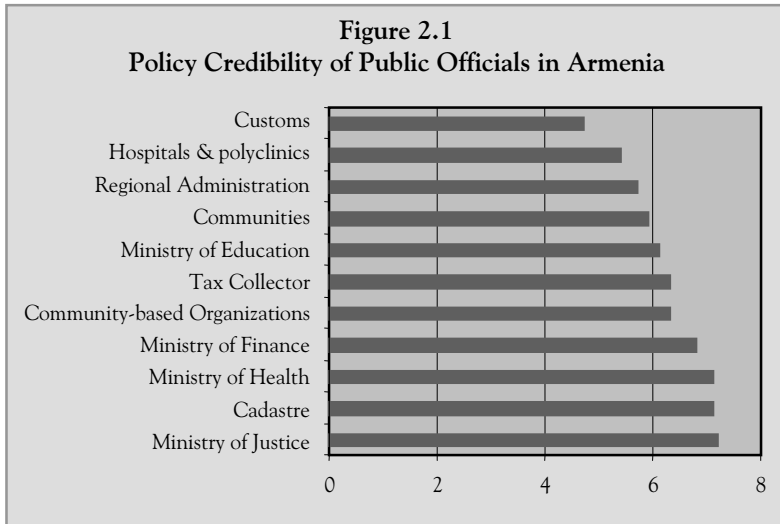
The Hungarian system is not without its flaws, but has contributed to a relative stability in policy that has contributed to enabling Hungary to garner a disproportionate share of foreign investment in central and eastern Europe in the 1990s and enjoy annual rates of domestic investment growth of around 7 percent. Hungary has also been able to successfully pursue a host of important national goals, such as membership in the North Atlantic Treaty Organization (NATO) and the OECD and first-tier status in European Union (EU) accession. There are multiple reasons for this success. Yet, relative policy stability, and the institutional arrangements that support it, has clearly made a significant contribution.

In Russia, by contrast, although the situation is evolving, no effective and widely agreed upon mechanism for policy evaluation and decision making has existed during the 1990s. When they initially came to power in the wake of the former Soviet Union's collapse, President Yeltsin and his associates confronted a hostile parliament, a suspicious government bureaucracy, and powerful party networks still controlling many regions. Their response was to attempt to establish a strong presidential apparatus, to rule the country without having to rely on existing ministerial structures.

Rather than creating a single, dominant presidency, however, this effort resulted in the establishment of several rival centers of power. Parliament strongly resisted efforts to centralize legislative power in the Office of the President, resulting in a “war of laws” in which both institutions issued conflicting decrees. Government ministries under the prime minister resented presidential meddling in their operations. These dynamics were further complicated by the tremendous expansion in presidential staff, estimated at up to 27,000, along with the large duplication in missions and structures. The frequent appointment of supporters to various positions with vague mandates and uncertain responsibilities, and the lack of mechanisms for resolving disagreements, resulted in considerable uncertainty over policy and nearly constant internecine warfare between and within various branches of government.

It is undoubtedly true that the sheer size, ethnic composition, and political instability of Russia made the challenge of policy coordination much more complicated than in Hungary. Moreover, Russia lacked the prevailing social consensus regarding basic forms of political and economic organization and the possibility of membership in the European Union that was widely shared across the political spectrum in Hungary and served as a compass for that country’s reform effort. Nevertheless, Russia’s failure to develop effective mechanisms for policy formulation and coordination has intensified the rivalry between different branches of government, resulting in a cacophony of voices, decrees, and orders at the top, coupled with predatory bureaucratic behavior at many points lower down in the system.

The Hungarian and Russian examples are not isolated cases. Empirical research suggests that policy coherence and consistency make a contribution toward more efficient government. For example, in Armenia a survey showed that the degree of public officials’ commitment to policy implementation depends on whether the policies are frequently changed or contradicted; whether they are well communicated; and whether political micro management undermines policy implementation.



In turn, staff perception of the quality and consistency of policy is an important influence on civil servants' performance. Convincing staff of the consistency of policies is also very strongly associated with apparent reductions in corruption.

The impact of policy inconsistency on public performance mirrors the well-known private concern with unpredictable laws and policies. Erratic policy is known to be a deterrent to investment and private-sector performance. As it turns out, it is also an obstacle to public-sector performance.

KEY POINTS AND DIRECTIONS OF IMPROVEMENT

Key Points

The policy formulation and coordination function is fundamental for the smooth running of government. Effective mechanisms for policy formulation and coordination are closely correlated with a more predictable policy framework, better regulation, lower corruption, and a stronger rule of law. These factors, in turn, have an important impact on entrepreneurship, investment, and administrative effectiveness—all of which require clear guidelines and a sense of direction from the top.

Central policy formulation and coordination mechanisms take a different form in parliamentary and presidential systems of government—

more structured and collective in the former, more flexible and dependent on leader's personality in the latter. In all cases, however, they are intended to perform five basic tasks: (i) provide adequate information and early notice about impending policy issues; (ii) ensure prior consultation of all relevant government stakeholders; (iii) give supporting analysis and spell out options; (iv) record and disseminate policy decisions; and (v) monitor implementation of the decisions.

For the good conduct of the above tasks, four guiding principles emerge from the international experience: (i) discipline, in order to exclude policy decisions that cannot be financed or implemented; (ii) transparency of decision-making processes, while preserving the confidentiality needed for frank debate; (iii) predictability of policy direction, avoiding frequent reversals of policy decisions; and (iv) structured choice, i.e., an orderly process that brings to the attention of policymakers only important issues, and screens out trivial matters.

A strong and effective secretariat is therefore a must for effective policy coordination. In presidential systems, the secretariat function is normally placed in the office of the President. In parliamentary systems, it can be either in the Prime Minister's Office or in a cabinet secretariat, which serves the cabinet (or council of ministries) as a collective group. Policy secretariats can vary in size and function. The Singapore Cabinet Office with 15 civil servants is at one extreme, with the Office of the US President with over 4,000 staff at the other extreme, and the British Cabinet Office and Prime Minister's Office in the middle, with about 200 staff combined. However, in all cases the office must at least assure an orderly flow of traffic and facilitate the decision-making process.

Finally, for the policy formulation and coordination process to work well, in addition to a well-functioning central office there must be good cooperation at all levels of the bureaucracy. This cooperation requires both formal mechanisms such as committees and interdepartmental working groups, and informal networks of communication and cooperation among civil servants, which the government should encourage and support.

Directions of Improvement

The first requirement of an effective administrative apparatus is to define and communicate to it clear policy directives and decisions. Therefore, there is a need for institutions capable of producing decisions that are

consistent, affordable, and capable of being implemented. There is also a need to improve transparency and predictability in the policy process, so that powerful individual ministers do not short-circuit the system and undermine collective goals in pursuit of their parochial interests.

Improvements in cabinet systems and related organizations should be geared to better performance on five basic tasks: (i) provide intelligence and early warning regarding the policy items likely to come before the cabinet; (ii) ensure that all agencies and ministries with a stake in a given issue are adequately consulted; (iii) provide supporting analysis and the careful consideration of options; (iv) record and disseminate decisions; and (v) monitor implementation and follow-through.

Among the key principles of policy formulation, probably the least observed in developing countries is the principle of discipline. Promulgating policies that are “dead on arrival” because they are unrealistic devalues the policy-making process and reduces the impact of leadership. It is essential, therefore, to introduce concrete provisions for greater discipline in policy formulation, as for example a requirement that no decision can be presented for cabinet approval unless it is fully costed and is consistent with other legislation and rules.

Experience demonstrates that there are many routes to more effective policy coordination. Pronounced differences exist not only between countries but within the same country over time. These differences matter in terms of the speed and cost-effectiveness with which decisions are reached, as well as the degree of ownership among various ministries and departments responsible for implementing those decisions. But there is clearly no one right answer to the question of how policy-making institutions should be improved, provided that the improvements focus on the five tasks noted above. Generally, however, the size of the decision-making group can be small and hence its decision-making effectiveness greater, to the extent that there are mechanisms to assure broad consultation with other government entities and the public.

It is important, therefore, not to look at central policy formulation mechanisms in a vacuum. Often, their success is supported by additional coordinating mechanisms. These range from cabinet subcommittees to interministerial task forces and working groups to congressional liaison offices and business-government coordinating councils, and can perform a useful complementary role. Also very important is for governments to find ways

to encourage informal cooperation at all levels of administration, and remove obstacles to the free flow of information within government.

These considerations are of particular relevance for donor agencies, which have recently begun to assist the effectiveness of central decision-making mechanisms in developing countries. The resources involved are often very small, but hold significant promise for assisting the efforts of many developing countries to improve the quality of their service delivery, regulatory functions, and public administration in general.

NOTES

- ¹ The authors thank Omer Gokcekus, Steve Knack, and Ranjana Mukherjee for their research assistance with various aspects of this chapter. This chapter relies partly on Beschel (1998), George (1980), and Reilly, et. al. (1998), in addition to the other specific sources mentioned.
- ² See Nick Manning et al., (1999).
- ³ See Schacter, with Haid and Koenen-Grant (1999); and Koenen-Grant and Garnett (1996).
- ⁴ These observations are taken from Peter Mountfield (1995).
- ⁵ This section draws extensively on Nick Manning (1999c). See also SIGMA Center of Government Profiles (<http://www.oecd.org/puma/sigmaweb/acts/cogprofiles/flags.htm>); Kaul (1997); and Reilly, et.al. (1998).
- ⁶ George (1980), pp. 145–168.
- ⁷ See especially Katzenbach and Smith (1993); see also Kormanski and Mozenter, “The New Model of Team Building: A Technology for Today and Tomorrow,” *The 1987 Annual: Developing Human Resources*; B.R. Tuckman. In this context, teams differ from working groups in that a working group’s performance is a function of what its members do as individuals, whereas a team’s performance includes joint or collective work products and mutual accountability. The observations draw heavily on Katzenbach and Smith’s conclusions.
- ⁸ For a fuller discussion of this topic, see Beschel Jr. (1997). See also Stephen Fortescue (1995) and Huskey (1995).

Chapter 3

Organizational Structure of Central Government

“We tend to meet difficult situations by reorganizing, which gives the illusion of progress while only creating confusion and demoralization.”

— *Petronius Arbiter, c. 200 BC*

GROUPING OF FUNCTIONS INTO MINISTRIES

The form of government should follow its function. Chapter 1 dealt with the context of government activity, and its appendix with the nature of the state and of the government, and the types of constitution and political systems. All of these affect the organizational structure of the central government.

The organization of government is not an end in itself, but a means for achieving national objectives. The purpose is to allocate the tasks of government so that they are performed in a manner that is both efficient and economical, with a minimum of duplication and overlapping. It is important to define the areas of authority and responsibility of administrative units, so that they may be properly subject to constitutional and political controls. Sound organization, based on the principle of delegation of authority to ministries, consistent with their competence and responsibility, also encourages flexibility and responsiveness to new policies and developments. Poor organizational structure of ministries is often a major cause of inefficient implementation of government policies (Box 3.1).

A ministry is a primary level grouping of governmental functions, headed by a major political officer known as a minister. In some countries, e.g., the US, such a grouping is called a department. More often, a department is a subdivision of a ministry, and is in turn divided into divisions, branches, and sections, in descending order of hierarchy. In some countries,

the department is known as a bureau, service, or office. Agency normally refers to an entity of government that is attached to ministries and created for special government purposes (Chapter 6).

Box 3.1

Structure of the Ministry of Health and Family Welfare in India

The health ministry is organized under the health minister into three departments: health, family welfare, and medicine and homeopathy. A permanent secretary heads each department. The department of health is laterally supported by an attached professional organization under the director general of health services. Each department operates hierarchically through successive layers of submission of papers for decision making. Below the secretary are two additional secretaries. Each additional secretary coordinates the work of a number of joint secretaries and one of them also heads a project unit for AIDS control. The joint secretaries in turn supervise the work of several deputy secretaries, and through them a number of undersecretaries and section officers.

The secretary allocates the work among the divisions and higher offices, such as the units for the control of different major diseases, the work relating to government hospitals, medical education, international cooperation, health education and communication, procurement, food and drug standards, medical care of government employees, relations with voluntary agencies, and coordination with the provinces. The director general operates a similar hierarchy of health professionals and administrative staff and renders advice to the minister through the main department. The system is highly centralized and prone to delays at every stage. Having to supervise directly a number of large hospitals and to administer a large scheme for government employees leaves the department little time for basic health policy.

Because of the excessive number of layers of authority, there are few mechanisms for internal coordination among the three departments, or for building linkages on health policy with other social ministries. The operation of the department accordingly tends to become budget- driven.

Source: Annual Report of the Ministry of Health and Family Welfare, Government of India. 1999.

Principles of Work Distribution

There are four principles for distributing the work of government: the *area* covered, the *clients* dealt with, the *process* employed, and the *function* served.

The *areal principle* is reflected in the constitutional or legal arrangement for the division of powers between the central and state/local governments. It is generally not used as a basis for grouping functions into ministries, except in the case of a ministry focused on a specific region for political or development reasons (e.g., the former secretary for Northern Ireland in the United Kingdom [UK]).

The *client principle* applies to certain ministries in some countries charged with the problems of specific client groups, i.e., women, children, or minorities. It is not a general organizational principle. For example, a ministry of social welfare will pay specific attention to the old, the handicapped, poor women, children in vulnerable conditions, and specified minorities. Educational services will be specialized to meet the needs of girls, children not covered by the formal system, those in remote areas, the handicapped, and the mentally ill; industrial development may focus on different types of industries, small and large, export units, foreign investors, and mineral exploitation.

The *process principle* is based on the advantages of concentrating specialized skills and techniques. Examples are ministries set up for public works or water resources or information technology, which are staffed almost exclusively by engineers and professionals. It is more common to find process-based departments are more common in local governments and functional agencies than in central government, since the principle blurs the aims of government action and could create problems of coordination as the scale and complexity of government increases. In central government, it is more common to subordinate process units to a broader functional structure, e.g., locating the information services unit in a ministry of scientific research, as explained below.

The *function (or purpose) principle*, by which government units are organized according to function (e.g., housing, health, defense), has become the dominant principle of organization in most central governments. When grouped according to function or purpose, and the degree to which their outputs and outcomes can be observed (Wilson 1989), government agencies fall under four different types:¹

- *production organizations*, where both outputs and outcomes can be observed; examples are the internal revenue service, the postal service, and the social security agency;
- *procedural organizations*, where the outputs can be observed but not the outcomes; examples are hospital administration, armed forces during peacetime, and employment agencies;

- *craft organizations*, where outputs are not easily observed, but outcomes can be evaluated. Examples are enforcement and investigative agencies, and various decentralized self-regulating organizations; and
- *coping organizations*, where neither the output nor the outcomes can be observed, e.g., the diplomatic service.

Principles for Grouping Functions

Within the functional principle, there are four criteria for efficient grouping of tasks: nonfragmentation, nonoverlap, span of control, and homogeneity.

According to the criterion of *nonfragmentation*, all responsibility for a single function should be placed in a single unit. (This is intended to balance the countervailing principle of departmentalization according to clientele.) Nonfragmentation relates both to purpose and to place, the latter coming into play in the case of fragmentation among levels of government and among agencies in the same area. The criterion of nonfragmentation cannot be followed consistently, since unifying responsibility with respect to one function will often lead to fragmentation of responsibility with respect to another.² For example, to set up a separate entity to combat drug abuse would cut across other purposes associated with education, law enforcement, public assistance, and health, and lead to the fragmentation of a host of drug abuse programs organized with reference to education, health, and law enforcement. Also, many social problems are so broad that to combine the authority and resources for addressing any one problem (e.g., poverty reduction) in a single agency would logically require rolling the entire government into one administrative unit. Thus, some fragmentation of responsibility among the administrative units is unavoidable.

The criterion of *nonoverlap* implies that no two departments should have the same authority to act in the same circumstances. While jurisdictional fragmentation divides authority, jurisdictional overlap creates redundant authority. Fragmentation makes government ineffective, while overlap makes government wasteful and inefficient.

The criterion of *span of control* involves grouping functions in manageable organizational sizes, and tailoring the workload to the capacities of the minister and his chief officials. Ideally, managerial coordination requires a systematic grouping of functions in roughly equal size blocks, although political and functional considerations are intrinsically opposed to such tidy patterns.

Finally, the criterion of *homogeneity* holds that no single administrative unit should attempt to perform heterogeneous functions or to serve competing purposes. This principle is related to the principle of nonfragmentation.

Issues Related to the Allocation of Functions to Ministries

The allocation of functions to ministries and the choice of number of ministries involve three related issues:

- how important is the function,
- how should functions be grouped, and
- what type of central control is desirable.³

The first issue involves determining whether a function is important enough to warrant a separate ministry. Can a new subject, say, biogenetics, be usefully combined with science and technology, or does it really need a separate ministry? Sometimes, setting up a new entity even when not strictly warranted can give an important signal to the population that the issue is taken very seriously.

The second issue is tied to the complex choice of linkages among functions, which influences the performance of all linked functions. For example, should higher education be grouped with primary education or with pure research? Should company law be placed in the ministry of justice or in the ministry of industry?

The third issue, that of central control, has to do with the perceived political value of the function.⁴ An important aspect of the politics of allocating functions is the effort of political actors to shape the machinery of government. For example, exporters' interests would suggest separating external trade from other ministries to focus policy and administrative attention on exports; or the chemical companies may push for giving licensing authority to the health ministry than to a more knowledgeable specialized agency.

It is at the highest level of government that the allocation of functions is most political. As one moves down the structure of the ministry, organization is much more determined by practical convenience. New tasks will often simply be added to the existing tasks with which they appear to have the closest affinity. If some new purpose is considered important enough

for a separate unit, it is necessary to show how separate administrative arrangements could be set up without inflicting damage on other functional linkages.

Number and Types of Ministries

The number and designation of ministries vary across countries. For example, there is a single ministry for infrastructure in countries like Algeria, while many other countries have chosen to constitute separate ministries for different types of infrastructure like roads, ports, water supply and sewerage facilities, and railways. Some countries have a comprehensive ministry for industry and directorates for separate industries; others like India have, in addition to a central ministry for industry, separate ministries for steel mines, heavy industry, small-scale industry, petrochemicals, fertilizers, and food processing. Some countries combine industry and trade, while others create superministries to coordinate all the economic work of government. As mentioned earlier, establishing new ministries often signals policy emphases, e.g., ministries for poverty reduction, women, minorities, or the environment.

The importance of the finance and planning ministries and their relative power varies in different countries. Countries also vary in where they locate crosscutting theme areas like women's development, public assistance and welfare, environment, foreign trade, housing, local government, and consumer rights. Specific areas like civil aviation, standards, information technology, and statistics often migrate to ministries over time with no apparent logic. Most often, the underlying reason is the need to accommodate a well-connected politician or bureaucrat.

The functional grouping of ministries must be squared with the requirements of political management. The large size of departments in presidential systems like the United States (US) is partly a reflection of the problems of span of control implicit in a system where a single person is at the top. In a parliamentary government, the prime minister decides the number and workload of ministries, but there are obvious political influences and constraints on this power.

As a general principle, the number of ministries must neither be so large as to impede coordination, nor so small as to place an excessive workload on each ministry. However, the number of ministers may be increased for political reasons in a coalition government (or with a weak

prime minister), generating stress on the task of coordination. Of course, the problem can be solved by allocating subfunctions to junior ministers. This requires the acceptance of hierarchy among ministers, but it could lead to incessant jockeying for position and implies the abandonment of the concept of reasonably compact ministries.⁵

A published record usually sets forth the powers, functions, and organizational structures of all government agencies, with a citation of the relevant laws and decrees and of the basis for the grouping of functions and amendments, e.g., a regulation such as the Allocation of Business Rules in India. The organization chart for each ministry serves as a ready reference on the principal units and the hierarchy relationships and lines of authority. As noted in Chapter 1, it is essential to keep in mind that these formal charts do not reveal the informal relationships, underlying decision-making processes, and actual lines of communication and behavior.

The higher level clusters of substantive functions of government fall into a pattern that can be found, with minor variations, throughout the world. In general, the principal ministries are finance, foreign affairs, internal affairs, defense, information and communications, foreign trade, transportation, labor, energy, law and justice, industry, agriculture, education, health, urban and regional development, social welfare, and public works. There is greater variation in the organizational pattern of the newer functions, such as environment and informatics. (Box 3.2 shows examples from some developed countries.)

Certain functions may acquire new importance because of international focus, technological advance, external aid, or domestic pressure. Such is the case with environment, women's development, control of major diseases, information technology, and communications. There is a temptation for governments, whenever a new function emerges or an old one is enlarged, to entrust it to a new ministry or autonomous agencies (see Box 3.3). The resulting proliferation of ministries and agencies means confusion for the public and complexity for the political executive.⁶ Some countries (e.g., the UK and the US) have avoided the temptation to create new ministries, preferring instead to create new units under the existing ministries, or to hive off functions to nonministerial bodies. Elsewhere, there has been a move to reduce and reorganize the ministries and departments in different countries through merger and consolidation. In federal countries, the change in ministries often represents a downward shift of functions to the provinces, and a similar shift is noticed in the case of the devolution of

Box 3.2 Internal Structure of Government

In Japan, all public administration is conducted today by internal departments or by separate but attached agencies of 11 ministries, each of which is headed by a cabinet minister. All the freestanding agencies have progressively been subsumed under the ministries, leaving only two regulatory agencies outside the system. The basic structure in Japan is the product of the National Administrative Organization Law and the various establishment laws for each of Japan's administrative units.

Australia has 5 parliamentary departments, 18 departments, 46 bodies with secretary powers, 13 bodies with dual staffing powers, 17 bodies with some independence, and 14 statutory authorities. The US Government is organized into departments, independent agencies, and bureaus. The basic operating unit is the bureau. These operating units are so important that the entire executive branch may literally be called a bureaucracy, and one might dismiss the departmental and presidential levels as superstructures.

In countries influenced by the British tradition, the ministries and departments are organized along hierarchical lines extending from the permanent secretary at the top to a number of deputy secretaries and undersecretaries, to divisions or sections headed by desk officers, and, at the lowest level, to an army of administrative assistants and secretarial staff. Superimposed on this system is the corps of staff advisers and technical staff, whose advice is fitted into the hierarchical decision-making process.

Source: OECD. 1997. Issues and Developments in Public Management. Paris.

functions in unitary countries to subnational units. In these cases, reducing the size of central government has to be assessed in the total context of public expenditure and service providers. The Government of the People's Republic of China summed it up in the "three fixes"—the fix on functions, the fix on organization, and the fix on personnel—on the basis of which ministries and divisions were restructured and functions were abolished. In general, whenever the organizational structure of central government has not been examined for more than 10 years, a systematic review of functions and organization is advisable.

Box 3.3 Mushrooming of Government in Bangladesh

Since independence in 1971, the Government of Bangladesh has virtually doubled the number of ministries, departments, and officials. The number of ministries increased from 21 to 35; the number of departments and directorates more than doubled from 109 to 221; and employment in the public sector increased from about 450,000 in 1971 to almost one million in 1992, i.e., at a compound rate of 3.6 percent yearly, compared with the population growth rate of 2.5 percent during the same period.

New ministries, divisions, and departments were created in part to meet emerging needs, such as environmental concerns and women's issues. But the state has also spread its wings more and more into commercial activities. Indeed, the growth of Government has often been stimulated by political considerations. The increase in ministries accommodated more intraparty groups, offered more ministerial positions, and created more jobs to be dispensed by political leaders. Aside from the negative budgetary impact, this expansion has stretched implementation capacity, compounded coordination problems, and exacerbated regulatory intrusiveness. It has also created vested interests that have blocked efforts at rationalization and reform.

Source: World Bank (1996b).

International Patterns

The number of central government ministries averages 16 on a worldwide basis, with little variation among regions from an average of 10 in the small Pacific countries to 20 in the Middle East and North Africa. Within each region, intercountry variation is considerable, however, even taking into account population differences. In Africa, the number of ministries ranges from a low of 10 in Botswana to 28 in Nigeria. The range is from 7 to 35 in Asia, from 11 to 27 in Latin America, and from 6 to 16 in the Pacific. The variation is much smaller in Eastern Europe, the former Soviet Union, and in the Organisation for Economic Co-operation and Development (OECD) countries, with countries clustering around 15 ministries. (See tables below for regional averages and the statistical Appendix III for a list of countries.)

Obviously, countries with large populations tend to have a greater number of central government ministries, as also do countries with a centralized, unitary structure of government. However, the evidence of administrative scale economies is strong: neither the number nor the average size of ministries increases in anything like a proportional way to the size of

Table 3.1
Number of Central Government Ministries
 (various recent years)

Region	Average No. of Central Ministries	Population (thousands)	Population per Ministry (thousands)	Central Government Employment	Average No. of Employees per Ministry
Africa	19	13,942	926	1,046	71
Asia	20	123,951	4,696	1,069	51
Central and Eastern Europe and Former Soviet Union	15	17,813	747	1,264	73
Latin America and Caribbean	15	17,142	1,169	2,275	192
Middle East and North Africa	20	14,992	643	1,390	62
Pacific	10	587	44	5,400	360
OECD Members	14	37,286	3,022	1,658	132
Worldwide Average	16	32,245	1,607	2,015	135

the population. At the extremes, 43 million people are served on average by each ministry in the People's Republic of China, compared with just 1,300 people in the Cook Islands. We will discuss later the significance (or the lack of significance) of these numbers.

Does the number of ministries matter? It certainly matters in the calculation of senior political leaders who are interested in political accommodation, or of rulers who award cabinet posts to personal followers. The issue is also of importance for effective government for a number of reasons. Too many ministries add to overhead costs on account of the staff and infrastructure connected with each new ministry. Each ministry seeks to find new tasks, fueling the bureaucratic pressure for expansion. Problems are created when several ministries perform similar functions and tread on each other's toes. Finally, dialogue and coordination among ministries may be easier to arrange when they are

fewer. However, as noted earlier, the principle of span of control and effective accountability is jeopardized by excessive size of ministries due to a very small number.

At the same time, reducing the number of ministries may produce neither efficiency nor cost reduction. Sometimes, consolidating ministries and reducing their number erodes checks and balances, as was the case in the Republic of Korea before the restoration of democracy. In the absence of external contestability, in more authoritarian governments with little legislative oversight, overlapping ministries are the only source of internal competition to spur efficient performance. It is necessary to look at the real costs as well as the advantages of merging ministries, and consider the possible advantages of overlapping jurisdictions from the citizens' perspective, and in terms of multiple service delivery avenues.

A number of countries in Asia and Africa have reduced the number of ministries and the agencies under them. Singapore was one of the earliest to undertake the exercise. The Government set up a Committee on Reorganization of Ministries, which led to (i) a reduction in the portfolio mix (especially of unrelated functions within ministries); (ii) the transfer of closely related functions in various ministries to one ministry; and (iii) improvement in the central coordination of activities of the ministries and statutory boards. The Republic of Korea has recently passed the Government Organization Act, which reduced the number of cabinet ministers and minister-level officials, to create a government that is smaller but stronger and more efficient, user-oriented, flexible, and responsive to social change, with decentralized authority and responsibilities. Australia reduced in 1987 the number of government departments from 28 to 18, and the Prime Minister further reduced it to 14 in 1996. The People's Republic of China abolished a number of ministries, consolidated existing departments into more homogenous formations, and launched a downsizing exercise under a central unit. And Italy has recently reduced the number of central government ministries to the lowest in Europe (Box 3.4).

Restructuring and privatization in a number of countries has also involved the merger and abolition of some existing ministries. However, as mentioned before, only a detailed study covering all levels of government can reveal whether ministerial reorganization has actually made a difference in total government employment or public expenditure, or just reallocated the same employees and expenditure in a different way.

Box 3.4**At Long Last: From Fat to Lean Central Government in Italy**

The Italian Government formulated a far-reaching reorganization of the apparatus of central government in 1999, more than 30 years after the 1968 law that first called for the move. This was the first general ministerial reorganization since 1853, before the unification of Italy. Several legislative decisions were taken in that direction in the 1970s and 1980s, but none were implemented. This delay and procrastination also affected the implementation of other important administrative reform measures, including some prescribed in the constitution. It took the peaceful upheaval of the Italian political system, triggered in the early 1990s by a remarkable group of activist prosecutors investigating the scandals of Tangentopoli (Bribe City), to eventually make all those paper plans a political and administrative reality.

The number of central ministries in Italy peaked in the 1980s at 22, and was gradually reduced to 18, still one of the heaviest central government structures in Europe. After the 1999 reorganization, and the parallel process of decentralization, the Italian central government will consist of only 11 ministries and 10 autonomous agencies. (There are also a number of junior ministers for specific portfolios, but without a separate administrative structure of their own.) At the same time, the Prime Minister's Office has been streamlined to strengthen its policy coordination and guidance function, and the powerful provincial prefectures are to be transformed into more modest deconcentrated offices.

The reorganization of 1999 reduced the number of ministries in Italy to less than the 14 central ministries of France and of the UK, the two countries most comparable with Italy in level of development and in economic, geographic, and demographic size. Thus, at the end of the century, the structure of central government in Italy compares favorably in simplicity and organizational logic with that in other European countries. The more difficult challenge ahead is to transform the actual behavior of government entities, and their employees, toward a genuine public service orientation. As all other massive behavioral change, this challenge will require—beyond exhortation and the dissemination of a service ethos—concrete improvements in the framework of incentives (negative as well as positive) and the systematic provision of more “voice” to the users of public services.

In Central and eastern Europe and the former Soviet Union, ministries are reorganized as part of the challenging effort to restructure both the economic and political systems. Three major problems are associated with the persistence of obsolete organizational structures. One is the continued

functioning of institutions whose rationale has changed radically or has disappeared outright; another is the need to create from scratch organs that can address newly defined functions of government in the transition; the third is the grafting of old institutions onto the new system, often in a dysfunctional way (e.g., Poland; see Nunberg, 1995). Changes in ministry structures to adapt to new tasks are a key element in government reforms. Romania, for example, is working on a comprehensive plan to redistribute functions across ministries, reduce the number of directorates, and reduce the number of political appointees.⁷

Typically, reform has involved the merger of the separate ministries for industry and foreign trade, as in the case of Hungary; ministries of interior have shifted from control mode to service mode, in step with decentralization; ministries of education and culture have shed propaganda-heavy aspects of their portfolio; and ministries of finance are in the process of exercising better their key function of allocating public resources. (See Chapter 7 for a discussion of central government expenditure management.) Many ministries are deconcentrating functions and staff to local and regional offices, or hiving them off to local government. There has been no significant trend in transitional economies to set up new ministries. New bodies have been set up mainly to deal with new functions like privatization, often with sunset provisions, as in former East Germany and the Romania.

A Possible Central Government Structure for Developing Countries

Considering the diversity of experience across countries, it is not possible to suggest a single appropriate number of central government ministries. There can be no flat a priori advice. Each country has to choose in accordance with its administrative traditions and political realities. Also, for the experience of other countries to be useful, the comparison has to be between countries of comparable size and political structure. For example, a federal state will, by definition, have a smaller central government than a centralized or unitary structure—but this says nothing about its efficiency or effectiveness. Also, it is important to verify that an organizational streamlining is more than just a cosmetic merger of two separate ministries without any budgetary savings, or staff reduction, or rationalization of functions. (See the earlier example of the Republic of Korea.)

Clearly, however, the extremes are possible to define. Countries like India with 80 ministries and autonomous central departments, or very small countries like the Cook Islands with 14 ministries for 20,000 people, produce

problems of internal coordination, waste, and bureaucratic vested interests. It is neither good economics nor good politics to continue with overextended and mushrooming ministerial structures.

A typical list of central government functions was mentioned earlier. On the basis of the experience and history of different countries, 11 ministries would generally be sufficient in most developing countries to carry out these functions in a manner that respects the organizational criteria discussed earlier: finance and planning (including aid management); foreign affairs (including external trade); information and communications (including postal services, publicity, and information technology); interior (including police and relations with local government); law and justice; human resources (covering education, culture, sports, and science and technology); human settlements and environment (covering urban and rural development, housing and related service infrastructure, water resources, agriculture, and environment); social and labor issues (covering labor, socially and economically disadvantaged groups, women, and social welfare); health and population (including family planning and disease control); infrastructure (including energy, roads, and different forms of transport); and defense (where needed).⁸ Italy, after the 1999 reforms, and Japan come closest to this structure.

In any event, the principal challenge is not to define this or that ideal number of central government organizations, but to identify the core tasks of government in the specific country, establish reasonably coherent organizational structures to perform these tasks, and, most importantly, put in place the rules and the monetary and nonmonetary incentives that will induce good performance by public managers and employees (Chapter 17).

STRUCTURE AND ORGANIZATION OF REGULATORY BODIES IN DIFFERENT COUNTRIES⁹

The principles of regulation have been previewed in Chapter 1. This section focuses on the organization of the regulatory function of government.

Evolution of Regulatory Bodies

Countries have set up regulatory bodies for a variety of reasons. The first was the enforcement of health and safety standards, following the uproar over the congested and unhealthy conditions in factories and the exploitative

practices of managers at the turn of the 19th century. Governments set up agencies to regulate working conditions and to improve health and safety in industrial units and public places. This regulation was reflected in the earliest labor laws and charters of local governments, and eventually converged with concerns about labor welfare in general, the prevention of child labor, and welfare provisions for women. Special agencies like the Food and Drug Administration of the US were established later to protect the public from adulterated or poor-quality food and drugs.

The regulation of banking activity has been on the agenda of countries since the start of the industrial revolution. This has led to the establishment of central banks in almost all countries to implement monetary policy and to regulate banking activity. The central banking institutions, such as the Bank of England, the Reserve Bank of India, etc., are also in charge of maintaining exchange rate stability and control of foreign investments and remittances in accordance with international practices.

The expansion of economic activity in the last century led to the growth of independent regulatory agencies to ensure transparent competition and consumer protection. The pursuit of competition and the fear of monopolistic exploitation led many countries to set up antitrust agencies. Consumer protection laws and the enforcement of fair business practices called for special enforcement agencies and courts. In some countries, these developments were spurred by consumer movements and the reports of legislative committees on fraud, unfair practices, and insider stock trading. In many countries like the US, statutes or administrative orders governed the establishment of these regulatory commissions or agencies, which had broad discretionary powers over important sectors of the economy. Through various means (licensing, rate fixing, and safety regulations, for example), the agencies regulate major aspects of transportation, communication, power production and distribution, banking, securities issuance and trading, commodities and securities exchanges, business practices, the safety of consumer products, and labor-management relations. Such agencies are also set up at the provincial and local levels in federal countries like the Canada, India and US.

The growing movement for environmental protection and the control of pollution in its various forms, spurred by international concerns, led to the establishment of regulatory commissions for environmental protection and specialized bodies to regulate water and air pollution, hazardous substances, ozone depletion, and other problem areas. Governments have empowered

environmental agencies such as the Environmental Protection Agency of the India or US to prescribe pollution standards in consultation with consumers and business; enforce compliance through a mix of incentives, fees, and sanctions; grant permits for the pollution-free operation of polluting industries; and provide assistance for the installation of pollution control systems.

Market liberalization and privatization have likewise obliged countries to set up new regulatory agencies at the same time as many areas of traditional regulation have come to be viewed as counterproductive. Often, establishing reliable and independent regulatory agencies for utilities, telecommunications, and financial transactions makes a developing country more attractive to foreign institutions and investors. The enabling laws provide for speedy settlement of disputes over the decisions of the regulatory agency through special court procedures.

Amid consumer fears of exploitation by new service providers in the liberalized context, many countries have expanded the role of regulatory agencies to function as industry ombudsmen as well. The agencies provide information to the public on the procedures for awarding licenses, regulating operators, fixing rates, and filing complaints about unfair practices or exploitation. They also consult with user groups through public hearings on rates and licenses, and with advisory councils of the type set up by the British water regulatory authority. The Indian environmental agency is obliged by law to hold public hearings before granting environmental clearance for major projects.

Regulatory agencies may provide service while achieving their regulatory goals. For example, a license to operate a hydroelectric facility, a service to its recipient, may come with several conditions to protect the environment, a regulatory objective. The same holds true of other licenses and permits, including construction codes and regulations. Enforcing of quality standards in goods and services for export also promotes the country's exports, and gains increase confidence in the exports among foreign importers.

Organizational Forms

The regulatory agencies for utilities and the environment tend to be independent bodies, free from executive control. However, many governments also regulate enterprises and citizen activity through government bureaus that are autonomous but not free from control of government. Such is the status of the US Food and Drug Administration and the Occupational Safety and Health, as well as departmental agencies that grant licenses and permits in a number of

countries. In some developing countries, the public sector monopoly in utilities like telecommunications and power supply often also grants licenses to new entrants. To remedy this anomalous situation, certain to undermine the confidence of the private sector in the fairness of the licensing process, independent supervisory agencies were established.

In developing countries, a regulatory body for a utility is usually an independent statutory authority headed by a person with no political leanings but with known expertise in the field (Box 3.5). For example, the regulatory authority for telecommunications would be composed of experts in telecommunications and related fields of finance and engineering. An established convention in a number of countries calls for the executive to consult with opposition leaders and chambers of industry before nominating the members of the regulatory authority. In some developing countries, user representatives are either nominated to the authority or included in an advisory council whose other members are drawn from the industry.

Box 3.5

Electricity Regulation Commissions in India

The Electricity Regulation Act (1998) of India has led to the establishment of the Central Electricity Regulation Commission and Regulation Commissions for electricity in the provinces. The central commission is empowered to regulate the tariff of generating companies owned by the central government, as well as the tariff of private generating companies operating in more than one state. It also regulates interstate transmission of energy, including the tariff of the transmission utilities. The commission collaborates with the environmental regulation agency in developing policies for environmental quality. It aids and advises the government in matters of policy, resource mobilization, consumer interest, and guidelines for tariff, and is empowered to arbitrate in disputes involving power utilities. Appeals against the commission's decisions can be heard only by the High Court. The state commissions have similar powers within their jurisdiction.

The central commission has five members, and its chairperson is expected to be knowledgeable in the electricity industry, engineering, and finance. The commission is assisted in its activities by a central advisory council representing the interests of consumers, industry, transport, agriculture, labor, nongovernment organizations, and research bodies.

Source: Government of India (1998).

The decisions of the regulatory agency have varied impact, depending on the country. In some countries, these decisions are binding on the government; in others, the decisions are merely recommendatory, although the government, if it disagrees with the authority, must explain publicly its reasons for doing so. The affected parties can sue the government for adverse or discriminatory decisions overriding the authority's decisions. Before deciding on the eligibility of bidders, awarding licenses and permits, fixing tariffs and user charges, or distributing territorial rights for operation, the authority is required to follow due process under administrative law and afford equal opportunity to all the parties concerned. Its quasi-judicial powers under the law allow the authority to conduct hearings and to enforce its decisions on all parties. It is often obliged to hold public or closed hearings with all the stakeholders before deciding a matter, and to disclose publicly the reasons for its decisions. As mentioned earlier, some authorities develop a consumer orientation by assuming an ombudsman role, proactively disseminating information on industry practices and avenues of redress.

Regulatory agencies operate in a manner that varies according to the nature of their functions. Decisions by an environment protection agency, for example, are much more generic than specific to an individual or group. It must hold wider public consultation before enforcing pollution abatement standards, levying charges, issuing environment clearance permits, or certifying pollution control devices. A central aviation authority would monitor airport and airline safety and maintenance, as well as the quality of air traffic control, and license pilots. Increasingly, regulatory agencies in areas like environment and water or air quality, telecommunications, and cross-border transport by air, water, and road are required to work in close coordination with neighboring countries in the region, and often across continents. (See the discussion of globalization in Chapter 1.)

A brief reference may be made to the self-regulation by professionals and industry in a number of countries, which helps to build their public credibility through the voluntary enforcement of codes of good practice, and reduces the need for official regulatory authorities. Examples are the architects councils in many countries; the associations of realtors, brokers, and builders; the fair practices councils set up by business associations to investigate consumer complaints about products and business malpractices; and the groups of industrialists with voluntary codes of ethics for pollution abatement and the disposal of hazardous substances. In a number of countries, industry associations offer to undertake mandatory inspections of workplaces and factories, pollution checks, and other regulatory functions

on behalf of the regulatory agency, subject to sample checks by the agency to verify the reports. Very often, however, such entities really work for the particularistic protection of their members and to exercise political influence, under the guise of self-regulation to protect against wrongdoing.

An important management dimension is the enforcement of their orders and decisions, including redress for breach of obligations. Self-reporting systems require standardized reporting instruments and means for reviewing the completeness and accuracy of data. At the other end of the spectrum are systems that rely on physical inspection, such as the inspection of effluent standards by the environmental agency, or drug and food inspections by the Food and Drug Administration. Rapid and timely inspection and sanctions often require well-equipped laboratories and qualified staff. Where permits are required to carry on an industry or trade, the speed and quality of the regulatory agency's decision and action in issuing the license or permit can be an issue for both environmentalists and applicants. When licenses are limited in number, as with broadcast rights or telecommunication zones, competition is stiff, and adversarial relations with the regulatory agency can develop. The problem may recur when licenses are renewed, or a variation in the original conditions is decided. This reinforces the importance of fairness and transparency in the operations of the regulatory agencies, and the need for governments to ensure their independent functioning, subject to redress from the judiciary.

“Heavy” and “Light” Regulatory Options

Regulatory agencies for economic activity foster competition, promote transparency and predictability in decisions, and protect the operators and the consumers from arbitrary decisions by different actors in the field. A well-designed mechanism that commits the regulator to a clearly defined course of action and reduces the vulnerability of competitors to arbitrary changes in policy can reassure potential investors. International experience shows the wide range of “institution-intensive” and “institution-light” options for regulation, and the variability of regulatory approaches in terms of command-and-control or market-like mechanisms (Box 3.6).

Box 3.6
Varieties of Regulatory Experience

Option	Utilities Regulation	Environmental Regulation	Financial Regulation
Institution-intensive	Price-cap regulation, with the regulator setting the price adjustment factor Regulation by independent commission, with public hearings	Precise rules (command-and-control or, preferably, incentive-based) established by the regulatory agency or legislature	Detailed regulation monitored by competent, impartial supervisory authorities (possibly including some deposit insurance)
Institution-light	Regulation based on simple rules, embodied in transaction-specific legal agreements, and enforceable domestically or through an international mechanism	Bottom-up regulatory approaches: public information, local initiatives to strengthen citizens' voice, and initiatives by local authorities	Incentives structured so that bankers and depositors have a substantial stake in maintaining bank solvency

Source: World Bank (1997).

Institution-intensive approaches rely on public administrators to manage complex technical problems, and give regulators considerable flexibility in responding to changing circumstances. These approaches also use an array of checks and balances to restrain arbitrary behavior by regulatory agencies and to build credibility. Banking sector regulation all over the world tends to be institution-intensive. Well-designed regulation, monitored and enforced by competent and supervisory authorities, can overcome the information asymmetries inherent in banking in developing countries and detect potentially damaging crises.

The use of price caps in utility regulation in different countries illustrates both the scope of authority of an independent regulator and the role of institutional checks on arbitrary action. A price cap gives the utility

an incentive to be efficient, but can vest substantial discretion in the regulating agency. In countries with weak checks and balances, the private investors may be in a position to manipulate the price adjustment factor to their great advantage, but at the expense of the consumers. The Jamaican case illustrates the danger of having no checks on the actions of the Public Utility Commission (World Bank, 1997). Price controls became so punitive that the largest private telecommunications operator was obliged to sell its assets to the Government in 1975. The experiment, in a number of Caribbean countries, to award long-term nonvariable contracts to single private operators in power and telecommunications has generally exposed the industry and the consumer to high tariffs and poor-quality services.

In general, *institution-light approaches* are easier to implement in countries with weak institutional foundations for regulation, greater chances of arbitrary action by new regulatory agencies under the formal or informal control of government, and inadequate capacity on the part of the judiciary to protect business and citizens from wrong or capricious decisions. Developing countries with weak institutions should assess local capacity and political will to grant independence to regulatory agencies before proceeding with a rash of legislation to set up regulatory authorities, lest public confidence in the competence and fairness of the authorities is undermined.

IMPLICATIONS OF THE REGULATORY FRAMEWORK FOR PUBLIC SECTOR MANAGEMENT AND ECONOMIC ACTIVITY

Regulatory Inflation?

As we have seen, basic regulation is a fundamental responsibility of all governments. However, in most cases there is evidence of too many laws and too much regulation. The French Conseil d'Etat (which rules on the legality and propriety of administrative and legal proposals) called the situation "regulatory hemorrhage." The annual production of new laws in France increased by 35 percent over the years 1960—1990, and the production of new decrees by 20—25 percent over the same period.¹⁰ Australia saw a doubling of subordinate legislation between 1982 and 1990. The Indian Commission on Administrative Law estimated the total number of central acts in force in 1998 to be around 2,500, and felt that half of them should be repealed. In the US, the comprehensive Code of Federal Regulations swelled from 54,834 pages in 1970 to over 138,000 pages in 1995.

There is also the mass of ministerial, agency-level, and municipal orders, decisions by independent administrative authorities and tribunals, and government circulars, not to mention the spate of regulations and orders of international regulatory bodies (such as the European Commission or the World Trade Organization) that countries and companies must comply with. Not only is there a plethora of laws and regulations, but they change so quickly that citizens (and sometimes the frontline employees, too) do not know what they contain.

Costs of Regulation

The fiscal and economic costs of regulation, typically not taken into explicit consideration when enacting the regulation, have four main components.

- Fiscal costs to government—the cost of administering the regulatory system itself, including compliance and adjudication. (In the US, on-budget costs increased by about five times between 1970 and 1995, and the staffing of regulatory agencies doubled.)
- Administrative and paperwork costs to businesses and citizens. (In OECD countries, this cost is estimated at 1.7 percent of GDP)
- Costs of compliance—the cost of new equipment, reconfiguration of production processes, relocation, and cost escalation due to delay in the receipt of permits. (In OECD countries, such compliance costs are estimated to be in the range of 10 percent of GDP)
- Indirect costs to the economy, in the form of reduced competition and innovation, and slowed investment.

Assessing the Quality of Regulation

A good quality regulatory system supports national economic performance—defining property rights and avoiding needless litigation, fostering competition, correcting market failures, and promoting fair and equitable market systems. Bad regulation reduces investment, wastes resources, raises costs for consumers, and provides openings for corruption.

Other things being equal, the quality of regulatory enforcement is inversely related in the first place to the quantity of regulation. However, it depends also on the nature of regulations and on the capacity of institutions. Unworkable regulations or draconian rules lead to weak enforcement or widespread evasion, especially in developing countries. Low enforcement

capacity of independent regulatory bodies or enforcement units in existing institutions could result not only in delays and transaction costs, but huge risks for the economy as well. This is illustrated by the costs of the stock market scam in India or the East Asian financial crisis.

Deregulation

Deregulation aims at making regulations simpler and less burdensome for everyone. It involves abolishing out-of-date rules, and making sure that new ones are introduced only when strictly necessary and after exploring alternatives. Many countries have established specialized mechanisms at the ministerial level for streamlining regulatory mechanisms across the government (Box 3.7). These include the Office of Regulation Review in the Australian Industry Commission; the Office of Regulatory Affairs in Canada; the Deregulation Unit in the UK Cabinet Office; and the Office of Information and Regulatory Affairs in the Office of the President of the US. Institutions with an advisory role in setting the regulatory agenda include the French Commission for Public Sector Reform and the Ministries of Economics and the Interior in Germany. Others, such as the ministerial-level Economic Deregulation Board in Mexico and Japan's Administrative Reform Committee (an adviser to the Prime Minister), are deeply involved in reviewing existing regulations and in setting priorities for action by the ministries. As the OECD (1997e) observes, such capacities are most effective if they are independent, horizontal across government, expert, able to take the initiative, and linked to existing centers of oversight and political authority.

Developing countries could start with pilot programs in perceived areas of regulatory costs and immediate priority, and proceed by incremental steps to simplifying regulations to improve service delivery and reduce transaction costs for citizens and business. These would cover strategies like decentralization and delegation, the use of alternate providers, and elimination of unnecessary licenses and forms.

Throughout this process, it must be remembered that the cost-benefit principle is a two-way street. Just as proposals for new rules should be realistically evaluated based on their likely costs and benefits, proposals to eliminate rules should consider the probable impact on the affected groups. Generally, however, the regulatory inflation of the past decades counsels placing the burden of proof on retaining a rule of suspect value rather than on getting rid of it.

Box 3.7 Deregulation Around the World

There are striking recent examples of deregulation. In 1988, the President of Mexico appointed a “deregulation czar” who reported directly to him. The office operated under a strict timetable to revise or abolish within 45 days a rule regarding which it had received a complaint. The work of this deregulation czar is credited with accelerating regulatory reform and providing access to citizens. The reasons for his success are relevant to developing countries: unequivocal support from the top; provision for overrule only at the highest level; tough penalties for officials who did not comply with the ruling; a definite time limit for action; professional skills of the czar’s staff; and credibility with officials and the public through the opportunity for fair hearing (World Bank 1997)

Brazil set up a Federal Deregulation Commission which managed to revoke 112,000 of the 127,000 decrees written since the beginning of the republic. Turkey completed a codification program which eliminated 1,600 laws and consolidated 12,000 others. India in 1998 set up a Commission for Review of Administrative Law, which recommended the repeal of over half of the central laws and changes in many regulations. In Canada, the Ministry of Finance supervises department-wide reviews of regulations. The US has introduced the sunset clause and staged repeals in most laws, and has authorized Congress to veto any new regulation. The National Performance Review has resulted in the drastic reduction and simplification of many manuals. The UK Deregulation and Contracting Act makes it possible to reduce the burden imposed by the provisions of different acts, through a consultative process of notification. The Malaysian Government has taken initiatives to issue composite licenses for business and investment, extend their period of validity, establish one-stop licensing centers, and abolish certain licenses. The Singapore Registry of Companies and Businesses has allowed the public to correct minor errors by lodging a statutory declaration instead of having to approach the court.

Source: OECD (1997e); World Bank (1996b).

KEY POINTS AND DIRECTIONS OF IMPROVEMENT

Key Points

The central government in all countries is organized into various ministries (sometimes called departments), and various supporting units within or outside the ministries. Function has become the prevailing principle for establishing ministries and organizing the work of government. In turn, functions are grouped according to the criteria of nonfragmentation, nonoverlap, span of control, and homogeneity. These determine also the rationale for setting up new ministries to discharge a new function. The

country's administrative structure and cultural factors are also relevant to how government is organized. In addition to function, new ministries sometimes can be set up to signal new policy thrusts, e.g., on environmental protection.

The approach is generally to group functions into as homogenous units as possible, in order to facilitate the exercise of distinctive authority by ministers, without overlap or gaps, and thus foster accountability. However, overlapping jurisdictions may have advantages in generating internal debate and providing citizens alternative avenues for services.

The pressure to cut public expenditure and downsize government administration has pushed several countries to reorganize and reduce the number and size of government ministries and departments in various ways. This tendency was reinforced by the moves toward decentralization and the demand of subnational government units for more authority and resources. In transitional economies, the effort to restructure the economic and political systems has naturally required extensive central government reorganization.

As a general rule, the number of ministries must neither be so large as to impede coordination, nor so small as to place an excessive workload on each ministry and cloud accountability. In practice, the number of ministries varies enormously between countries, from close to 100 ministries in some countries to fewer than 10 in others. Each ministry serves an average of 43 million people in People's Republic China, and 1,300 people in the Cook Islands.

Thus the number of central government ministries does matter, not only for coordination, but also to keep down the costs of government and contain the pressures for bureaucratic expansion. Broadly speaking, most countries can manage very well with 12—18 central ministries. However, reducing the number of ministries by itself produces no advantage and in special cases can weaken accountability by producing hybrid entities.

The organization of regulatory bodies is an important influence on the effectiveness of the regulatory function, which is an essential function of government in any country. As noted earlier, regulation has expanded vastly in the 20th century. In part, this expansion was related to increasing concern with safety, public health, environment, consumer protection, banking and financial stability, etc. But also, a veritable regulatory

hemorrhage has occurred in most countries, with new regulations added without deleting obsolete ones, or an unnecessary detail in regulations to address a valid public purpose. An excessive amount of regulation not only carries costs for the government and the economy, but worsens the quality of regulation and weakens its enforcement. Accordingly, a worldwide movement toward deregulation began around the late 1980s. In this movement to deregulate, which is appropriate and timely, care must be taken nevertheless not to eliminate inadvertently rules that are necessary and efficient. Therefore, just as new regulations should be subject to a realistic cost-benefit test, so should proposals to remove regulations. Because resistance should be expected from the entities responsible for administering the regulations under review, a serious effort at regulatory streamlining must include the elimination or merger of a number of regulatory entities.

Directions of Improvement

Few recommendations can be advanced in an area as political and dependent on country characteristics as the organization of government. However, certain general approaches can be advanced.

By and large, developing countries are usually more heterogeneous than developed countries and their independence is more recent. Therefore, while the functional principle dominates the organization of central government in developed countries, much of the developing world could usefully consider the value of ministries serving a particular geographic area or clientele, whenever government reorganization appears appropriate.

Also, there is a certain trade-off between coordination and accountability: a larger number of ministries makes coordination more difficult but facilitates the placement of responsibility. Again as a broad generalization, in developing countries weak accountability is more of a problem and a risk than loose coordination of decisions. To that extent, whatever the number of ministries, care should be taken to assure clear assignment of responsibility and rules for accountability. Nevertheless, while the specific number of ministries depends largely on country size, goals, and circumstances, most developing countries of average size can probably get by with 12—18 ministries, and the very small countries with fewer than 10.

Concerning the regulatory framework, the situation is complicated in most developing countries by the regulations inherited from the former colonial authorities, which are not only likely to be obsolete but were

designed in the first place for controlling and exploiting rather than protecting the local citizenry and encouraging competition. To these were added the many more regulations promulgated after independence. Nevertheless, the key issue in most developing countries is not the quality of regulation but its lax and erratic enforcement. Most countries would therefore benefit from a two-pronged effort at regulatory reform by (i) extensively pruning the welter of regulation; and (ii) building the capacity for robust, nondiscriminatory, and predictable enforcement of key regulations—particularly those that protect competition, public safety and health, the environment, and land use.

NOTES

- ¹ Outputs are the goods or services produced; outcomes are the purposes that these outputs are meant to achieve. See Chapter 17.
- ² Oakerson in Perry, ed. (1989).
- ³ Self (1972).
- ⁴ Burton (1954).
- ⁵ Manning (1999a).
- ⁶ Self (1972).
- ⁷ OECD (1997b).
- ⁸ The few countries in the world without armed forces, such as Costa Rica, enjoy typically greater national security than their neighbors.
- ⁹ This section is drawn from OECD (1997e); World Bank (1997); Fesler and Kettl (1991); Cooper and Newland, eds. (1997).
- ¹⁰ OECD (1997e).

Chapter 4

Organizational Structure of Subnational and Local Government¹

“Responsibilities in government organization have to be well defined and the spheres of action delineated.”

—Ali Pasha 1871

SUBNATIONAL GOVERNMENT UNITS AND DEGREES OF AUTONOMY

Structure of Subnational Government

Below the central government in all countries are the subnational government entities with varying legal and administrative powers and resources to discharge them. These entities comprise the provinces and regions at the upper intermediate level; the counties, districts, and municipalities at the lower intermediate level; and the village councils and territorial committees in small towns at the lowest level. Subnational government can receive its mandate through the country’s constitution or through central government legislation. Clearly, in the former case the authority and powers of subnational government enjoy greater protection.

The term “local government” generally denotes the units of government that provide direct services to citizens at the lower intermediate and lowest levels. In a number of countries (as in Italy with its city-states and in many other European countries), the local government units were autonomous long before the country in its present form was constituted, and did not require authority to be devolved from higher government level. The developing countries, on the other hand, started with strong central governments after being decolonized, and the habit of local governance is usually not well rooted.

The structure of subnational government varies according to the nature of the political system. Federal constitutions confer sovereign powers on the states in certain functions, and list specific financial sources for the states to exploit. Generally, local government units are the constitutional creation and responsibility of the provinces, although some countries (e.g., Mexico, Philippines and Thailand) provide for independent national capital regions. The federal government does not normally have direct control over local governments, although, as in the United States (US), it can choose to administer programs through them.²

In some unitary systems of government, subnational entities exercise their powers by virtue of the *ultra vires* (beyond the powers) principle: their powers are specifically delegated to them by the central government, which can override their decisions.³ In other unitary systems, local governments operate under the *general competence* principle, and are in principle entitled to exercise all powers that are not reserved to the central government.

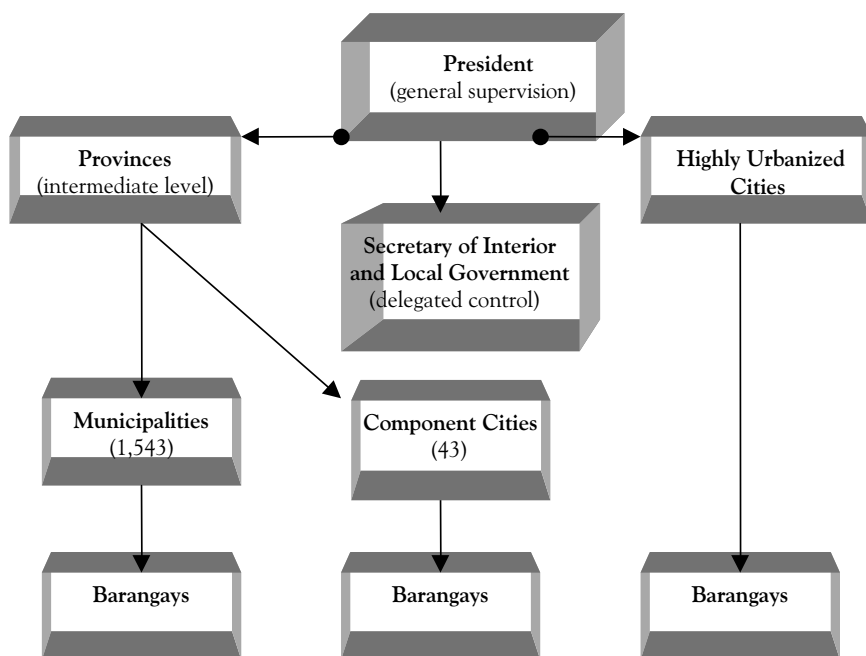
The organization and hierarchy of subnational units show considerable variety, depending on colonial traditions, customary forms of local administration, and postindependence decentralization movements. Most unitary governments have divided the country into provinces or regions, under a governor who is directly elected by the people or appointed by the head of state. The village administrations in developing countries, through elected councils or customary organizations, often survived colonial domination for centuries. Indeed, in many countries, they were essential to selective colonial control through the principle of “indirect rule.”

Subnational units vary greatly in size across countries in the same country group, and there are significant differences as well between local governments in the various countries. For instance, in Indonesia, regional government encompasses the provincial government (the first-level autonomous regions) and second-level autonomous regions. In the Philippines, however, the provinces are closer in size to the Indonesian districts. The municipalities are the basic units of government in the Philippines, and the *barangays* (villages) are the submunicipal units at the city and village levels. While the provinces have certain supervisory responsibilities over the municipalities, and the municipalities over the *barangays*, each level of local government performs basic services within its area of competence (see Figure 4.1).

Autonomy of Subnational Units

The degree of independence of subnational government units varies from country to country. At one end of the spectrum are autonomously functioning subnational governments, controlled by locally elected representatives. At the other end are subnational units that are mere creatures of the central government, which appoints and dismisses mayors. (In reality, subnational governments in unitary countries can never be totally independent of the national government.)

Figure 4.1
Structure of Subnational Government in the Philippines



The governor or provincial head is often a political appointee of the central government, and plays a dual role as head of the provincial administration and agent of the central government. In a number of countries, the provincial administration, composed of the field personnel of central ministries and agencies, merely channels funds from central ministries to lower entities, which it monitors. Countries display contrasting trends in political regionalization (some countries with federal constitutions

or unitary systems, such as Indonesia and the United Kingdom, grant autonomy to some regions), and administrative regionalization (such as that seen in France and Japan). In Italy, although all regions have considerable autonomy, a few have special status on linguistic and ethnic grounds.

In the transitional economies of eastern Europe and the former Soviet Union, the services to be performed through decentralized units of government are still unclear, owing to the tradition of strong centralization. The laws establishing local government in eastern Europe place heavy emphasis on characteristics that distinguish the new system from the old centrally dominated system.⁴ Attitudes to provincial or regional administration remain ambivalent. On the one hand, regional government is suspected of being an agent of central control by the central government, and thus a threat to the newfound autonomy of local government. On the other hand, it is recognized that the small size of the basic municipal units makes it difficult to devolve all local functions to them, especially for those services that have a larger catchment area.

There is thus a felt need in transitional economies for an elected authority at the provincial/regional level, to bring regional administration and some of the regulatory authority within the sphere of local accountability. However, this has not materialized because of disputes over territorial boundaries, and the concern of local governments with vesting appellate powers in an elected authority that could have a different political affiliation. In most countries, the vacuum has been filled by deconcentrated units of central administration—regional governors in Bulgaria, district offices in the Czech Republic, *voivods* in Poland, regional and district administration in Slovakia, etc.

LOCAL GOVERNMENT ADMINISTRATION

Overview

While local government is understood to comprise the administrative units that provide services directly to the people, such units are not uniformly positioned in the subnational structure in all countries. The Philippines considers all subnational levels as “local” government, while Indonesia, like a majority of countries, denotes as local government only those administrative levels below the provincial. In the two-tier system in North America and many European countries, the counties occupy the upper end,

while the municipalities or communes and villages take up the lower end of territorial administration. Japan, on the other hand, follows the system of single-tier local government beneath the province or region. The two-tier system appears to have positive advantages in terms of effective administration of settlements lying outside municipal limits, and coordinated planning of infrastructure.

India, following the colonial tradition, has nearly 600 administrative districts, each reporting to the province in which it is located. These districts vary tremendously in size, from a few tens of thousands to several million people. The central and state governments have the authority to vary the territorial boundaries of districts and their subunits, and to merge the units in different ways. Generally, the subdistrict has no autonomous role although, as already noted, the villages have traditionally enjoyed autonomy.

Depending on their size and character, the municipalities could report directly to the government at the center or to the province, or could form part of the district/county administration. The submunicipal bodies, such as neighborhood committees and community councils, constitute the final links in the chain between the government and the citizens.

Administrative systems for rural areas are typically different, and are strongly influenced by cultural factors and traditions. Village organizations were identified as the building blocks of local government in many Asian and African countries, and were later built into the administrative structure for the district (a large collection of contiguous villages). At the same time, in a number of countries, a representative of central or provincial government was placed in charge of administering and coordinating the workings of agencies (in the manner of the French prefect). In a number of Asian countries, democratic decentralization, in the form of elected councils at the district and subdistrict levels, was grafted onto this model.

Establishing local government has posed special problems for countries in Africa and the Pacific, which followed customary modes even during colonial rule. Customary systems persist in many African countries, although customary traditions have been retained alongside formal systems in developed countries like the New Zealand and US, and some developing countries like India. In Africa, Uganda has made the most serious attempt to democratize native authority through local councils that cross sectarian boundaries.⁵ Tanzania has succeeded both in devolving authority to local levels and in building a national consciousness beyond tribal and local confines, one of a handful of such cases in Africa.

Constitution making in the Pacific brought out two issues: decentralization and the role of customary systems and leaders. The dispersed islands and the social makeup of the new states made decentralization and power sharing more acceptable to the people. However, the traditional role of customary leaders, which is integral to the way they are chosen, is different from their assigned role within the legislative framework for local government. In the process of induction into local government, the chiefs lose some of their traditional accountability and authority. As Hughes (1998) perceptively put it, custom codified ceases to be custom, as it loses its inherent capacity to adapt to the changed circumstances and aspirations of the community.

Rural Administration

Rural administration is important to the quality of life of millions of citizens and, for this reason, is not treated simply as a residual of provincial government in most countries. Especially in countries with vastly dispersed settlements, as well as those undertaking large poverty reduction and social services programs, administration by remote decisions and unrepresentative agencies is not conducive to efficiency or credibility. The need for effective organizational structures for rural administration reaching down to villages has been recognized in most developing countries.

The emerging model of self-government for rural areas in many Asian countries is that of a village council at the base, a second-tier subdistrict to represent a block of villages, and the top tier at the district level with indirectly elected members. This formal structure is modified by customary norms and self-governing organizations.

In India, where the system of district administration has been given constitutional backing, the district councils also prepare (together with urban representatives) the development plan for the entire district. The 1999 law on decentralization in Indonesia envisages a similar role for the elected district government. Zimbabwe amalgamated rural and district councils into 57 rural district councils in 1993. Similar efforts were seen in South Africa after the fall of apartheid, as well as in a number of African countries. In most countries, there are also examples of local communities coexisting with the formal bodies and managing schools, health services, irrigation systems, etc.

In some countries, parastatal organizations such as development agencies also function as local authorities for their clients. Townships built around large manufacturing plants have, in some cases, been allowed to provide social services. Some of these nonmunicipal local authorities are also permitted to levy taxes and service charges to defray the costs of operation.

Management of Cities

Although all countries have experienced urbanization, the rate, magnitude, and character of urban concentration have differed significantly across countries. Worldwide, there are now over 300 cities with more than a million inhabitants, and 200 of these are in developing countries. In the year 2000, of the 20 largest urban agglomerations (“megacities”) with more than 10 million inhabitants, 17 are in developing countries, including 12 in Asia alone. By the year 2025, it is estimated that there will be 20 megacities in Asia, with a combined population of almost 400 million.

However, while a substantial proportion of the urban population lives in the bigger cities, the smaller urban settlements still dominate the urban scene in almost all countries. For example, more than 90 percent of the municipal and township governments in the US serve fewer than 10,000 residents, and 28,000 of France’s 36,000 communes have less than 1,000 inhabitants. Municipalization is due largely to the natural extension of city limits. It is also due to the granting of new municipal charters by governments in countries where the citizens have the right to form themselves into new urban units (as in the US and many countries of eastern Europe). Many countries, such as Japan and the United Kingdom, have deliberately amalgamated smaller municipalities to achieve a viable urban settlement structure. Recognizing the importance of secondary cities with populations of less than 300,000 and redressing their relative neglect over the years, developing countries like India and Indonesia have undertaken comprehensive infrastructure development programs in these small and medium towns.

Urban government

What urban government does, who does it, and with what resources vary from country to country, and from town to town.⁶ Generally, however, urban public services in most countries comprise

- garbage collection/waste management;
- water supply/sewerage;
- environmental services, streetlight maintenance, parks and recreation;
- primary health care and education (in some countries only, usually to complement central government services);
- some social welfare (e.g., shelters for the homeless);
- internal transport;
- urban planning and regulatory enforcement;
- local public works and housing;
- firefighting and other emergency services;
- traffic regulation;

The responsibility for police and prisons is usually not entrusted to municipal bodies, except in some countries of the Organisation for Economics Co-operation and Development (OECD) (e.g., the US). In many Asian countries the urban areas have suffered from the predominantly rural bias of political leaders, which led to the diversion of resources to nonviable rural development projects. On the other hand, fears of city services being overwhelmed by the flood of rural migrants have made urban authorities determined to stem migration to the cities, even by denying basic services to slum dwellers. The predominance of rural voters continues to nourish the bias against essential investment in municipal infrastructure in many countries, while populist policies operate against self-financing urban services.

It is useful to look at different ways in which urban functions evolved. Countries following the British tradition of local government tend to look at municipalities as service delivery agencies, and to specify functions and finances, boundaries, and central control in relation to this role. Countries in the European tradition tend instead to proceed from allocation of different functions to central and subnational government, thus allowing for wide variations in municipality size and capacity to deliver services. This difference accounts for the much smaller size of urban jurisdictions in many countries on the European continent, compared with those in the UK or countries influenced by the British tradition. Countries in the French tradition have thus been able to let deconcentration ensure state and local coordination in the performance of functions such as law enforcement. Unlike the countries in the British tradition, countries in continental Europe (as well as Japan) grant “general competence” powers to urban governments: the municipality can do anything that benefits the local residents and is not

reserved to central government. In the dual-function model, which prevails in most developing countries and eastern European nations, the municipalities, while locally self-governing, are obliged instead to discharge functions delegated to them by the provincial and central governments (the so-called agency or deconcentrated role).

Municipal systems

“Urban” is different from “municipal.” A municipal agency is an administrative entity, while urban services could be, and often are, performed by a variety of nonmunicipal agencies. Nevertheless, urban government has historically been treated as synonymous with municipal administration in many countries.

The status of municipalities in different countries varies between the statutory and the permissive. Urban government has no constitutional status in countries like the UK and the US, but has been granted such status in most Asian, African, eastern European, and Latin American countries, and in continental Europe. At the same time, there are varying traditions of local administration within many countries with dispersed settlements and disparate cultures. The issue that arises, therefore, is whether the municipalities in a country should have a uniform structure, or whether the structure should be modified to suit local traditions.

Some countries provide for the powers and resources of urban local bodies in the constitution itself, while others leave these details to be decided by the provincial or national government in the executive orders and regulations it issues. The laws often envisage different structures for large and small municipalities, and sometimes enable the formation of associations of municipalities and of district councils composed of urban and local representatives for comprehensive planning. (Separate laws are often passed for metropolitan cities.) In a revival of local self-government, Hungary reinstalled the traditional two-tier local structure with the counties (*megyjk*) as the upper level, and the municipalities (settlements) as the pivotal lower layer. It is useful to have the legal and regulatory system recognize significant differences in the management capacities of municipalities of different sizes, through a classification of local government into different levels.

Elected municipalities are not as widespread as may be imagined. A significant proportion of municipalities are governed by bodies nominated by the central or provincial government. The reluctance to accept elected

and autonomous local bodies as the principal organ for local management is a major obstacle to responsive city management.

Within elected municipal governments, executive authority can reside in (i) an executive mayor elected directly by the people (as in central and eastern Europe, Japan, and most cities of North and South America); (ii) council committees (as in the British-based systems in Asia and Africa); (iii) council committees along with administrators appointed by the government or the council itself (as in South Asia); (iv) a mayor selected by a council, which is itself elected by the people (as in several western European countries and some Asian cities); or (v) a mayor-in-council system, whereby a group of councilors is elected along with a person to head the council.⁷

The pattern of executive leadership through a mayor or a mayor-in-council is becoming increasingly common. This is partly an answer to the fragmentation of authority within the municipal administration. Such leadership is more effective, in turn, when supported by a senior professional administrator such as a “city manager”.⁸ This arrangement is particularly advantageous in a functionally fragmented situation because of the ability of the elected mayor to represent local interests before other public agencies and levels of government, to link political leadership to the administration, and to make collaborative bargains for resource mobilization and program implementation.

The experience of countries in Asia shows that the capacity of a mayor to exercise strong leadership depends on the manner of election, the length of tenure, and on whether the mayor functions in an individual or a collegial capacity. It also depends on the extent to which the higher government eschews day-to-day control over the operations of the municipal council. In the Japan, US, and a number of developing countries in Asia, Eastern Europe, and Latin America, the mayor is directly elected by the people. Executive authority is concentrated in the mayor, subject only to the supervision of the elected council in the approval of budgets, new positions, senior appointments, and major policies. The mayor cannot be removed by the council (although countries like India provide for the mayor’s removal by the provincial government, after due process). Many instances of mayors showing innovative leadership, eradicating corruption, augmenting city infrastructure, and forging partnerships with civil society have been documented. (For example, the mayor of Colombo, Sri Lanka, was able to move the municipal system to a more people-friendly system based on partnerships with business and civil society, and involving the citizens in

planning and decision making.) The mayor of La Paz, Bolivia, in the early 1990s turned a corrupt and bankrupt city into a reasonably efficient and financially stable entity.

The model of the mayor elected indirectly by the city council, which is apparently symmetrical with that of the prime minister in a parliamentary system, is followed in Asian and African countries in the British tradition, among others. This model has the advantage of avoiding conflicts between the mayor and the elected council, but makes the mayor more vulnerable to party maneuvers and the mayor's authority dependent on his or her position in the hierarchy of the ruling political party. In a number of countries in the British tradition, executive authority is often split between the standing committee and subject committees of councilors. Inherent in the committee system, even in countries like the UK, is the potential for delay and manipulative politics in local government.

A variant of the model of an indirectly elected mayor is the mayor-in-council system adopted in a number of cities such as Calcutta, India. The majority party elects a group of councilors along with a person to head the council. Each councilor is responsible for a particular department, but functions as a member of a collective executive under the leadership of the mayor. This system gives greater attention to administrative detail, and guidance to the department heads. Its success, however, depends on the ability of the mayor to deal with overlaps and conflicts. The institution is subject to the same risks as a cabinet government system, including the personal agenda of the members of the council. The Calcutta system functions effectively because the vertically controlled hierarchy of the political party dominates both the provincial and city governments, and there is less risk of internal dissension undermining collective work.

Where, as in a number of Asian and African countries, the mayors are not elected but appointed by the political executive of the national government, their authority depends on the extent to which they are allowed to function independently and carry influence with the city administration.

In any case, political authority must be supported by a strong administrative executive (city commissioner, city manager, town clerk, or whatever title). This chief executive of municipalities is appointed differently in different countries. In the British model, the chief executive is appointed by the mayor with the approval of the council and is thus answerable to both. (Such appointments are increasingly made under renewable contracts

for specified periods.) In countries in the US tradition, the strong mayor is empowered to select the chief executive, who is usually endorsed by the council. In the continental European tradition and Japan, the chief administrator can be seconded from the national bureaucracy, or appointed by the mayor under a renewable contract with the approval of the council, after a process of competitive recruitment.

In a number of developing countries that follow the British tradition of local government, the chief administrator in large cities is appointed by the provincial or national government from the generalist cadres of the civil service. Often, there is little or no consultation with the mayor and the council, and the chief administrator can be removed only by the government. If this person comes from the senior executive service, the posting in the city government is treated as a rank-related posting for which no special skills are deemed necessary. Some countries like India have started constituting specialized cadres of municipal chief executives and other senior managers for smaller councils but not for the bigger cities. The practice of the central or state government appointing the chief administrator for large cities creates divided loyalties among municipal personnel and dilutes local political control. The practice is inherited, in fact, from the deep-rooted colonial mistrust of local native administrations and the resulting wish to install a colonial functionary to guard against the possible misuse of power and wasteful expenditure. Accordingly, most mayors in Asian countries see the practice as undermining the principle of local democracy and empowered urban bodies. Provided transparency and credible selection systems are ensured, the model of the locally appointed chief administrator offers advantages because of the scope for selecting competent professionals with experience in diverse aspects of city government.

But, irrespective of the manner in which policies and operational norms are set in the different models, the appointed chief administrator needs the power and status to exercise clear managerial control, especially over department heads; agreement by political leaders to refrain from intruding into managerial functions; and reasonably long tenure. Recent studies have brought out many examples of local innovation and leadership by chief executives, who worked closely with both the political leadership and citizen groups.

Concerning other local personnel (Chapter 10), the personnel systems in urban government in developing countries follow three broad patterns:

- separate, meaning that each urban authority or municipality appoints and controls its own staff (sometimes with the help of central civil service commissions);
- unified, in the sense that the senior management posts are filled from a central cadre of service for local authorities; and
- integrated, meaning that the staff of central and local government agencies form a common cadre, and are exchanged freely between levels of government and localities according to central posting policies.⁹

Submunicipal Organizations

Establishing submunicipal organizations in a number of developed and developing countries answers the need for more responsive community services, and has significant implications for partnerships with different organizations in civil society. For most urban dwellers, the quality of life is determined by what happens in their immediate neighborhood. Submunicipal organizations contribute to four main functions: coordination of urban services, community participation in prioritizing and delivering services, community representation (voice) in city agencies, and mobilization of community resources and skills.

Examples are the community councils in the Netherlands, the barangays in the Philippines, and the ward committees provided for in recent Indian legislation. In countries such as Brazil and India, communities are consulted in setting budget priorities and new programs, and participate in formulating development plans. Of equal importance is the movement for citizens' charters (or service charters) in some countries, and the publication of performance indicators for municipalities and other public service providers. Meaningful participation of citizens requires a legal system that provides for full, timely, and easily accessible public disclosure of decisions related to resource allocation and budgets, and institutionalized channels for participation and monitoring. (These and related issues are discussed at length in Part III.)

In the 1960s and 1970s, national and provincial governments became more closely involved in urban services either directly or through parastatal agencies. This move was partly inspired by municipal incapacity to tackle major capital investments. The other major development was the failure to adjust municipal boundaries to accommodate urban growth. This created problems of peripheral settlements, and the unregulated development of

areas abutting large cities in all developing countries. The issue of establishing local government units of an appropriately larger size has serious political overtones, and boundary changes run up against entrenched political interests. Consequently, urban administration all over the world is characterized by varying degrees of fragmentation:

- *geographical fragmentation*, where an urban area and its periphery are divided among several jurisdictions (e.g., Calcutta with 107 local government agencies, or Metro Manila with a dozen contiguous cities forming a single unplanned conglomeration);
- *functional fragmentation*, where responsibility for urban government is divided among several agencies, including ministries, public corporations, and municipalities. This is especially problematic for functions that link together, such as water supply, sewerage, waste disposal, roads and traffic management, environmental management, etc.¹⁰

In eastern Europe, very small municipalities resulted from the virtual freedom granted to settlements to govern themselves. These countries have from 3,000 to 6,200 municipalities, with an average population of between 1,800 and 7,600.¹¹ The majority are too small to employ professional staff or operate even basic services independently. The financial costs of fragmentation are high. Since intermediate subnational units have not emerged (for the political reasons noted earlier), executive capacity can be coordinated and augmented only through cooperation between municipalities, but this is not always easy to achieve in practice.

MEGACITIES AND METROPOLITAN AREAS¹²

The metropolitan cities and national capitals have been the subject of different experiments in governance, ranging from a separate governmental structure to a regional authority supervising local councils. The growth of megacities, i.e. urban agglomerations with more than 10 million population, is the most striking feature of late 20th century urbanization. As mentioned, Asia by the year 2025 is forecast to have 20 megacities with a combined population of nearly 400 million. Megacities have grown because of the natural increase in population and migration, and are expanding to Extended Metropolitan Regions (EMRs), which often cover areas 50 to 100 kilometers from the city core.

Megacities comprise a built-up area at the city core, a metropolitan ring, and an EMR. Some EMRs,¹³ such as the JABOTABEK (Jakarta region), the Bangkok metropolitan region, and the Metro Manila region, have a formal administrative status. Such megacity regions form a significant proportion of the national urban population—Jakarta, 20 percent; Bangkok, 50 percent; Seoul, Dhaka, and Metro Manila, 33 percent.¹⁴ These and other megacities are reaching the physical limits of growth, need strategic guidance in better and integrated planning to divert future growth into areas with lower development and ecological costs, and for better and more accountable governance. The alternative is human and ecological disaster.

Metropolitan areas and megacities are economically larger than most of the counties in their respective regions, and their contribution to Gross National Product (GNP) is substantial (36 percent of gross domestic product [GDP] for Bangkok, 24 percent for Manila, and 36 percent for Tokyo). Also, these cities are increasingly forming part of a global network of knowledge, commerce and industry, and cultural exchange. Unfortunately, equally striking are the problems of urban poverty, disease, slums and squatter settlements, deprivation of basic services, lack of transport, environmental pollution, and crime and violence.

Megacities are in special need of good governance. The sheer number of people involved and the importance of these cities in the national economy argue for urgent interventions to address their governance weaknesses. The weaknesses include unclear development policies and coordination, ineffective regulations, violations of land-use rules, unresponsive and unrepresentative administration, and near-complete disregard of marginal groups.

Because a metropolitan area includes the larger urbanized area surrounding a core city, a number of municipalities and rural bodies are within its ambit (1,250 local governments and authorities in Chicago, Illinois, in the US, for example). Metropolitan governance, then, implies multiple organizational jurisdictions and responsibilities. The national capital region of Delhi in India encompasses cities and districts from three surrounding states besides the state of Delhi proper, and is governed by special legislation. Provincial status has been given to Beijing, Jakarta, Shanghai, and Tianjin; a two-tier system (a metropolitan authority and city governance) applies in Manila and Tokyo; a combination of local government and metropolitan authorities is found in Karachi, Mumbai, and New Delhi; and multimunicipal arrangements exist in the Calcutta area.

Clearly, therefore, the conventional single-municipality model has great limitations for metropolitan cities, although there are many instances of a single municipality or authority governing the entire city (as in the case of Toronto in recent times). Metropolitan regions typically contain various municipalities of different sizes. Urban growth cannot be contained within prescriptive municipal boundaries, neither can people be forced to reside within the metropolitan area. Consequently, the responsibility for services is badly fragmented, not only among municipalities, but also among functional agencies of central and state governments and privatized delivery arrangements. Some specialization is possible, however. Responsibilities like sanitation may be local in scale, while others (like transit) may involve higher levels of government.

Necessarily, then, the central and provincial governments must play a significant role in the delivery of services in metropolitan regions all over the world, as national policies on immigration and economic reform generate significant financial and organizational demands on metropolitan government. Developing countries have generally been encouraged by donor agencies to set up metropolitan-level sector authorities for water supply and sewerage, housing, transport, and area development, often patterned after similar agencies in developed countries. The local bodies were, naturally, expected to meet the maintenance responsibilities after the aid-supported schemes were completed. With very little resources from the national government and limited ability to levy user charges, the assets rapidly deteriorated.

Other solutions have focused on interagency coordination through physical and investment planning and through negotiation. The “capital folio” experiment in Manila helped ensure coherently planned investments by subjecting competing agency demands to collective decisions on the basis of agreed criteria. Curitiba in Brazil is a model city for structuring the metropolitan network around the transport system. Singapore demonstrates the huge payoff from effective traffic management, in contrast to the glaring failures in transport planning and rising volumes of vehicular pollution in other Asian megacities (Manila having now far surpassed Bangkok in scale and severity of traffic and pollution problems).

Box 4.1

**Dealing with Car Ownership and Traffic Congestion:
The Way of Singapore and Hong Kong, China**

Dealing with traffic congestion and excessive delays in the movement of goods and passengers in big cities calls for demand management and differential pricing. One important means of enhancing the efficient use of road space is the use of fiscal and regulatory measures to restrain private auto ownership and use. To be politically and popularly accepted, such measures must also provide a good alternative to private car use in the form of safe and affordable public transportation.

Hong Kong, China, used a combination of a high purchase tax and high annual vehicle license fees since 1974 to reduce the number of private cars and motorcycles on the road. This was supplemented by electronic road pricing in the 1990s (as was also introduced in Singapore in 1998) to charge road users for the external effects of vehicular traffic at a given time and location.

Singapore provides an interesting example of the application of an overt policy of containing road traffic congestion through the clear assignment of property rights (to the government) and the use of market mechanisms to re-allocate those rights to the car owners.

User charges in Singapore are complemented by motor vehicle ownership policies. From May 1990, the owner of a new vehicle must acquire a certificate of entitlement (COE) before the vehicle can be registered. The COE is valid for a 10 year period and can be obtained at a monthly closed auction held by the Land Transport Authority. Bids are submitted electronically via automated teller machines. The price of a COE fluctuates accordingly to supply and demand. For a medium-sized car (1,001 to 1,600 cubic centimeters) in October 1998 it was Singapore dollar (S\$)25,102. In addition to the COE, the owner of a new motor vehicle is required to pay an import tax that is 41 percent of the market value of the vehicle, a 3 percent goods and services tax, a registration fee of S\$140, an additional registration fee that is 140 percent of the market value of the vehicle, and annual road taxes that vary with the engine capacity of the vehicle. The motor vehicle quota system allows the motor vehicle population to grow at a fixed predetermined annual rate. In the US, where income levels are comparable with those in Singapore, nine out of 10 of all central city households owned at least one vehicle in 1990, compared with only one in four resident households in Singapore. (Car ownership is much higher in other East Asian countries.)

continued on next page

Box 4.1 (cont'd.)

Singapore's area licensing scheme, the foremost example of intelligent road pricing in the world since 1975, requires private cars and motorcycles entering the restricted zone in the central business district during the hours of operation to display a color-coded area license on their windshields, and to pay differential monthly or daily charges for peak and nonpeak hours. The scheme is enforced by traffic wardens eyeballing the traffic past the gantries. These measures help reduce pollution concentration levels during peak hours.

Besides regulating car ownership, both Singapore and Hong Kong, China, have restrained traffic by enforcing controls over parking supply, and imposing high parking charges and road pricing. Most parking in these cities is under public control. By controlling on-street parking, providing of new spaces off-street, and charging for public parking, government can restrain inefficient road use, to the benefit of the great majority. Steps to promote and subsidize public transport supplement these measures, and public transport in both Singapore and Hong Kong, China, is easily accessible and of high standard.

It should be emphasized that such measures, taken in compact city-states, are not easily transferable to other countries. Nevertheless, there is much in these practices that is worth considering in other large cities in Asia and elsewhere.

Source: Phang, Sock-Yong. 2000. Paper on Urban Transportation and Land Regulation. Singapore.

Governments have also come up with multisectoral responses in the form of planning and development authorities with regionwide jurisdiction. Examples of such authorities are to be found in Bombay, Calcutta, Colombo, Delhi, Karachi and Metro Manila. Tokyo provides the alternative response of metropolitan governments with special provincial status. The Tokyo metropolitan government exercises the authority of both city and prefecture over 17 cities, 12 towns, and other areas in the region. It controls and supervises sector authorities, with avenues for public participation. However, in general, development efforts have suffered from lack of responsiveness to local needs, and the failure to take full advantage of representative structures. Metro Manila is still searching for the right answer to balance the needs of local government and regional coordination (Box 4.2).

Box 4.2

Metropolitanization: The Metro Manila Experience

The evolution of 17 local governments into what is now known as Metropolitan Manila occurred in three different time frames. The first took place during the Marcos regime from 1975 to 1986; the second during the term of President Aquino from 1986 to 1992; and the third during the regime of President Ramos from 1992 to 1998.

Metro Manila was created in 1975 during the Marcos regime as a geopolitical entity, and it was governed by a national agency called the Metropolitan Manila Commission headed by Marcos' wife Imelda. The lawmaking powers of the 17 local governments in the metro region were concentrated in the new commission. All legislative and executive powers were vested in a single governing board with five members. The commission was responsible for all the metropolitan services, the levy of taxes and charges, and comprehensive planning. However, it acted in practice as a rent-seeking device for the regime.

After the fall of the Marcos regime, the commission went into limbo. Legislative councils were elected for the local governments. The governing board of the commission consisted of an interim council of 17 mayors from local governments. The commission enjoyed no taxing powers, and its planning and coordination authority was very limited. The bigger municipal units demanded a breakaway from the commission.

In 1995, the Congress passed a law setting up the Metro Manila Development Authority, and designating Metro Manila as a special development and administrative region. Decision-making and policy-making powers were vested in an expanded Metro Manila Council, consisting of mayors, government officials, and the chief of police. The commission was given the powers of development planning, transport and traffic management, solid waste disposal and management, urban renewal, zoning and land use planning, health and sanitation, pollution control, and public safety. The commission could pass ordinances in matters covered by these functions, but this authority conflicted with the legal powers of the municipal councils.

Although the citizens recognize the need for a coordinating body to deal with regional issues, which transcend municipal boundaries, the government has not been able to find the right institutional mix to balance the competing demands of coordination and the autonomy of municipal councils.

Source: Bunye (1999).

Megacity management problems include

- inability to augment public expenditure, particularly capital expenditure, at rates commensurate with the rising need for facilities;
- inadequate skills and manpower to deal with the vast job of managing a rapidly growing and complex city;
- absence of a supportive legal framework and facilitating mechanisms from higher government to ensure the cooperative working of all service and regulatory agencies;
- inadequate time frame for urban planning, budgeting, financing, and decision making;
- lack of sound and well-enforced policies for land use and management;
- deficient political procedures through which metropolitan institutions can secure public access and the people can participate and get information at the neighborhood level;
- unclear institutional responsibilities; and
- tendency of metropolitan authorities to wander into project execution and land development, instead of attending to their main role of metropolitan-level advocacy, information systems, regional planning, and institutional coordination.¹⁵

The electoral constituencies of large cities are often so large that a single councilor is unable to represent the views of diverse groups, and needs the help of submunicipal structures reaching down to small neighborhoods. Metropolitan governments, to a greater extent, need to develop democratic interaction with the informal sector and the marginal groups, excluded from access to services, or entry into economic activities, or meaningful political participation. In some cities (e.g., Mumbai), however, one begins to see a growing web of business, local communities, environmental management, and other interests.

Globalization, information and communication technology, and environmental concerns have major effects on the spatial spread and management of megacities. To enhance their competitiveness, megacities need to build and improve transportation and communication facilities, and facilities to attract foreign investors. However, those competitiveness needs must be balanced with the social priorities of the poor and environmental sustainability.

While some new towns in developing countries have succeeded, governments generally cannot shift populations and activities to low-density

enclaves. Attention should be focused, therefore, on the strategic selection of activities and on intrametropolitan cooperation. Such cooperation is particularly needed in crime control, transportation, waste disposal, pollution control, water resources, and similar network systems. Interdependence has made collaborative leadership the watchword for metropolitan governance.

As grave and complex as the problems of megacities are, solutions do exist and have been found. Unfortunately, it is far easier to apply them with foresight at the start of the problem (as Curitiba, Singapore, and, to some extent, Seoul have done) than to remedy a disastrous situation after it has been allowed to worsen for decades (as in Jakarta or Manila). Once again, the crucial importance of good governance comes to the fore.

KEY POINTS AND DIRECTIONS OF IMPROVEMENT

Key Points

Every country has levels of government below the central national government. Subnational government entities have different powers, resources, and organizational structure, depending on whether the country has a unitary or federal political system, as well as its colonial experience, persistence of customary forms of local administration, and the character of the independence movements. Generally, however, subnational government is subdivided between an intermediate level ("regions," "provinces," or "districts") and local government (at the municipal and village level). In some administrative systems, subnational entities have only the powers specifically delegated to them by the central government; in other systems, they operate on the "general competence" principle, by which they can exercise all powers not expressly reserved to central government.

In many countries, the rights and powers of local government are explicit in the constitution or in national legislation; in other countries, they remain unspecified, and hence are generally dependent on the attitude of the central government of the day. Moreover, in most developing countries, the functioning in practice of local administrative systems is strongly influenced by cultural norms and customs. Especially in Africa and the Pacific, formal structures have been grafted onto traditional modes of local administration. Therefore, when assessing possible improvements in the effectiveness of local government administration (including those suggested below), it is important to look beyond these formal structures to the role of customary systems and traditional leaders.

There are major differences between local administration in rural areas, in cities, and in “megacities” with over 10 million inhabitants. In rural areas, the frequent structure of government in developing countries is that of a village council with elected members at the base, a second-tier level of government to represent a group of villages, and a top tier of government at district level with indirectly elected members. In cities, the organization of municipal government is largely a function of the services it provides.

City government is normally organized to deliver services (such as waste disposal, water supply, internal transport, firefighting, parks, and similar services) for the direct benefit of the local population. In a minority of cases, municipal governments are appointed by central or provincial authorities—a system that in developing countries partly reflects a central distrust of local authority inherited from the former colonial administration. In appointed municipal governments, management is typically much less responsive and personnel loyalties are divided. Within elected municipal governments, the more frequent problem is fragmentation of authority, especially when the executive head (the mayor) is elected by and from among the members of the municipal council. The main alternatives are separate direct election of both the mayor and the council, and the mayor-in-council model, whereby the majority party elects a slate of councilors along with a person to head the group. In the direct election model (resembling the presidential political system), the mayor has the strongest degree of authority, derived from the personal electoral mandate. In the mayor-in-council model (resembling the cabinet system described in Chapter 2), councilors are responsible for their departments but also function as members of a collective executive under the leadership of the mayor. Whatever the manner of election of the mayor, the local political authority can benefit from the support of a strong administrative executive (city manager or similar role).

The expansion of megacities (urban agglomerations with more than 10 million people) is the most striking feature of late 20th century urbanization. By 2025, megacities such as Jakarta, Bangkok, Manila, Seoul, and Calcutta will account for some 400 million people in Asia alone. A megacity typically comprises a core area, a metropolitan ring, and an extended metropolitan region. Therefore, the conventional single-municipality model is clearly inadequate, as responsibility for services in megacities is badly fragmented and cannot be associated with specific municipal boundaries. Megacities are in special need of good governance

and strong coordination and planning, to deal with environmental degradation and extreme human poverty. Interagency coordination is essential and the central and intermediate levels of government must necessarily play a major role.

Directions of Improvement

Because a first requirement for accountability is a clear assignment of responsibility, it is advisable to specify by law the powers of each level of subnational government, in those cases where they remain ambiguous. It is highly inadvisable, however, to codify administrative customs or other informal modes of behavior, as custom when codified loses its natural capacity to adapt to change.

Weak capacity of subnational government to exercise certain functions should be an indication of the need to strengthen such capacity, and not an excuse for withholding legal sanction for the responsibilities it is expected to exercise. Central and intermediate levels of government can strengthen both the powers and the capacity of local government by

- entrusting to elected local bodies the government of urban and rural areas, with clear functions and commensurate resources;
- avoiding the central appointment of local leaders and resisting the temptation to intervene except when local governance is violated or at risk;
- fostering the creation of mechanisms for accountability and responsiveness of local government to the citizens and for appropriate public participation;
- enabling local governments to appoint qualified staff and providing such technical and managerial assistance as local government may require to function effectively; and
- assuring the effective audit of local government activity and an appeals channel for the redress of citizens' grievances.

Considering the growing importance of large urban centers and megacities, and especially the large numbers of marginal and poor people residing in those agglomerations in developing countries, central and provincial governments have a special responsibility to

- help devise integrated region-wide solutions for land-use, transport, and environmental problems, as well as for the provision of a

minimum level of services to the poorer groups, primarily shelter, clean water, and waste disposal;

- assure that megacity governance responds to the same basic requirements as good governance in general—particularly participation;
- prevent particularistic interests of individual municipalities or of privileged groups from exploiting the unplanned expansion of megacities to their own advantage; and
- help address the issues of internal migration, along with measures to assist the recovery of impoverished inner cities.

It is much easier to anticipate and prevent the problems of megacities (as was done in Seoul) than to remedy them after they have surfaced in their most severe form (as in Jakarta and Manila). Nevertheless, improvements in megacity governance and resolute action by all levels of government are essential to prevent those problems from becoming worse still, and can succeed if they are well coordinated and sustained.

NOTES

¹ This section draws heavily on OECD (1997a); ADB (1995, 1998b, and 1999b); Davey (1993); Fesler and Kettl (1991); Commonwealth Secretariat (1995a); and Hyden (1999).

² The US offers a striking example of the variety and profusion of local authorities, all delivering local services. In 1987, there were 83,186 local government units—3,042 counties, 19,200 municipalities, 19,200 townships, 14,721 school districts, and 29,532 special districts.

³ New Zealand has organized its local authorities into three categories: regional, territorial, and special-purpose or ad hoc authorities. The regional councils set the regulatory environment for managing the natural resources, while the territorial councils provide local services within the regulatory framework defined for them.

⁴ Davey (1993).

⁵ Hyden (1999).

⁶ This section has been drawn largely from Davey (1993); Dillinger (1994); ADB (1998b and 1999b); Svava (1994); and Campbell (1997).

⁷ A variation, popular in some cities like Calcutta, is the mayor-in-council, similar to the cabinet system. The mayor is elected from the members of the majority party in the council.

⁸ Svava (1994).

⁹ Davey (1993).

¹⁰ Oakerson, in Perry (1989); Davey (1993).

¹¹ Davey (1993).

¹² This section has drawn on Sivaramakrishnan and Green (1986); UN (1993); ADB (1995a and 1998b); and Bunye (1999).

¹³ The extended metroregions have few clear boundaries between urban and rural settlements, agricultural activities focused on the urban market, dispersed manufacturing plants, and some commercial functions, as well as a haphazard pattern of new formal housing developments and individual construction.

¹⁴ ADB (1999b).

¹⁵ Sivaramakrishnan and Green (1986).

Chapter 5

Decentralization: What, When, and How

▪ With Helena Ireen Vista-Baylon

Unity to be real must stand strain without breaking.
—Mahatma Gandhi

DECENTRALIZATION: DIMENSIONS AND DEGREES

Decentralization of central power and authority to subnational entities can be important for political stability, effective service delivery, poverty reduction, and equity. When ill-conceived or inapplicable to country circumstances, however, decentralization can also carry serious risks. The trend toward decentralization has been especially strong in Europe and Latin America, but a variety of initiatives in that direction have also been taken in many developing countries. The dictionary definition of *decentralization* is “the removal of certain centralized powers or control to various areas, usually the area where operations take place.” (Webster 1995). However, semantic confusion arises because of the wide range of meanings with which the concept is associated in different country practices. Accordingly, this chapter begins with a definition of the basic concepts all associated with the word *decentralization*. Dimensions of decentralization include the geographic, functional, political/administrative, and fiscal. Degrees of decentralization include deconcentration, delegation, and devolution.

Dimensions of Decentralization

Geographic decentralization

Geographic decentralization entails dividing the territory of a state into smaller areas and assigning jurisdictional powers among them. The geographic division depends on the relevant criterion used: it should be based on settlement patterns if the criterion is to minister to the needs of

the population; on language and tradition, if the criterion is to recognize different ethnic groups and cultures; and on scale economies, if the criterion is efficiency. Constituent areas of federations correspond to the divisions made by unitary states for urban and rural jurisdictions. Examples are the provinces and districts of Zambia; the departments and communes of France; counties and districts of England; the regions and districts of Scotland; and the provinces, autonomous regions, counties, people's communes, and production brigades of the People's Republic of China.

Functional decentralization

Functional decentralization is the distribution of state's authority and responsibility among different functional entities of government. It involves determining the type, amount, and mix of government services and creating the entities to dispense them. Accordingly, subnational government entities may be regional offices of the central ministries, service districts, autonomous agencies, or local units of government. The geographic and functional dimensions of decentralization are, in practice, intertwined.

Political and administrative decentralization

The degree of administrative decentralization is closely related to the political structure of the state. However, a distinction is still useful, as certain functions may be exercised centrally even in a federal system, and locally even in a centralized system.

Political decentralization shifts decision-making powers to lower levels of government, encouraging citizens and their elected representatives to participate in decision-making processes. In a fully decentralized structure, lower levels of government formulate and implement policies independently, without intervention from higher levels of government.

A federal constitution is by definition a more decentralized arrangement than a unitary one. However, as mentioned earlier, it is possible for a unitary state to shift substantial powers to provincial governments so that a quasifederal arrangement exists, as in Papua New Guinea. Conversely, a number of federal constitutions exercise significant powers over subnational governments, and the two levels of government in federal states have become increasingly interdependent. In Canada and Switzerland, for example, the federal government may disallow provincial law, or the local courts must judge the validity of federal laws. The Canadian central government appoints

lieutenants-governor and important officials of the state judiciary. In India, extensive powers are conferred on the federal government. The growth in spending on federal grant-aided programs in the US means that state- and local-level governments are required to implement them under close federal supervision, and thus lose some de facto autonomy.

Administrative decentralization involves mainly the design of organizational roles, the identification of specific administrative tasks needed to fulfill those roles, and the assigning of actors to perform the tasks. Some generic administrative roles are executive leadership, policy innovation, planning, financial management, operational management, and regulation and oversight. Naturally, the distinction between political and administrative decentralization is blurred in practice.

The amount of administrative tasks performed by subnational governments depends on the variety of service delivery functions assigned to them. Service delivery can be segmented into parts. In public education, for example, subnational governments may perform any one or more of the following services: curriculum design and teaching methods, textbook production and distribution, teacher recruitment and promotion, school building construction and maintenance, and payment of teachers' salaries. Normally, standard setting is reserved to the national government entity.

*Fiscal decentralization*¹

Fiscal decentralization (sometimes called fiscal federalism) involves transferring expenditure and revenue responsibilities from the central government to subnational governments. Fiscal decentralization takes a number of forms: (i) self-financing or cost recovery through user charges; (ii) cofinancing or coproduction with the private sector; (iii) expanding local tax and nontax revenues; (iv) intergovernmental transfers; and (v) local borrowing. This chapter does not deal with fiscal decentralization, which is discussed in detail in Chapter 8.

Degrees of Decentralization²

The degree of decentralization (whether fiscal or administrative) can be measured by the extent of autonomy of the subnational entities from the central government.

Deconcentration

Deconcentration shifts the administrative workload from central government officials located in the capital to subordinate field staff in the regions, provinces, or districts. Deconcentration is basically an efficiency measure internal to the central government entity, and therefore does not involve a downward transfer of decision-making authority and autonomy from the central government. However, since it does reduce the workload at the center and brings government closer to the people, deconcentration can be considered a first stage of decentralization, especially in highly centralized governments such as those in transitional economies. Furthermore, an intermediate stage can be achieved through a system of field administration, whereby field staff are given some latitude, within prescribed guidelines, to plan the implementation of central directives and to make adjustments to suit local conditions.

Delegation

More extensive than deconcentration is delegation. The organizations to which authority is delegated (i) are technically and administratively capable of performing specialized functions; (ii) may be exempt from central rules on personnel; (iii) may be able to charge users directly for services; and (iv) have broad authority to plan and implement decisions without the direct supervision of central ministries (although they are ultimately accountable to the government). Examples are some types of executive agencies (discussed in Chapter 6), housing and transportation authorities, school districts, public enterprises or corporations, special service districts, special project implementation units, and regional development corporations.

A major feature of delegation is that it helps insulate the implementation of special high-priority projects from political routine and bureaucratic conflicts. It also prevents revenues gained from income-earning ventures from being mixed with regular government budgets. This is generally appropriate, however, only when there is a direct link between the revenue and the beneficiaries from the service provided (Chapter 7).

Devolution³

Devolution carries the highest degree of decision-making independence and involves relinquishing certain functions to subnational governments. It entails creating autonomous subnational governments that (i) have

corporate status; (ii) recruit their own staff; (iii) occupy clear and legally recognized geographic boundaries; (iv) raise revenues to finance their functions; and (v) can interact reciprocally with other units in the government system of which they are a part.

In many countries, despite the devolution of functions to subnational governments, the central government still retains some supervisory powers and plays a significant financial role. Also, the central government sometimes tries to keep its hold on local governments through formal and informal controls or regulatory instruments, often linked to project or program funding. This is intended to ensure that subnational governments will act consistently with national development policies and plans, and follow prudent financial practices. (Sometimes, however, it reflects merely a reluctance to let go of central power and control.)

Developments in decentralization worldwide have abused the term to apply to very different phenomena. *Decentralization* has been expanded in its meaning to include also the dispersal of functions to organizations outside the government apparatus, in various forms of alternative service delivery (Chapter 6), and even to privatization. Such an overly broad use of the term, however, makes intelligent discussion difficult. In this chapter, we use decentralization to refer to the varying degrees of dispersing functions and authority along the formal structure of government, i.e., the geographic articulation of state power and activity.

RATIONALE, ADVANTAGES, COSTS, AND RISKS OF DECENTRALIZATION

Rationale and Advantages

Much of the decentralization that occurred especially during the 1980s was politically motivated.⁴ In Latin America, fiscal and administrative decentralization grew out of democratization movements when elected governments operating under new constitutions replaced autocratic central regimes. Conversely, strong and consolidated local democracy contributed to a more accountable government in the country as a whole. In most of Africa, regionalism and ethnicity, and the spread of multiparty systems, gave rise to more local control and participation in administrative decision making.

In extreme cases, decentralization was a desperate attempt of the state to keep the country united. Political and ethnic pressures, and the long civil wars in Mozambique or Uganda, for example, paved the way for the granting of more autonomy to all localities, or the forging of asymmetrical federations. Mikhail Gorbachev's draft "Union Treaty," before the August 1991 coup, was a last-ditch effort to prevent the Soviet Union from splintering. In some Asian countries previously governed by autocratic regimes, decentralization was seen as the natural alternative. Ethnic conflicts have also exerted strong pressure for decentralization, as in Indonesia, Philippines, and Sri Lanka. As Dillinger has pointed out, decentralization in most countries has come from ad hoc reactive responses by the national government, rather than as a sequenced set of well-conceived policies.

The literature, however, sets out a clear economic rationale for decentralization. Allocative efficiency of public resources can be raised if expenditure decisions are made at lower levels of government that are more responsive to local demands than by a remote central administration. This closer nexus between expenditure decisions and their beneficiaries also limits opportunities for inefficient resource use. From an efficiency standpoint, the Oates "decentralization theorem" states that each public service should be provided by the jurisdiction having control over the minimum geographic area that would internalize the benefits and costs of such provision. In reality, this test is pretty tough to set up and satisfy. A more practical approach, the principle of "subsidiarity," has been adopted by the European Union in assigning responsibilities among levels of government. (Fiscal decentralization was incorporated in the European Union's Single European Act of 1987 and formally adopted by the European Commission in 1993). According to this principle, taxing, spending, and regulatory functions should be exercised by lower levels of government unless a convincing case can be made for assigning these functions to higher levels of government.

The potential gains of decentralization derive mainly from the close contact of government institutions with local residents. First, it may open an environment for public participation in government decision making, resulting in (i) more flexible administration since the government can tailor its goods and services to the needs of the various political, ethnic, religious, and tribal groups it serves; (ii) more effective administration, as local leaders can more appropriately locate services and facilities within communities and integrate isolated areas into regional economies; and (iii) political stability and national unity, as civil society organizations are given a stake in maintaining the political system (see the illustration of northeast Brazil, Box 5.1).

Box 5.1

Rural Development and Community Participation in Northeast Brazil

The chronic poverty in northeast Brazil was caused primarily by the poor resource base in the region and the virtual absence of a functioning rural financial system for the poor. Efforts to reduce rural poverty cost the Government more than \$3.2 billion in expenditures over the last decades. Rural development projects initiated by the federal government included drought relief and discrete sectoral projects, and the integrated development of selected areas to increase agricultural productivity. However, these efforts hardly reduced rural poverty in the region.

In mid-1993, the Brazilian federal and state governments reformulated, with the assistance of the World Bank, the poverty intervention program and made the projects community-based, with project funds going directly to community associations to finance small-scale subprojects they had identified themselves. Unlike previous rural development programs, the reformulated program addressed institutional issues such as decentralization, municipalization, community organization and participation, transparency in decision making, and training and technical assistance to municipalities.

The preliminary evaluation of the reformulated program showed a general improvement in the living conditions of the rural poor and an increase in productivity and employment generation in the region. Aside from improved project design and sustainability, what contributed to the positive outcomes were the increased participation by residents in subproject selection and execution, transparency in project design and implementation, and decentralized fiscal and investment decision making by state and local governments.

Source: Johan van Zyl et al., "Decentralized Rural Development and Enhanced Community Participation: A Case Study from Northeast Brazil," Policy Research Working Paper 1498 (Washington, DC: World Bank, 1995).

Second, decentralization may create opportunities for a more accountable government. Residents participating in decision making can easily monitor and evaluate the government's compliance with the decisions made, can demand speedier government operations, and push local institutions to enhance their capabilities in carrying out functions that are usually not performed well by the central government on its own.

Third, decentralization may be a first step to more transparency in government. Given the appropriate policies for information transfer,

subnational planning and policy making can be made more accessible even to the remotest residents.

Finally, decentralizing fiscal powers to local leaders can ease the financial strain on the central government since subnational governments can more readily mobilize funds by collecting fees and charges for the services they provide. Unfortunately, this generates the frequent temptation to offload expenditure responsibilities to subnational governments that do not have the authority or capacity to raise the required resources (Chapter 8).

Costs and Risks⁵

Decentralization carries various risks as well. First, unless perfectly designed (which is unlikely), decentralization can entail the loss of scale economies and generate unnecessary duplication and underemployment of staff and equipment. Second, it can create coordination problems and conflict where none exists. Especially applicable to ethnically heterogeneous countries, decentralized decision making may subvert the overall resource distribution and macroeconomic management objectives of the central government (discussed in more detail in Chapter 8). More importantly, decentralization can jeopardize the civil and social rights of certain minorities.

Third, the presumed efficiency gains from decentralization can be undermined by institutional constraints. Subnational governments in developing countries worldwide generally have very weak administrative capacities, which can likely make services to be delivered less efficient and effective (Box 5.2). Where resource endowments and capacities are uneven, as within large countries or across the various islands in an archipelago, decentralization may cause regional inequities to deepen. Also, in countries where different ethnic groups and secessionist movements take up large areas, decentralization/centralization issues can contribute to severe internal societal conflicts. From Kosovo to Aceh, East Timor, the serious implications of the issue cannot be overestimated.

Finally, decentralization can worsen rather than improve overall governance. The generic test here is whether the legitimacy and quality of governance is broadly higher at local level than at national level. If the answer is no, decentralizing into a comparatively worse governance climate will tend to worsen the quality of governance in the country as a whole. Local-level autocrats can be as bad or worse than national-level autocrats.

Box 5.2 Are Local Governments Incompetent?

One of the classic objections to decentralization is that local governments are incompetent. Citing statistics on illiterate mayors, crude accounting systems, and widespread nepotism, critics argue that local governments are incapable of taking on expanded functions.

This argument is not as compelling as it may first appear. As a practical matter, when a major service is decentralized, existing field staff are normally decentralized with it. Thus when primary education was decentralized to the departments and states in Colombia and Mexico (respectively), existing central government teachers were decentralized at the same time. They became no less (or more) competent than they had been when they were employed by the central government.

Technical competence has emerged as a problem when central government employees have refused to be decentralized. In Peru, for example, many central government highway engineers chose to retire rather than accept employment in local government. Local staff proved incapable of assuming the task on its own (a problem exacerbated by the absence of central government financing for the newly decentralized roads). This eventually led to the collapse of the decentralization effort, which was followed by recentralization. Governments can facilitate the transfer of central government staff by requiring local governments to offer them the same wages and benefits they received as central government employees. But this is a two-edged sword. While it makes it easier to decentralize staff, it can make it difficult for local government to adapt wages and benefits to local conditions or to introduce management and personnel reforms.

While transferring staff can address the immediate issue raised by decentralization, the overall management weakness of local government remains a cause for concern. Low salaries, low prestige, and high turnover that results from extensive political interference in personnel decisions can make it difficult to attract and retain competent staff, particularly in very small jurisdictions.

Reform has proven difficult. The management of public spending is at once a highly technical and an intensely political process. The challenge for local governments is to put into practice methods that are both technically sound and politically and bureaucratically feasible (Nellis 1991). Human resource management is also a challenge. Local governments' ability to introduce personnel reforms—including performance evaluation mechanisms, training, and pay linked to productivity, and incentives to attract and retain competent, skilled personnel—is often constrained by powerful public employee unions. These problems are not unique to local governments, however. They are the same factors that affect the competence of staff in central government.

Source: Burki, Shahid Javed, Guillermo E. Perry, and William R. Dillinger. 1999. "Beyond the Center: Decentralizing the State". *World Bank Latin American and Caribbean Studies*. Box 2.3.

Countries therefore need to assess realistically these costs against the likely benefits. There can be no a priori blanket judgment for or against decentralization, particularly considering the various different meanings of the term and ensuing confusion in many debates.

APPROACHES TO DEFINING SUBNATIONAL TERRITORIES⁶

Table 5.1 lists six approaches to delimiting geographic areas. These are discussed in turn below.

Approach	Key Feature
Functional	Matches area to function
Community	Gives primary consideration to social geography
Efficiency	Considers performance
Managerial	Considers management capacity of government organization
Technical	Considers the landscape or economy of the country—climate, topography, soil conditions, etc.
Social	Considers the natural formation of inhabitants in geographic areas

Source: B.C. Smith, Decentralization: The Territorial Dimension of the State (London: George Allen and Unwin, 1985).

The Functional Approach

The process of matching area to function involves identifying government functions and the associated necessary institutions, and on this basis delimiting the geographic boundaries within which government functions are to be performed. Following Oates' theorem, the hierarchy of geographic communities corresponds to the scale of operations necessary for the optimum performance of the general government.

But there are difficulties. Aside from the fact that the different functional criteria may produce overlapping boundaries, it is impossible to objectively restrict the "natural" geographic area of a problem (such as in health, housing, and the environment) to the functional area that is politically determined by the government. In effect, the determination of functional areas becomes a political judgment as to what the "right" jurisdiction is for a particular function. The functional approach remains the main point of reference, but needs to be complemented by other considerations.

Community Approach

The community approach prescribes that government boundaries should correspond to territories in which the inhabitants manifest common behavior and attitudes. Applying the community approach involves determining two essential elements: (i) the spatial distribution of settlements such as villages, towns, cities, and metropolitan areas; and (ii) the spatial patterns of the activities of inhabitants, indicated by the people's economic transactions, their personal mobility in commuting to work and shopping, recreation, and cultural linkages.

The process mainly involves identifying geographic centers and hinterlands and their social and economic interdependence as indicated by the number of inhabitants employed in banks, shops, schools, hospitals, newspapers, and so on. This is useful for the design of effective land-use plans, traffic management, highways development, and public transport. Also known as the "central town" concept, the approach is applied notably in Belgium, France, Germany, Sweden, and Yugoslavia, which were able to build strong links between their urban centers, hinterlands, and rural areas. The approach is generally consistent with the regional "growth poles" development approach of the French economist François Perroux (popular in the 1960s), which however has rarely been successful and often led to substantial waste.

Complexities in center-hinterland relationships make it difficult to demarcate communities and measure the urban status of centers. But the task of making government boundaries coincide with centers in towns or urban areas, however difficult, would "internalize" the service externalities generated by local government functions. Also, it would produce a more equitable distribution of government goods and benefits among the community of inhabitants. The more homogeneous the community is, the greater the likelihood that government action will be close to the collective preferences of citizens.

Efficiency Approach

Geographic areas may be divided to permit the government to deliver goods and services efficiently and make the best use of its resources. This approach suggests large jurisdictions with large populations, permitting local governments to (i) widen their range of functions to serve more people; (ii) benefit from a larger tax base; and (iii) optimize their workloads. The

efficiency approach is most appropriate for local government services such as urban planning, housing, water, sewerage, and transportation. The efficiency approach to decentralization can be embodied in Oates' "decentralization theorem" mentioned earlier.

Measuring the efficiency of an organization according to its output forms the basis for either enlarging or reducing jurisdiction boundaries. However, unlike services whose output is quantifiable, such as highways, sewerage systems, or water supply, objective criteria for measuring the "output" of services of, say, teachers, social workers, policemen, health workers, and the like, are extremely difficult to find.

Many western European countries (notably Denmark, Germany, Sweden, and United Kingdom) have reduced the number of their municipalities through mergers. There is, however, no conclusive evidence that operating in larger jurisdictions is always more efficient than operating in smaller ones. Scale economies constantly change with changes in technology and government function. Also, exploiting scale economies does not necessarily require an administrative entity of optimum size. Scale economies can also be attained by adopting joint service agreement, and by delegating the execution of a variety of local services to provincial governments.

Management Approach

The aim of the management approach is to divide state territory into more manageable parts. It corresponds roughly to the "span of control" criteria for central government organization (Chapter 3). It involves drawing boundaries to reflect the perceptions of central decision makers as to how the flow of work can best be managed. The number and location of field offices are arrived at according to an optimum span of control by the headquarters, or the workload appropriate for a field office. This approach is more appropriate for deconcentration and delegation, rather than for political decentralization or for the constitution of local government units.

Technical Approach

In dividing the state territory, one may consider the natural properties and physical features of regions that may bear significance for administration. Although the term region may mean different things in geography and public administration, administrative regions are often based on geographical regions, i.e., areas with unifying characteristics or properties.

Administrative boundaries are often drawn on the basis of physical geography, especially when governments attempt to manage natural resources such as water supply, land drainage, coastal erosion control, irrigation, soil conservation, forest development, recreation, waste disposal, or wildlife conservation. Also, physical geography can offer an appropriate basis for economic and social planning, especially if the lives of the inhabitants are tied closely to the exploitation of natural resources. Boundaries may usefully be drawn around river basins or watershed areas, for example. Box 5.3 shows how the technical approach can be used as the basis of the administrative efficiency of the organization.

An administrative structure based on geographical features is the Tennessee Valley Authority in the United States (US), probably the best known example of a multipurpose development authority based on a watershed area. The regional boundaries within which the authority operates is determined by the catchment areas of the river. Local authority boundaries are taken into account in subdividing some water regions.

Box 5.3
The British Water Industry

Administrative criteria can also be considered in delimiting a geographic area according to the technical principle. This is best illustrated by the water industry organization in the United Kingdom. Ten authorities in England and Wales are responsible for a range of functions connected with water use—conservation, supply and distribution, sewerage and sewage disposal, land drainage, pollution control, and recreation. Each authority handles a self-contained water processing cycle and thus differs from authorities with fragmented structures, which deal only with some parts of the water processing cycle. The catchment areas, or the areas of land draining to a particular river, determine the regional boundaries of each authority. Each water region is made up of a number of catchment areas, and the subdivision of some water regions takes into account the boundaries of the local authority. The size of each region thus reflects managerial perceptions about the amount of work that a single organization can handle.

Source: C. Gray, "The Regional Water Authorities," cited by B.C. Smith, *Decentralization: The Territorial Dimension of the State* (London: George Allen and Unwin, 1985).

Social Approach

The territorial structure of government and administration may consider socially distinct regions based on history, ethnicity, language, or some combination of these. The approach is especially useful when, during the process of unification, some areas forming the constituent parts of a country may continue to experience a sense of identity that cannot be overlooked by the constitutional and administrative system.

Changing the boundaries of the states of a federal country is more difficult than changing regional boundaries within unitary states, as states in federal countries are usually protected by constitutional guarantees. However, when state boundaries in a federation owe their origins to the artificial creations of an external power (normally through a colonial experience), restructuring a federation may be easier.

Other Considerations

As noted, the main approach to geographic decentralization is to match area to function. However, other considerations bear on the attainment of national economic objectives. Developed countries have long historical experience of associating spatial change with economic development, but ex-colonial developing countries have spatial divisions oriented to the economic interests of the former colonizing power. Many of the difficulties in establishing links among economic activities in a nation and among ethnic groups can be related directly to colonialism, which left countries with artificial boundaries not conducive to the mobilization of resources for internal markets, and inimical to nation building, especially in Africa.⁷

Attempts to derive economic benefits from existing geographic divisions can be made through the deliberate use of subsidies and taxes either to encourage businesses to relocate from one area to another or to discourage them from doing so. If successful, such regional development strategy can lead to a more uniform distribution of regional wealth and standards of living. In addition, if successful, such a strategy of interregional equalization could lead to a lower degree of conflict and, in time, more rapid economic development. Unfortunately, such an approach has generally failed and produced only waste on a large scale as well as substantial opportunities for corruption. The approach is not to be ruled out, but must be subjected to detailed scrutiny and realistic safeguards.

POLITICAL AND ADMINISTRATIVE DECENTRALIZATION

Because the political and administrative dimensions of decentralization are closely linked in practice, they are discussed here under the same heading. However, it is important to bear in mind the conceptual distinction between the two, as defined at the start of this chapter. Note in particular that, while there are economic and operational criteria to help determine the best administrative allocation of functions, the fundamental decisions concerning the structure of the state are inherently political, resulting from the preferences of the population and the context of the times, and cannot be subject to any technical assessment. (For this reason, the international financial institutions have no mandate and no legitimate role in matters of political decentralization *per se*.)

Creating a Favorable Environment

The primary concern of political decentralization is creating a conducive political environment for decentralized decision making. The essential components of such an environment are (i) autonomous decision making powers of lower levels of government; and (ii) citizens' access to decision making (see Chapter 14 for a discussion of public participation). In parallel, it is necessary to strengthen autonomous local entities. To prevent different tiers of government from working at cross-purposes, the national constitution should provide the framework within which local governments are to function.

The tensions between urban and rural areas in most developing countries are relevant to assessing the opportunities for administrative decentralization. Typically, the urban elite as intermediaries for the colonial power tended to dominate policy making in central government in the colonial era. Independence, in many Asian countries, meant the emergence of political leadership from rural areas, and an ensuing shift in the spatial composition of legislative bodies and the administrative executive. Some political theorists in the 1960s also fueled rural fears about the adverse terms of trade for rural areas' agricultural products and the "parasitic" role of cities.⁸ In Africa and elsewhere, by contrast, postcolonial governments were still in the hands of an urban elite, and policies carried a strong anti-rural, pro-industry bias.

In Asia, cities have tended to suffer from less attention in national policies. The resulting uncontrolled growth of urban areas led to the problem

of peripheral growth, and the extension of infrastructure and shelter facilities to the settlements adjoining cities. Integrated approaches to the development of urban and rural areas within a district framework emerged only in South Asia, and were later reflected in the decentralization laws in a number of Asian countries. The district or county construct enabled coordinating mechanisms to be devised for the joint management of resources in urban and rural areas, to provide for supporting urban facilities needed by rural areas, and to plan for spillover development outside cities and districts. Again, the situation was the opposite in Africa where the centers absorbed an increasing proportion of the wealth produced in the countryside, while returning very little in the way of public services.

Legal Framework for Decentralization

However decentralized a country may be, if it is to remain unified the actions of subnational government must be subject to some form of central regulation and monitoring. Central regulation is, of course, most obvious in deconcentrated structures where local government bodies carry out functions on behalf of the central government. But a degree of regulation is also essential in devolved administration, not only to ensure national standards of public services but also to prevent local government actions from interfering with or contradicting national policies and goals.

Normally, the country's constitution should embody the broad outlines of decentralization, namely, the territorial divisions; the general authority and responsibilities of subnational levels of government; the description and role of key institutions at central and local levels; and the conditions under which detailed rules of decentralization are to be established or changed.⁹

Enabling laws, in accordance with the constitutional provisions, would then define the specific parameters of decentralization, and provisions for intergovernmental fiscal relations; the subnational government structure, including procedures for election, accountabilities, and remedies; the classification of local governments within tiers and the division of functions among local governments in different tiers; and the manner by which citizens can access and participate in subnational government activities. Finally, administrative rules would detail the implementation of decentralization, including sections on intergovernmental relations, as in the Philippines (Box 5.4).

Box 5.4

The Philippine Local Government Code of 1992

The Local Government Code is a landmark legislation in the Philippines, considered by far the most far-reaching policy that addresses the decades-old problem of an overcentralized system in the country.

The Code was promulgated in 1991 in accordance with the 1987 Philippine Constitution, which declared that “the state shall ensure the autonomy of local governments,” transferring substantial political and administrative authority and responsibilities to local government units.

The Code defined the transfer of two major groups of government activities:

- the transfer of functions and responsibilities:
 - **mandatory services:** health (field health and hospital services and other tertiary services); environment and natural resources (community-based forestry projects); agriculture (agriculture extension and on-site research); public works (local roads, waterworks, and minor infrastructure); and social services (social welfare services)
 - **other services:** education (school building program); tourism (facilities, promotion, and development); telecommunication services and housing projects (for provinces and cities); and other services such as investment support.
- the transfer of central power and authority:
 - **enforcement of certain regulations:** reclassification of agricultural lands; enforcement of environmental laws; inspection of food products and quarantine; enforcement of the national building code; operation of local modes of transportation such as tricycles; processing and approval of subdivision plans; establishment of cockpits and holding of cockfights
 - **fiscal management:** broadening of taxing powers, providing the local governments with a specific share of the proceeds from the exploitation of national resources in their area, e.g., mining, fishery, and forestry charges; increasing their share in national tax revenues, i.e., an increase in the internal revenue allotment, from a previous low of 11 percent to a high of 40 percent; and increasing opportunities to generate revenues from local fees and charges
 - **entrepreneurial activities:** build-operate-transfer arrangements with the private sector, bond flotation, and loans from private institutions
 - **expanded participation of civil society in local governance:** allocation to nongovernment organizations and other civic organizations of specific seats in local special bodies, including the local development council, the local health board, and the local school board.

Source: Republic Act 7160 (Local Government Code of the Philippines 1992).

In many countries, however, decentralization laws and regulations are formulated piecemeal and on an ad hoc basis. In these countries, therefore, all laws and regulations should be codified not only to maintain a coherent and logical framework and to spot duplications and inconsistencies, but also to provide policymakers with a clear set of policy objectives. Following such codification and clarification (including the repeal of conflicting or obsolete legislation), it would become possible to design a legal framework with a clear range of responsibilities for each level of government as well as responsibilities jointly shared by the central and local governments.

In drawing up the legal provisions, one should first adequately address the broad ethos and objectives of decentralization, and only then the nuts and bolts of administration. Often, this is not done, and the overall objectives are left unspecified. Another factor to consider is the institutionalized channel for public participation. In a number of countries, local elections enable citizens to signal their preferences efficiently and enforce leaders' compliance with their wishes. In some cases, citizens' groups and nongovernment organizations (NGOs) are allotted seats in certain local councils responsible for local decision making. Public participation, however, should be seen not only as an instrument for designing a legal framework, but also as a measure of empowerment as an end in itself, against which decentralization will be evaluated.

Some Practical Pointers

Problems must be anticipated as various decentralization measures are introduced. First, the center should always consider the different capacity of lower levels of government to handle new responsibilities. The anticipated effect and costs of decentralization will not be the same for all regions. It is essential that central authorities, based on a study of the capacity of different subnational governments, make a differentiation of the amount of powers to decentralize. Needed adjustments can then be made during implementation.

Second, opportunities opened up for citizen participation do not immediately result in meaningful public participation until the mechanisms have been institutionalized. Local governments should ensure that information is made meaningful and useful to the citizen, and must be encouraged to do so by the central government.

Third, in a deconcentrated system where central regional agencies dominate local jurisdictions, local governments will inevitably face stiff competition from the field offices of the central agencies, which are typically better equipped with technology and manpower. Turf problems and administrative jealousies can frustrate decentralization and make deconcentration less effective. Central authorities need to draw a clear dividing line between functions to be deconcentrated and those to be devolved.

The success of decentralization is determined both at the policy formulation and at the implementation stage. In many developing countries, decentralization failures almost invariably stem from poorly planned and organized implementation strategies. Decentralization is a complex process that typically requires gradual and careful experimentation. In developed countries, decentralization is a product of long social experimentation over a number of decades. The risks of hasty action, including the risk of jeopardizing the sustainability of decentralization itself, are especially pronounced in developing countries. In some cases, however, there may simply be no alternative to the immediate devolution of central powers to the regions.

It is sensible also to allow a degree of flexibility in implementing laws. It should be borne in mind that while decentralization mandates are usually formulated at the center, implementation is shaped and influenced by the local context and environment, which includes historical, cultural, and sociopolitical factors. Also, since decentralization should build on both the strengths and the weaknesses of old and new institutions, the implementers must be creative in making the proper selection and adjustments.

In centralized government structures, deconcentration is invariably the first step toward decentralization. Pilot testing of parts or the whole of the decentralization measure can be useful. Careful recording of factors causing success or failure during pilot testing will provide pointers for improving implementation in other regions, as will clear-eyed ex-post evaluation of such efforts. No matter how well implementation is planned, challenges, interventions, and interruptions should be expected. In the case of the Philippines, for example, interruptions included the conduct of local and national elections and the continued practice of granting “pork barrel” funds to Congress members to dole out at their discretion, a practice which made local budgeting and planning less meaningful and effective.

WHAT BELONGS WHERE? THE GEOGRAPHIC ARTICULATION OF GOVERNMENT FUNCTIONS

Table 5.2 classifies government activities in accordance with their assignment to different levels of government. The table is self-explanatory. The information it contains, while associated with actual experience and sound theory, should be interpreted as indicative and not prescriptive. See the note to the Table for an explanation of the terms.

Table 5.2
A Representative Assignment of Government Responsibilities

Function	Policy and Standards Oversight	Provision/ Administration	Production/ Distribution	Comments
Interregional and International Conflict Resolution	U	U	N, P	Benefits and costs international in scope
External trade	U	U, N, S	P	Benefits and costs international in scope
Telecommunications	U, N	P	P	National regulation not feasible
Financial Transactions	U, N	P	P	National regulation not feasible
Environment	U, N, S, L	U, N, S, L	N, S, L, P	Externalities of global, national, state, and local scope
Foreign Direct Investment	N, L	L	P	Local infrastructure is critical
Defense	N	N	N	Benefits and costs national in scope
Foreign Affairs	N	N	N	Benefits and costs national in scope
Monetary Policy, Currency, Banking	U, ICB	ICB	ICB, P	Independence from all levels essential; some international role for common discipline
Interstate Commerce	Constitution, N	N	P	Constitutional safeguards important for factor and goods mobility

Table 5.2
A Representative Assignment of Governmental Responsibilities
(cont'd.)

Function	Policy and Standards Oversight	Provision/ Administration	Production/ Distribution	Comments
Immigration	U, N	N	N	U because of forced exit
Transfer Payments	N	N	N	Redistribution
Criminal and Civil Law	N	N	N	Rule of law a national concern
Industrial Policy	N	N	P	To avoid beggar-thy-neighbor policies
Regulation	N	N, S, L	N, S, L, P	Internal common market
Fiscal Policy	N	N, S, L	N, S, L, P	Coordination is possible
Natural Resources	N	N, S, L	N, S, L, P	Promotes regional equity and internal common market
Education, Health, and Social Welfare	N, S, L	S, L	S, L, P	Transfer in kind
Highways	N, S, L	N, S, L	N, S, L	Benefits and costs of various roads vary in scope
Parks and Recreation	N, S, L	N, S, L	N, S, L, P	Primarily local benefits
Police	S, L	S, L	S, L	Benefits and costs of various facilities vary in scope
Water Supply, Sewerage, Refuse Management, Fire Protection	L	L	L, P	Primarily local benefits
ICB	Independent central bank	P	Nongovernment sectors/Civil society	
L	Local government	S	State/provincial government	
N	National government	U	Supranational responsibility	

Source: Anwar Shah, "Balance, Accountability, and Responsiveness," Policy Research Working Paper 2021 (Washington, DC: World Bank, 1998), Annex Table 1.

INTERGOVERNMENTAL RELATIONS AND COORDINATION¹⁰

Pattern of Intergovernmental Relations

In developing countries, intergovernmental relations and coordination have become critical to the strategic coherence of government, as well as to the preservation of a national identity, without which decentralization becomes disintegration, and disintegration most often produces bloodshed on a major scale. The pattern of relations between governments at different levels will vary according to the nature of government, the extent of centralization of functions and resources, and the ideology of control over subnational units. Subnational agencies are becoming more involved not only in service delivery and regulation, but also in policy making and dispute resolution.

Most countries define the formal arrangements that govern intergovernmental relations through legal provisions or executive orders. There are two sets of separate but interrelated relationships: the horizontal relationships between local government and civil society, and the vertical relationships between levels of governments (on which deconcentrated delivery systems are superimposed). Complications are introduced when different levels of government, not to mention nongovernment providers of services, look after different aspects of the same service (e.g., education or health care). The issue of service delivery then becomes much more than just a central-local option; it becomes a question of contestability among multiple providers. Both vertical and horizontal rules are essential if local governments are to perform their functions well.

Instruments of Intergovernmental Relations

In federal systems, intergovernmental relations are primarily defined through (i) formal constitutional change, redefining the roles and responsibilities of the federal and provincial governments; (ii) nonstatutory federal-provincial agreements (often backed by permanent consultative mechanisms) that set out obligations and commitments in specific policy areas, such as the environment; (iii) statutory and binding obligations and commitments, such as intergovernmental fiscal transfers; and (iv) informal agreements among political leaders to undertake a certain course of action. Intergovernmental processes are characterized according to the number of participants (multilateral, regional, or bilateral), the types of participants (bureaucratic or political), or the nature of the interaction (consultative or decision-making).¹¹

Some intergovernmental agencies have mandates to forge a consensus through formal collaboration in managing specific challenges, such as the removal of trade barriers, the sharing of river waters, or cross-border crime. Consultative processes facilitate sharing information and experience among all layers of government, and building up integrated databases for policy making and evaluation. (They also help to tone down adversarial relations in a multiparty system.) A similar role is played by provincial governments in relation to lower levels of government, although cities are increasingly establishing direct relationships with national agencies in a deregulated framework.

In unitary systems, the instruments of intergovernmental relations include administrative coordination and fiscal measures. The “provincialization” process envisages a coordinating and consultative role for the provincial or regional governor and administration, as seen in Indonesia, Japan, the Philippines, Zimbabwe, and other countries. The problems and suspicions in setting up such regional structures in transitional economies were mentioned earlier, as a reaction to control by the center. In countries in the French administrative tradition in Asia and Africa, the representative of the government in the district or region has a significant coordination function in relation to government departments, functional agencies, and local authorities.

National Control of Local Government Activities

It is possible to identify three dysfunctional patterns of national control of local government: overcontrol, whereby the subnational governments are merely administrative arms of the central government; undercontrol, whereby each tier of subnational government is almost sovereign and competes with other levels of government; and perverse regulation, whereby local governments have some degree of political autonomy, but perverse incentives characterize the relationship with the central government.¹²

Overcontrol could inhibit the responsiveness of local government. It is therefore desirable to move away from detailed and rigid regulation and ex ante financial control toward managing for due process and results. More helpful are normative controls, such as centrally specified personnel qualifications, design standards for infrastructure, building codes, stress on community and NGO involvement, and, of course, protection of human rights and minorities. Transparency can be promoted by requiring local bodies to publish their budgets, including subsidies for services, in simplified formats.

In addition to its control function, central government also has a positive role to play in facilitating decentralized administration, and in promoting national social goals.¹³ Shifts in the style of government intervention, from inquisition to assistance and capacity building, will develop positive attitudes in the local staff.

Fiscal and financial controls are essential; however, these and related issues are discussed in Chapter 8.

Modes of Coordination

The challenge in effective intergovernmental relations is to achieve a balance between achieving autonomy for subnational units and retaining needed control of such units; promoting variety and protecting equity; ensuring responsiveness; and preserving efficiency. What is required is judicious use of the instruments of control, coordination, consultation and accountability, and, most of all, common sense and a positive attitude of cooperation from all sides.

As noted earlier, different actors or different tasks may require different forms of coordination. In general, coordination may be

- horizontal or vertical;
- formal and mandatory, or informal and voluntary;
- structural or procedural; and
- institutionalized or ad hoc.¹⁴

Vertical coordination between different levels of government seeks to assure top-down policy coherence (Box 5.5). In Australia, for example, the Council of Australian Governments gathers together federal and state ministers, as well as the presidents of the Local Government Association for increased cooperation among governments. Vertical coordination is facilitated by national norms for program goals, and uniform guidelines of financing institutions. Local government associations and councils of mayors are often the main interlocutors with the national and provincial governments on issues affecting local governments. Nordic governments regularly consult such associations on financial matters and legislation affecting local authorities.

Box 5.5**Cooperative Intergovernmental Relations in South Africa**

The principle of cooperative governance is articulated in Chapter 3 of the South African Constitution and has proven to be a cornerstone of intergovernmental relations. Where government functions are a shared responsibility of national and provincial governments, as in social services, the national government provides the policy framework while the provinces are responsible for delivery of services. This division of responsibilities, combined with the considerable economic disparities across provinces, requires a coherent coordination process to ensure that expenditure planning is aligned with policy goals and to promote equity in access to social services.

To facilitate this coordination, each of the major government sectors has a forum consisting of the national and provincial ministers where policy issues are discussed. Joint meetings are held between the finance forum and individual sector fora to review both policy issues and budget constraints. These joint meetings enhance understanding of the cost of policy choices and encourage developing alternative methods of delivering services.

The fora for finance, education, health, welfare, and transport are supported by technical committees comprised of officials from the national and provincial line departments and treasuries. These committees deal with policy implementation, developing coherent policy within sectors, norms and standards for service delivery, evaluating the affordability of policy choices, and other technical issues. A key focus of the technical committees for the near future is developing service delivery indicators against which to measure government performance.

Source: Laura Walker, personal communication, May 2000.

Horizontal coordination takes place among agencies operating at the same level of government, or between local government and the corresponding civil society. In France, the provincial prefect coordinates procedures for major public works through consultation with local authorities, agencies, and economic and social bodies. The regional planning mechanism in many countries involves consultation with all local authorities and field agencies of ministries, to ensure coordinated investment policies and complementary programs. For example, former Malaysian Deputy Prime Minister Tunku Abdul Razak listed interdepartmental jealousy, lack of day-to-day cooperation, and lack of sufficient direction from the top among the “seven deadly sins” that obstruct the administration of rural development programs.

Horizontal coordination has to contend with vertical functional monoliths, such as health and education agencies, which resist collaboration with other agencies, as well as direction by elected local political executives and the officials designated to coordinate the agencies on behalf of governments. The experience with the District Autonomy Pilot Program in Indonesia illustrates this point.¹⁵ District-level poverty reduction programs or integrated urban infrastructure programs in many countries show the substantial scope for horizontal coordination. These programs are articulated through local elected bodies, and are based on the full involvement of community representatives and civil society (Box 5.6).

Box 5.6
Broadening the Range and Deepening the Base

A systematic approach to coordination involves broadening the range and deepening the base of relationships between actors. “Broadening the range” includes introducing flexible modes of operation or new forms of intragovernmental cooperation, and joint work by different agencies. Ten national and city government agencies came together in Cali, Colombia, to launch an integrated slum upgrading program in consultation with the residents. A similar approach was followed in the Malaysian NADI social development program and the Colombo slums, and the targeting of assistance to the poorest households in Seoul by the Bureau of Social Affairs of Seoul City. The independent low-cost sewer system developed by the community in Orangi (Karachi, Pakistan) developed into a collaboration with the municipal authority, not only for citywide sanitation, but also for other social services needed by the poor.

“Deepening the base” operates in a number of ways: through decentralization and area-based service delivery, by integrating local agencies; through increased consultation in service delivery; through public-community partnerships; and through facilitating technical assistance by networked civil society groups to communities and poorly equipped voluntary groups. In Argentina, India, Sri Lanka, Zambia, and a number of other countries, national and municipal authorities get together to operate citywide programs of basic urban services, with community participation. The FUNDASAL in El Salvador operated for many years as the leading producer of urban housing units for low-income groups, with formal support and financing from the Government. Similarly, national women’s cooperative networks have been recognized in India and elsewhere for women’s welfare and development, savings mobilization, and training, in concert with city and state agencies.

Source: UN Center for Human Settlements. 1990. “Roles, Responsibilities and Capabilities or the Management of Human Settlements”. Nairobi.

Coordination is an essential ingredient not only in policy formulation but also during implementation. Lack of interaction can damage well-designed policies, as in the case of Indonesia where the central ministries formulated and implemented decentralization policies with very little discussion among themselves, leading to uncoordinated activities, conflict, and duplication (Box 5.7). The central ministries were more committed to achieving the development and activities of their own departments than to ensuring that local governments are provided with the necessary logistics for decentralization. The reason, as always, was that the incentives for assisting local governments were much weaker than those attached to the ministries' own activities.

Box 5.7
Poorly Coordinated Decentralization in Indonesia

Although the legal framework for decentralization was established in 1979, the Indonesian Government remained a highly centralized structure. In April and May 1999, the Indonesian Parliament passed two laws to replace the laws that defined the decentralization system in the country. Law 22 revised the assignment of functions and roles of institutions at all levels of government, and Law 25 defined the financing system for devolution, deconcentration, and coadministration of government functions. In some ways, the laws have improved the legal framework of the Indonesian decentralization system, although there were problems in the initial stages.

Problems during implementation further hampered the smooth and successful transition from a centralized to a decentralized administration. Five working groups were formed to draft implementing regulations, and to plan and monitor the implementation process. However, the activities of the groups were not coordinated and harmonized because of lack of interaction among the ministries. Duplication of regulations and policies and unnecessary competition among the ministries concerned resulted. The Ministry of Home Affairs claims that 30 more decrees are needed to support the decentralization laws. It is drafting seven or eight decrees to implement the Regional Law, and the Ministry of Finance is drafting six implementing regulations to support the Fiscal Law. But it is claimed that hundreds and even thousands of local regulations still have to be passed to complete the system. It may take years for Indonesia to start working as a decentralized system.

Source: Claudia Buentjen, personal communication, March 2000.

KEY POINTS AND DIRECTIONS OF IMPROVEMENT

Key Points

Decentralization has been transforming the structure of governance in many countries in recent decades. It has taken place for different reasons, and mainly improving the effectiveness of public service delivery; raising the quality of governance by empowering the local communities; and reducing the risk of national fragmentation along regional and ethnic lines. Decentralization encompasses a variety of different measures, depending on the degree of autonomy of the subnational entities from the central government. Obviously, such autonomy is greater in federal states than unitary states. Generally, the decentralization continuum progresses from deconcentration through delegation to full devolution. Deconcentration is the first stage of decentralization: it shifts responsibility for a service to central government staff working in the region, province, or district, but does not transfer the central government authority. Delegation involves, in addition, the granting of exemptions from certain central rules and broad authority to plan and implement decisions without direct central government supervision. Devolution entails the full transfer of certain functions from the central government to subnational government units—although the central government normally retains some monitoring and financial role.

The economic rationale for decentralization rests on Oates' "decentralization theorem," which states that a public service should be provided by the jurisdiction having control over the minimum geographic area that would internalize the benefits and costs of such provision. The theorem is pretty difficult to apply in practice. A simpler rule is the "subsidiarity principle" applied by the European Union, according to which taxing, spending, and regulatory functions should be exercised by the lowest possible level of government unless a convincing case can be made for assigning these functions to higher levels of government.

The potential gains of decentralization derive basically from the close contact local government institutions can have with local residents. Decentralization can (i) encourage public participation in government decision making; (ii) create opportunities for more accountable government; (iii) provide more transparent government; and (iv) ease financial strain on the central government. Decentralization can therefore result in more flexible and effective government administration because (i) government

can tailor its services to the different needs of society, and foster political stability and national unity and (ii) and civil society organizations are given a stake in maintaining the political system.

However, decentralization also carries potential costs and risks, especially when it is an ad hoc reaction to an urgent problem instead of a carefully designed structural reform. Decentralization can cause duplication, waste, underemployment of government staff and equipment, coordination problems, and regional inequities and societal conflicts. Decentralization also has a positive or negative impact on governance. The generic test is whether the legitimacy and quality of governance are higher at local level than at national level. If the answer is no, decentralizing into a comparatively worse governance climate will tend to worsen the quality of governance in the country as a whole.

In *geographic decentralization*—the manner in which state territory is divided into smaller areas with specific authority—the basic principle is to match area to function, i.e., first define clearly the nature and scope of government functions, and on this basis, delineate the area within which the functions are to be performed. Other approaches include the *community* approach, which considers social geography; the *efficiency* approach, which considers the costs of producing the service; the *management* approach, which considers the relative organizational capacity of levels of government; the *technical* approach, based on the resources, landscape, or economy of different regions; and the *social* approach, which considers the natural affinity of inhabitants of the different parts of the national territory.

The desirable degree of decentralization, of course, depends largely on the specific function under consideration. Actual experience and sound theory show that certain functions are closely associated with particular levels of government. For example, defense or monetary policy is most often assigned to the national government; education, health, and social welfare to the provincial levels; and fire protection and water supply to local government. However, different functional assignments are possible, especially in the case of small city-states, and any general classification of functions should be considered indicative rather than prescriptive.

Political decentralization shifts decision-making powers to lower levels of government and entails setting the legal and regulatory provisions to ensure that (i) a favorable political environment for decentralized decision making is created; (ii) decentralized entities coordinate and cooperate with

each other; (iii) decentralization initiatives are sustained and acquire a degree of political permanence; (iv) decentralized entities act in conformity with national standards; and (v) citizens have access to local decision making.

Political decentralization is linked with *administrative decentralization*, i.e., creation of new organizations and local performance of certain administrative tasks. However, the reverse is not true: administrative decentralization does not necessarily require political decentralization. As noted, through deconcentration, subnational government can perform a myriad of administrative tasks and yet have no autonomous decision-making powers.

In a decentralized setting, coordination and close intergovernmental relations are critical not only for the strategic coherence of government but also for the preservation of a national identity.

Directions of Improvement

Experience worldwide shows that decentralization can be a mechanism to improve political stability, deliver service more efficiently and effectively, reduce the level of poverty, and promote equity. Governments intending to decentralize functions should note the following general principles.

- Decentralization should be understood as a means rather than an end in itself. The goal is to heighten the overall quality of governance.
- There needs to be consensus and support from different sectors for adopting decentralization measures.
- In cases where decentralization is a new development, subnational governments should be given time to learn and gradually adapt to the new system. In parallel, control and regulatory mechanisms should be instituted to guide subnational government operations.
- Decentralization should be a sequenced set of well-conceived policies and implementation of policies should be carefully planned and executed. The risks of hasty action are particularly great in developing countries.
- Normally, the country's constitution should embody the broad outlines of decentralization, enabling laws the specific parameters, and administrative rules the details of implementation. In countries where decentralization laws were made piecemeal, it is highly advisable to

codify all legislation relating to decentralization to maintain coherence and spot duplication and inconsistencies.

- Ensure that mechanisms for public participation and autonomous decision making are installed in the legal and regulatory framework and institutionalized in implementation. Subnational governments must be directed to encourage citizens to participate in decision making.
- Specify the responsibilities for each level of government, and those to be jointly shared by the central and subnational governments. To avoid turf competition and confusion, it is important to be clear about which particular functions are to be delegated, deconcentrated, and devolved. Deconcentrate functions that are national in scope and over which the center wishes to have direct control; delegate special and highly technical functions; and devolve functions that are local in scope.
- To the extent practicable, government functions should be assigned to the lowest possible level of government. There should be a convincing justification, such as spillover and externalities, for assigning them to higher levels of government.
- Ensure that subnational governments are capable to carry out functions and responsibilities transferred to them. Transfer of functions and authority to subnational governments needs to be matched with transfer of appropriate technology, skills, and financial and manpower resources.
- Ensure human resource development and organizational capacity building until the time when subnational governments can independently sustain their own needs.
- Especially in devolution, central government needs to enact regulation to ensure national standards of public services and prevent local government actions from interfering with or contradicting national policies and goals.
- Allow some flexibility to local government in implementing decentralization mandates.

It is important that government enforce vertical coordination among different levels of government, and encourage horizontal coordination among agencies and subnational government at the district and city level. Interagency coordination should lead to convergent actions by field agencies, avoiding duplication of local staff and programs, and exploiting economies of scale. Caution should be taken to avoid both overregulation and undercontrol by central government.

NOTES

- ¹ Fiscal decentralization is distinct from the use of subsidies and taxes to encourage or discourage economic activity or migration from one geographic area to another, which are instruments of central government power for national purposes.
- ² This section derives mainly from Rondinelli and Cheema, eds. (1983).
- ³ Some political scientists define devolution and decentralization as separate processes: devolution as the dispersal of power and authority, and decentralization as the geographic and territorial subdivision of the state. The definitions we provided earlier, however, are more operational.
- ⁴ W. Dillinger (1995).
- ⁵ Rondinelli (1983), Ter-Minassian, ed. (1997), Bahl (1998, 1999).
- ⁶ This section draws from Smith (1985). Please refer to that book for a detailed discussion of the subject.
- ⁷ Blunden, Brook, Edge, and Hay, eds. (1973).
- ⁸ This ideology found its extreme pathological and murderous expression in the Pol Pot regime in Cambodia from 1975 to 1979.
- ⁹ Drawn from Ford in Litvack and Seddon, eds. (1999).
- ¹⁰ This section has drawn on OECD (1997a), Dillinger (1994), Davey (1993), Asian Development Bank (1998b), and World Bank (1997).
- ¹¹ OECD (1997a).
- ¹² Dillinger (1994).
- ¹³ Tandler (1998).
- ¹⁴ OECD (1997a).
- ¹⁵ Asian Development Bank (1998b).

Chapter 6

Nonministerial Government Bodies and Corporate Governance of Public Enterprises

It hardly matters whether a cat is black or white as long as it catches mice.
— Deng Xiaoping, 1963

THE SETTING

The decision tree shown and discussed in Chapter 1 is rooted in the question of how the government should intervene in the provision of goods or services once it has been decided that public interest is at stake and therefore that some form of government intervention is appropriate. (For simplicity, we will use the word *services* from now on to refer to both goods and services.) A first issue is whether the government should regulate the provision of the service by nongovernment entities or should itself be involved in such provision. (Regulation was discussed in Chapter 1 and the organization of regulatory bodies in Chapter 3.)

If government decides to get involved (in a capacity other than regulation), several choices come to the fore. The most immediate is direct provision of the service by a regular organ of government itself—a central ministry, provincial government, or municipality. This is not the only option, however. First, public functions need not be performed or delegated in their entirety; they can be separated into their component parts, some of which can then be assigned to different nonministerial government entities. Second, the public sector is larger than the government; enterprises that are owned in the majority by the state but do not form part of the government apparatus may be well placed to deliver a specific service to the public. Third, government can contract the delivery of public services to private business or nongovernment organizations. The traditional reflex of making government directly responsible for providing services whenever a case can be made for its involvement should therefore be resisted for this reason—and also because the technological, international, and financial developments in the second half of the 20th century (Chapter 1) have weakened the rationale

for such provision. How to choose from among the available options for public service provision depends mainly on the following factors: (i) the nature and importance of the public interest at stake; (ii) the type of service and its users; (iii) the technical and economic characteristics of its production; (iv) the administrative capacity of the government; and (v) the government's ability to exercise adequate control over alternative service providers. All alternative modes of service provision revolve, however, around a basic distinction and three fundamental criteria.

The basic distinction, which is valid for all services whether public or private, is among service *policy*, service *financing*, and service *delivery*. Government can be involved in all three or only one of these aspects, and then again fully or only in part. Hence, at one end of the spectrum, government may be involved only in the partial definition of service policies (e.g., designing urban transport routes to assure service to isolated neighborhoods). At the other end of the spectrum, government may set all policy, provide all the funds, and be directly responsible for delivering the entirety of the service (e.g., national defense). The service provision options can therefore be arranged along a *continuum of government involvement*—from direct and complete provision at one end, to the setting of only a few service policies at the other.

The *fundamental criteria* are good governance, efficiency, and equity. The mode of service provision chosen should, on balance, improve the four pillars of governance: accountability, transparency, participation, and predictability. Improvements in governance may occasionally need to be balanced against significant efficiency considerations or pressing social needs. But in general, as argued in Chapter 1, better governance leads also to higher efficiency and greater equity in the long term. The four pillars therefore provide the best guide for decisions on the modes of provision of services that are the responsibility of the state.

To narrow down the operational choice further, the financing required for providing a public service is expected to come, at least in part, from the government, normally from tax revenues.¹ The task of setting policies regarding standards of service, access, eligibility, etc., clearly pertains mostly to the government as well. In practice, therefore, the concrete choice most often revolves around the entity that should be responsible for service *delivery*. This choice is linked to the general distinction between policy formulation and policy implementation.

This first part of the book focuses on organizational questions, and the previous chapters have examined the organizational structure appropriate to government entities at national or provincial/local levels. In this chapter we examine the organizational issues arising from separating policy from implementation; the ensuing creation and control of executive agencies and other nonministerial bodies; and the question of corporate governance of public enterprises. (The option of contracting out public service delivery to private business or voluntary organizations is discussed under the heading exit in Chapter 13.)

The issue of sound corporate governance in the private sector—both financial and nonfinancial—is very important in all countries, especially in Asia where weaknesses in corporate governance and the financial sector were a major cause of the crisis of 1997–1999. However, this issue is outside the scope of a volume on public sector management and should not in any case be treated briefly and superficially. The interested reader is referred to a synthesis paper on corporate governance by Zhuang, et. al. (1999), and to the extensive references quoted therein.

SEPARATING POLICY FROM IMPLEMENTATION²

The Conceptual Issue

Experience suggests that to improve the efficiency of service delivery, it would be appropriate to distinguish between the policy-making function and that of implementation. (Indeed, as stressed in Chapter 1, it is precisely such a distinction that gives public sector management its instrumental characteristics.) Correspondingly, there is an argument for organizational differentiation between the two functions, which rests broadly on concerns about “focus” or “capture.”

The focus argument, generally made by politicians and public managers, is that policy making and service delivery are distinct functions, each of which can be performed better if it does not compete for attention and management time with the other. Thus, service delivery entities should concentrate on providing quality services efficiently, without the complication of having to evaluate the merits of alternative policies and standards. Similarly, policy making can be more focused, more rigorous, and sometimes even more adventurous without the distraction of operational problems. Regarding reforms in countries in the Organisation for Economic Co-operation and Development (OECD) (see Chapter 20), the debate on

the creation of “executive agencies” in the United Kingdom (UK) and similar developments in Australia, Canada, France, Iceland, New Zealand, and Norway is replete with references to the need for clear, defined targets that allow service delivery entities to concentrate on their core operational business.

The capture arguments, generally made by economists and academics, rest on the common premise that individuals always act according to their self-interest.³ In Niskanen’s argument (1973), because there is no competition for a public service and because growth of the public organization benefits both civil servants and politicians, an alliance between these two groups can obscure the real costs of the public service provided by the organization. Hence, public organizations that systematically tend to be larger than private entities would be in a competitive market under the same conditions, and policy making is captured by the self-serving bureaucrats involved in service delivery. The way to break up that alliance is to separate the political function of policy making from the administrative function of implementation. In a different vein, according to Dunleavy’s (1991) “bureau-shaping” model senior public officials are interested in maximizing the direct running costs of their agency and the funds available for contracting suppliers, and have much less interest in administering the resources passed on to them by other bodies. Hence, it would be in the interest of these officials to relinquish the direct management of some activities, as this would release them from peripheral responsibilities while allowing them to stay in the driver’s seat and continue to increase the resources that matter to them personally.

In either case, the argument is that public entities are prone to capture by the public officials who control them. Separating what the agency should do (policy) from how it does it (implementation) is seen as a key strategy for reducing this risk—whether the separation is viewed as the only route to breaking up the self-serving bureaucracy, or as a way to enable senior officials to bask in the glow of a policy advisory role, freed of operational responsibilities.

These arguments have both merits and weaknesses. The focus argument assumes that policy making is a clearly distinct activity that can be undertaken in isolation from implementation. However, in the real world, policy is partly made or significantly adopted during implementation. The capture argument presupposes that separating policy from implementation reduces the risk that policy will be formulated to suit the interests of the

avored civil servants and politicians—a plausible assumption. However, while separation reduces this particular risk of capture by public servants, it also produces the risk of capture by other interests. Since the quality of policy cannot be assessed before the results are in, the time lag between policy and implementation permits service policies to be tailored to suit particularistic ideological or business interests. When the consequences of certain policies become clear, usually after several years, the special interests who have benefited from them may be long gone. Boston (1995) suggests this as one reason why, even at the height of Managerialist Passion in New Zealand in the early 1990s, in practice policy advice was contracted out much less than might have been expected.

Moreover, where policy is detached from service provision but retained within the public sector, the risk of capture may diminish, but the risk of “ivory-tower” policy making increases. Policymakers not subject to the reality check of actual implementation are increasingly likely to formulate unrealistic or inappropriate policies. And, confronted with such policies, implementers who have no access to the policy-making process become increasingly prone to disregard *both* the unrealistic policies and the sound ones, and accountability is inevitably lost. Corruption risks may increase, too.

Finally, on the empirical side, despite the conceptual arguments in favor of separate organizations, there is no hard evidence that “single-roof” agencies (multipurpose entities that retain responsibility for both policy-making and service delivery) perform less well or are less readily held to account than their single-purpose counterparts (Boston 1996).

When is Separation Appropriate?

Nevertheless, returning to the initial proposition that some distinction between policy and implementation can improve both policy and implementation, it is helpful to summarize some of the conditions for which separate organizational arrangements may be suitable (albeit always with appropriate coordination and never with hard boundaries). Separate organizations for service policy and service delivery may be appropriate when

- policy can be fully specified in advance of action;
- the process of implementation does not raise policy issues;
- policymakers do not need advice from implementers;

- policy can be specified in sufficient detail to cover most eventualities; and
- policy can be specified in terms that allow close monitoring of implementation.⁴

For example, automobile licensing or garbage collection may meet the above criteria, but disease prevention or the production of nuclear weapons do not (Kettl 1993). Thus, while based on the conceptual arguments and counterarguments, the decision regarding organizational arrangements for service policy and service delivery must take into account the characteristics of the specific service—of course, in light of the country's circumstances, the institutional environment, and the government's administrative capacity.

In any event, *creating a demanding public*, through a deliberate strategy and continuing actions to raise public expectations, is more important in improving public services than fine-tuning the organization of the government entities that deliver them. Only an aware and aggressive public can provide effective contestability for *both* the public organizations and the entities to which the services might be subcontracted, and thus reduce the risk of capture by *any* vested interest, public or private. (Chapter 13 discusses the role of “exit” in public administration.)

“EXECUTIVE AGENCIES” AND OTHER NONMINISTERIAL GOVERNMENT BODIES

Executive Agencies

Although agencies charged with service delivery have existed for a long time, in the mid-1980s a number of OECD countries, generally in the British administrative tradition (e.g., UK, Australia, Canada, and New Zealand) began a move to formally separate the organizations and the personnel in charge of policy or implementation. “Executive agencies” (called by different names in different countries) were thus created for the delivery of public services, under policies and service standards formulated by the regular organs of government. At the same time, it was also felt that the commercial functions of government departments should be separated and run as regular commercial operations, as discussed later in this chapter.

In the UK, as the Prime Minister stated in 1988: “To the greatest extent practicable, the executive functions of government, as distinct from policy

advice, should be carried out only by units clearly designated...". Accordingly, many executive functions were hived off into autonomous "Next Steps Agencies," governed under a performance agreement with the competent ministry. The exercise was accompanied by measures to strengthen the policy function of ministries. In New Zealand, agencies have complete managerial autonomy in all matters including personnel, but must satisfy the terms of their output-based performance agreement with the Government. A more moderate system was adopted in Canada, where special operating agencies within ministries were given direct responsibility for results and correspondingly greater management flexibility. However, their employees remain part of the career civil service.

Executive agencies or similar entities have also been introduced in countries not of the British administrative tradition. The Republic of Korea has recently decided to adopt the British model of executive agency for selected government entities such as the national medical centers and the automobile licensing and testing stations. (There are 25 candidate agencies for the next phase in the Republic of Korea.) Similarly, France recently established many state services as special-purpose agencies called "responsibility centers" (*centres de responsabilité*). Jamaica has selected 11 pilot agencies for conversion into executive agencies. The African variant, in countries like Ghana, Kenya, Tanzania, Uganda, and Zambia, has been limited mainly to merging the customs and tax departments, and running them as more autonomous national revenue authorities. Similar experiments have been introduced in several other countries. (Annex II presents good practice in executive appointments to executive agencies which is generally applicable to state-owned enterprises as well).

Typically, as in a private company, responsibility for the day-to-day operations of an executive agency is delegated to a chief executive officer (CEO), who is responsible for all management and service delivery questions within the framework of the policy objectives and resources set by the responsible minister in consultation with the ministry of finance. In the UK, the agencies remain part of the civil service and accountable to Parliament through the minister. A variety of specific organizational arrangements have been followed in other countries. In all cases, however, creating executive agencies is normally accompanied by a shift to accrual accounting (Chapter 7)—necessary to measure the full cost of providing the service; some form of market testing or other exposure to competition; and, logically, measures to give the CEOs full autonomy and control over resources (including personnel management and compensation), in return for accountability for outputs. (See Chapter 18 on performance measurement issues in the public sector.)

As stressed earlier, whether or not it is appropriate to separate policy from service delivery depends on the nature of the service and on the circumstances of the country. And greater autonomy, obviously, always requires stronger monitoring and accountability. When executive agencies are appropriate, therefore, the basic conditions for their successful functioning are as follows

- effective monitoring and adequate measurement by the government of the performance of the executive bodies created;
- stronger coordination of the autonomous agencies, in the national interest;
- robust and effective audit, disclosure, and general accountability mechanisms; and
- the recognition by the agency management that the agency is still part of the public sector. Hence, managerial autonomy must be tempered by self-restraint and awareness of the impact of service pricing and personnel salaries on the access to services and on public perception. Agency managers should be selected partly on the basis of this attitude.

The above conditions are difficult to satisfy (and to maintain if they do exist to begin with). In countries that have gone the farthest along the executive agency and contractual route (e.g., New Zealand), the costs in terms of weaker accountability and fragmentation of state action have begun to emerge and be recognized, with sharp political repercussions.

In developing countries, it would be especially unrealistic to assume the existence of these basic conditions—particularly the capacity of the government to measure and monitor the performance of new, fully autonomous entities. In countries where the government can barely monitor the functioning of the present system (three out of four public enterprises in India, for example, do not even submit the accounts that form the basis for auditing them), moving to a system with far heavier monitoring requirements would be simply unthinkable. To do so would produce none of the advantages of the executive agency model and all of its costs and risks (including greater corruption)—and this in a deprived economic and social environment that can scarcely afford to shoulder more costs and accept greater risks. However, aside from creating separate and fully

autonomous executive agencies, some greater autonomy for the delivery of selected services may be helpful. Also, simplifying inefficient or complex rules and preventing political micromanagement of operational matters are almost always desirable.

Other Nonministerial Government Bodies⁵

During the last century, all countries have seen a rapid growth in the number and variety of public sector organizations that are outside the formal hierarchy of central government but operate under different degrees of government ownership and control. These organizations comprise state-owned enterprises (also called public enterprises), departmental enterprises, and statutory corporations. Public enterprises are expected to operate like private companies and are therefore part of the public sector but not of government. (Governance issues in public enterprises are discussed later in this chapter.) Departmental enterprises and statutory corporations operate within various legal and institutional rules and have varying degrees of autonomy, but are all subject to government control for specified results and operations, as well as to legislative oversight. Such nonministerial government entities can be set up concurrently under central and subnational levels of government, depending on the political structure of the country.

The growth of nonministerial government bodies is related to both of the trends discussed earlier—expanding government regulation and the drive for separate service delivery. Many nonministerial bodies are independent regulatory entities. And, once the government decides to continue providing a certain service, but not to proceed to a full separation between policy and implementation, it can assign the service delivery (and the corresponding staff) to a range of nonministerial bodies, with autonomy intermediate between that of a traditional ministerial department and that of an executive agency.

Nonministerial bodies vary considerably in their organizational structure. As noted, these bodies are distinguished from ministerial departments primarily by their greater degree of autonomy and more flexibility in resource use and personnel management. However, the term nonministerial should not be taken to mean that all such bodies are outside the ministerial hierarchy. In most cases, they are accountable to the minister concerned and to the legislature through the ministry. In Japan, for instance, the Prime Minister's Office controls several autonomous agencies such as

the Fair Trade Commission, Management and Coordination Agency, Economic Planning Agency, Science and Technology Agency, Environment Agency, National Land Agency and Defense Agency. In fact, many formerly independent public agencies in Japan were eventually absorbed by the latter.

Similarly, India has departmental enterprises that operate as manufacturing units and run commercial operations, such as the railways, postal services, public transport, and even defense supplies. Although these enterprises are nominally separate from the ministry, their senior officials do not have much greater autonomy than that allowed in traditional ministries, and their budget is part of the annual government budget voted by the legislature (although special funds may be set up to preserve the commercial character of the enterprises). This system is akin to that of the departmental and municipal enterprises in eastern Europe, which have proven difficult to reform.

In France, a variety of administrative authorities have arisen alongside the ministries in the last 20 years. They either protect the people's rights (those agencies interposed between the public administration and the courts, e.g., the Commission for the Control of Security Interceptions) or assist in market regulation (e.g., the Securities and Investment Board, the Telecommunications Regulatory Board, and the National Broadcasting Authority). Examples of similar agencies with regulatory powers can be seen in many developing countries, especially as a result of the need to regulate the outcomes of liberalization and privatization.

Of an entirely different genre are the crown entities in New Zealand. They are owned by the Government and provide goods or services on behalf of the ministerial departments, but are legally distinct entities established under separate enabling legislation. Functions entrusted to these entities vary from regulation and purchasing, to service delivery and even policy advice. The restructuring of the health sector, for example, led to the creation of four regional health authorities and one Crown Health Enterprise.

Similar to these crown entities are statutory boards. A statutory board is an autonomous government agency set up by special legislation to perform specific functions. It does not enjoy the legal privileges of government departments, but is given greater autonomy and flexibility by law. Singapore since the early 1970s has organized much of the work of government around

statutory boards, freed from the inefficiency-causing constraints of the civil service, and in the process has reduced the workload of the ministerial departments. The 26 statutory boards in Singapore perform functions related to economic development, the development of infrastructure and essential services, education, tourism, and sports and recreation activities. The salary scales, conditions of service, and provisions regarding promotion and discipline vary according to the functions of the boards. In fact, one reason for establishing the statutory boards was to stop the loss of talented civil servants to the higher-paying private sector. Similar entities set up as cooperatives or not-for-profit organizations in other countries operate autonomously, but with substantial ministerial control over their governing boards.

PUBLIC ENTERPRISES AND THEIR GOVERNANCE⁶

What is a Public Enterprise?

A public enterprise (PE) is an enterprise of which more than half is owned by the state, directly or indirectly. This seemingly obvious definition was arrived at in the late 1980s after much international debate, and is important insofar as it is based on ownership rather than control. Thus, if 51 percent of enterprise A is owned by enterprise B, of which 51 percent is owned by enterprise C, of which 51 percent is owned by the state, all three enterprises are by definition public enterprises, even though the state owns only 26 percent of enterprise B and 13 percent of enterprise A. In effect, therefore, a private enterprise can be controlled by the government, and a public enterprise by private interests (although in most cases PEs are effectively controlled by government). However, a definition based on ownership is the only one that permits public enterprises to be identified as a separate category. The criterion of effective control, on the other hand, would require a case-by-case analysis of the enterprise share structure, which would, moreover, have to be reviewed each time there is a shift in shareholders' alliances.

In many countries, especially the transitional economies, public enterprises have been the principal instruments through which the state has fulfilled its role. In developing countries their growth through the 1960s and 1970s was usually seen as indispensable for development, owing to the imperfections of the market mechanism in those countries. This original rationale for their existence was, however, stretched much too far in most countries, extending to state ownership of shoe manufacturing and ice-

cream factories on the grounds of national interest. Also, in many industries where the original rationale for public enterprises applied, rapid changes in technology and communications later intervened to render them unnecessary. Quite aside from ideological predilections and power shifts, the PE sector in most countries at the beginning of the 1980s was ripe for substantial pruning, rationalization, and privatization.

The Importance of Good Corporate Governance of PEs

This book is not concerned with privatization *per se*. Privatization is the process of moving assets *out* of the public sector, and by definition is not part of the management *of* the public sector. Moreover, privatization entails special processes, skills, and considerations, and is in many ways a separate area in its own right. Instead, for those PEs that are slated to remain in the public sector indefinitely and those whose privatization takes a long time, efficient and accountable mechanisms must be in place to manage, control, and protect the enterprise assets. These functions of *management, control, and asset protection* are subsumed under the label of corporate governance, and corporate governance of PEs is an important dimension of public sector management.

In the early 1990s, many countries made the fundamental mistake of viewing improvements in the corporate governance of PEs either as irrelevant to the basic policy of privatization or an obstacle to it. Their reasoning was peculiar: the worse off the public enterprises were, they thought, the greater would be the pressure to privatize them. The same frame of mind produced a headlong rush to privatize, for the equally peculiar reason that quick privatization was a good thing—no matter if it put valuable public assets in the hands of corrupt associates of public officials or enterprise managers, and at a tiny fraction of their true market value. These views affected primarily the transitional economies of eastern Europe and the former Soviet Union. In these cases, the rationale was mainly that rapid privatization was needed to make irreversible the change away from central planning. But the fallacy of viewing better governance of public enterprises as inimical to their eventual privatization has surfaced in other countries as well, and so has the failure to understand that “quick and dirty” privatization may or may not produce short-term efficiency gains but cause damage to the fabric of governance, which is far more costly in the long run.

Corporate Governance in the Context of Overall PEs Reform

Improvements in corporate governance of PEs are the internal side of PE sector reform. In brief, there are five *external measures of PE reform*.⁷

- *Privatization*, which reduces political influence on the management of the enterprise, transfers risk to the private owners, and can provide powerful incentives for efficiency gains, reduced waste, etc.
- *Strengthened competition*, through the removal of price controls, unnecessary regulation, and barriers to entry, compels better performance and enables a fairer assessment of the enterprise's efficiency relative to its competitors.
- *A hard budget constraint* and removal of subsidies induce efficiency improvements in the enterprise.
- *Financial sector reforms*, put the hard budget constraints into effect.
- *Restructuring* public enterprises consists mainly of the spin-off of competitive businesses and peripheral activities from the public goods core, the separation of operational functions from policy and regulatory functions, and the breakup of monopolies into smaller competing units.

Good corporate governance reinforces the external reform measures, as it helps enforce financial discipline, entails transparent rules instead of personalized interventions, and protects public assets from undue appropriation by insiders. Improved corporate governance is particularly important in developing countries and transitional economies because the other checks on the behavior of managers, such as rating companies, public assessment by financial investors, and the capital market, are still undeveloped. Indeed, improvements in corporate governance facilitate eventual privatization, but in the transparent and accountable manner necessary.

Elements of Corporate Governance of PEs

The main elements of corporate governance improvements are (i) corporatization; (ii) representation of the state by an agent; (iii) management improvements; (iv) the protection of shareholders' interests by the board of directors; and (v) performance and management contracts.

Corporatization

In many countries, the distinction between the roles of owner (principal) and manager (agent) of a PE has become blurred, contributing to the poor performance of enterprises and in some cases to corruption. Separating the roles of principal and agent is the first step in improving corporate governance. Corporatization is the setting up of an independent legal identity for the enterprise, separate from the identity of the state as owner, and usually entails placing public enterprise operations under the rule of commercial law like private enterprises.

Corporatization almost always results in a net increase in the efficiency of allocation and use of a country's economic resources. This was shown, among many other examples, in the case of Canadian Railways; British Steel; the German railways in 1994; and—possibly the most striking example—French telecommunications, which underwent a highly successful transformation in 1990 from a government department into France Telecom, a still public but corporatized entity functioning in a competitive environment.

For transitional economies and developing countries, besides the efficiency gains, corporatization of state enterprises can help establish clear title, and sort out the web of relationships among enterprises, their subsidiaries, and government ministries. This is a first step to establishing a hard budget constraint on the enterprises. Clear title also facilitates the disposal of assets and enterprise restructuring. Corporatization has often been a first step to privatization.

Some resistance to corporatization is to be expected but need not be a stumbling block if the process is open and well handled. In New Zealand, before every corporatization, company management invariably warned the Government of anticipated resistance from unions. The resistance, however, never materialized because the government effectively communicated to the workers the reasons for and benefits of the corporatization process, and provided suitable compensation to redundant workers. Similarly, the changes in French telecommunications were perceived as a veritable cultural revolution at first. The Government brought together the public, customers, and employees to discuss the problems of the sector as a whole and to consider future directions; launched a wide-ranging internal and external debate; negotiated with the unions; waged an intensive public information campaign; and amended the corporatization plans to incorporate the results of the dialogue.

In fact, experience generally shows that resistance to corporatization of PEs comes neither from the enterprise workers nor the general public if the process is managed well. Far stronger resistance comes from the enterprise management and from the sector ministry concerned—one reluctant to face direct accountability, the other unwilling to accept loss of power and influence over the operations of the enterprise. This alliance between bureaucrats and politicians is a good illustration of Niskanen's "capture" argument mentioned earlier, and corporatization—clearly separating the two interests—is in this case the best policy. For this reason, sector ministries should be excluded when designing the corporatization of enterprises in their sectors.

Selecting an "agent" to represent the state and establishing oversight

In its role as "owner" of an enterprise, the state must ensure that the enterprise is run and its investments are made with a view to maximizing the benefits to society. Of course, it must exercise that role through a specific entity. Different countries have attempted different solutions to the problem of who should exercise state ownership rights. Some have set up a public agency for the purpose, while others have split the responsibility among several existing agencies or entrusted the role to sector ministries or created a holding company. In general, the preferred solutions are those that establish a uniform set of procedures for all enterprises, without blurring lines of accountability or combining different roles in the same agency or relying on sector ministries.

To illustrate the problem of confused accountability, the *régies autonomes* of national interest in Romania are supervised directly by the relevant sector ministry, but with the involvement of other ministries, particularly the Ministry of Finance. The problem of multiple roles is exemplified by the case of the Russian State Property Committee (GKI). It holds the shares of both the PEs that are to be sold and those that are to remain in public hands, so that the pressures of privatizing some enterprises often pushed the task of managing the assets of the others into the background. In New Zealand, the move to allow the sector ministries to exercise ownership rights failed for two related reasons. First, the public enterprise in effect captured the parent ministry. (The Ministry of Civil Aviation, for example, routinely supported Air New Zealand's expansion plans.) Second, the shortage of business skills in government ministries prevented effective control. Indeed, experience has shown that the main opposition to a uniform organizational arrangement for PEs has come from

the attempt to preserve old patterns of personal relationships between enterprise management and sector ministries.

Austria and a few other countries tried to solve the problem of who should exercise state ownership rights by creating a “holding company,” that is, a corporation to hold the state’s shares in public enterprises as well as manage the enterprises themselves. Through such companies, those countries hoped to curb abuses by enterprise senior managers, and to reduce the operational interaction between the government and the state enterprises by interposing an intermediate layer. However, the holding company *itself* is not subject to effective governance by the state. Also, in practice a holding company tends to enlarge its influence by maximizing the budgets of the enterprises it owns, controlling competition, and protecting failing companies through cross-subsidization—rather than managing the enterprises on the basis of efficiency and market criteria. Finally, state holding companies are normally supposed to be transitional, but pressures from various stakeholders tend to prolong their existence. International experience points to the longevity of both the holding companies and their subsidiary enterprises, due to their capacity to bargain for and sustain the flow of government subsidies. The best example is the Italian state holding company *Istituto per la Ricostruzione Industriale* (IRI). IRI was obliged *by law* to dismantle itself within five years of its start in 1948, but this obligation did not prevent it from becoming one of the largest industrial conglomerates in Italy over the next 40 years.

Holding companies are therefore not a good general model. However, holding structures for managing decline in specific sectors might be feasible for a limited time, with appropriate accountability safeguards and an irrevocable sunset clause (following the German example of the *Treuehandtstalt*, which managed the reform and restructuring of the industrial sector of the former East Germany).

On balance, experience suggests that governments should set up a central public agency to exercise state ownership rights in public enterprises but without great management responsibilities. New Zealand, in fact, chose this solution after ministerial oversight failed (as mentioned earlier). The Government created a single asset management agency that was close to, but separate from, the Treasury. The agency concentrated on performing the shareholder role, and hired staff with business skills who learned to identify early signs of failure. Because the same agency monitors many enterprises, it is able to take a national overview of all the corporations, and it has so far been very successful.

Improving management of PEs

The effectiveness with which public enterprises are able to adapt to competition and fulfill their mandate depends largely on the integrity and competence of their top managers. However, these are qualities for which PE management has not traditionally been known. In the context of increased autonomy, it is important, therefore, to improve PE management as well, by retraining managers or training new ones; bringing in new blood, improving selection, and focusing on performance. Training issues are discussed in Chapter 12. We review below the latter two: selection and performance evaluation.

Entrenched personal relationships and opaque selection procedures are the most important problems that go with selecting top managers for PEs. It is a fact that governments exert substantial influence in the appointment or removal of senior managers of PEs. In France, for example, the Government in effect appoints the chief executives of Gas of France and Electricity of France by requiring board members to vote for a particular person. However, governments should have a major say in the selection, but not the only say. For example, in Canada, ministers participate with the PE supervisory board in selecting managers, who are then appointed by the cabinet.

Transitional economies and many developing countries are moving away from the traditionally opaque and discretionary processes of recruitment toward more transparency. In Hungary, company directors are appointed by the privatization minister, but the appointments are screened by a parliamentary committee, and other countries have made the selection competitive to ensure a more open process. However, it would be unrealistic to expect long-standing personal connections between top bureaucrats and top PE managers to simply wither away with the introduction of new formal rules. It is important therefore also to skew actual incentives in the right direction. In Poland, managers of enterprises in sectors open to privatization are given a percentage of the value they add to the firm in preparation for its privatization, as a strong positive incentive for efficiency.

Concerning manager's performance, the first reality to consider is the information asymmetry that exists between government outsiders and enterprise insiders. Without relevant information, performance evaluation becomes merely an elaborate "snow job." It is accordingly necessary for the government, as it introduces performance evaluation for PE managers, to

develop at the same time channels of reliable information, e.g., independent feedback by employees or consumers.

It must also be possible to remove nonperforming managers. This is especially tricky in public enterprises because of the close personal connections of the management with high-placed bureaucrats, as noted earlier. In the transitional economies of eastern Europe and the former Soviet Union in particular, many enterprise managers have acted as if they were the owners. More generally, the balance of power between the sector ministries and the PE managers is often tilted in favor of the latter, who have direct access to assets and resources. To improve accountability and thus PE performance, four approaches can be helpful.

- Develop independent channels of information for the government, particularly among the clients of the enterprise.
- Empower one entity to remove nonperforming managers, separate from the sector diversity.
- Give sufficient status to that entity by raising its pay and prestige of its members, and assure it of the highest level political support;
- Decouple the managers from their traditional patrons in the ministries.

Protection of shareholders by the board of directors

In both public and private enterprises, the board of directors is the intermediary between the owners and the managers that protects shareholders' interests by ensuring management performance and accountability. The state as owner can either delegate the control function to a board of directors, or can negotiate performance (or management) contracts. In general, the choice between performance contracts or boards of directors depends on the availability of competent persons of integrity to serve as members of boards on the one hand, and, on the other, on the government's capacity to prepare, monitor, and enforce performance contracts. Performance and management contracts are discussed in the next section. Immediately below we summarize the results of international experience with boards of directors of PEs.

The board of directors must be created in such a way as to ensure an arm's length relationship between the PE and the government. With this in mind, some countries (e.g., Germany, Hungary, Netherlands, Poland, and Ukraine) have adopted a two-tiered board structure, while others (e.g., France, Italy, and Romania) follow a unitary structure. The two-tiered board

consists of a supervisory board with nonexecutive members appointed by the government, and a management board with executive members nominated by the supervisory board itself (or jointly with the government). A unitary board has both executive and nonexecutive members. Generally, the unitary system is simpler, clearer, and avoids conflicts between the two boards. In developing countries, which often lack qualified persons to serve on enterprise boards, the system is also more realistic. However, the choice between a unitary and a two-tiered board depends on the characteristics of the country and the preferences of the government. The widespread adoption of the German model in eastern Europe, for example, is explained largely by the desire to involve workers in company governance (they select some of the members of the supervisory board).

To be effective, all boards must walk a fine line between conflicting demands. They must exercise their legal oversight responsibility, but without stifling the initiative of the management; and they must represent the interests of the state, but without becoming involved in the operational affairs of the company. Their capacity to walk that line depends far less on the structure of the board than on the capacity of its members, the quality of the information and resources they have, and the degree of government support they receive.

An examination of the way the boards of directors of public enterprises function in transitional economies and developing countries shows a number of common problems, most of which can be traced back to the difficulty of establishing effective board control over PE managers. This difficulty has four main causes.

- First, governance weaknesses make for easier capture of board members by enterprise managers (who control information, valuable assets, and patronage possibilities). In most developing countries, managers retain a great deal of leeway within the existing rules, and—protected by their patrons in the sector ministries—are rarely punished for violating the rules.
- Second, lack of experienced board members weakens supervision. The limited availability of skills and the need to establish boards for a large number of PEs tax the system's capacity to staff the boards properly.
- Third, many countries draw PE board members from among current and former government employees, who do not have the business expertise required and may rely on the PE for political patronage or a source of future employment or both.

- Finally, in many countries, board members have insufficient incentives and resources. They are often very poorly paid, lack the necessary supplies, and do not have enough funds to travel and inspect company operations.

Performance and management contracts

The alternative to a board of directors is a performance or management contract. Performance contracts are agreements between governments and *public* managers; management contracts are between the government and *private* managers. Performance and management contracts respond to different needs and have distinct requirements. Performance contracts also go by other names, such as contract plans, program contracts, memorandums of understanding, signaling systems, and public utility licenses.

In a *performance contract*, the government sets strategic objectives and the public managers decide on the operational strategy to achieve those objectives. The process of developing performance contracts is beneficial in itself, as it leads to a dialogue on facts and helps each party become familiar with the needs and problems of the other. Most performance contracts are indicative rather than prescriptive, and their success depends more on genuine commitment by both sides than on the degree of contract detail.

Of the various experiences with performance contracts, generally the most disappointing have been in developing countries (especially in Africa). In transitional economies they have been of some utility. The effectiveness of performance contracts depends, among other things, on the availability of comprehensive and reliable information, strong administrative capacity, and a pool of highly competent and committed public managers. It is not surprising therefore that by far the most successful experience with performance contracts is that of the Republic of Korea and New Zealand (Box 6.1). More mixed has been the experience of the People's Republic of China (Box 6.2). A hypothetical illustration of how an actual performance contract is drafted is shown in Box 6.3.

Box 6.1
Successful Performance Contracting
in the Republic of Korea and New Zealand

The Republic of Korea has had a highly successful experience with performance contracts as well. As part of the 1983 reform of public enterprises (PEs), the Government entered into performance contracts to permit a comparative evaluation of the short- and long-term performance of all PE managers. Rewards are linked to performance, as evaluated by independent auditors. Performance indicators are used to measure results against the trend, as well as against agreed targets. Seventy percent of the indicators are quantitative and are set annually; these include profitability and productivity, as well as sector-specific indicators. Qualitative indicators include corporate strategy, research and development, and improvements in management information and internal control systems. These indicators are combined into a single public profitability measure using a weighted average of performance with respect to each indicator.

The New Zealand approach to performance contracting, used since 1986 and expanded in the 1990s, includes a statement of corporate intent for each state-owned corporation, which is redrafted each year to define precisely the goals, targets, and subsidies for noncommercial goals. Improvements in productivity, profits, and customer service have been significant, and in some cases dramatic, and lower prices have been instituted.

Box 6.2
Performance Contracts in the People's Republic of China

The People's Republic of China was the first transitional economy to introduce performance contracts. Beginning in 1987, a variety of contracts were introduced under the contract responsibility system. All of these gave managers of industrial public enterprises (PEs) greater control over enterprise operations in return for meeting profit remittance targets. Many contracts also gave the PEs greater autonomy over sales and permitted managers to grant employee bonuses and hire contract workers. In 1992, a government directive stipulated that contracts could grant managers additional autonomy, including the rights to make production decisions, determine prices for outputs and inputs, purchase goods and materials, make investment decisions, hire workers, and determine wages and bonuses.

The extent to which these contracts have improved performance is difficult to assess. In general, enterprise performance improved, but increasing competition from the nonstate sector may have been the key factor. Performance contracts in the People's Republic of China, moreover, while providing incentives for good performance, have failed to penalize bad performance.

Box 6.3

Drafting Performance Contracts with State Enterprises: An Illustration^a

At the start of the year the enterprise signs a performance agreement setting the following targets.

Performance Agreement Targets

Criterion	Unit	Weight	Criterion Values				
			1 Excellent	2 Very Good	3 Good	4 Fair	5 Poor
Gross Profit	million	.50	400	385	350	300	250
Exports	million	.30	80	70	65	60	55
Project Implementation	month	.20	6	8	12	14	16

At the end of the year the achievements of this enterprise are as follows:

- Gross profit: 385 million
- Exports: 65 million
- Project implementation: 6 months

Accordingly, the weighted score is 2.10, as shown below. A score of 1.0 would indicate excellent performance and a score of 5.0, poor performance. The weighted result is the key concept of all performance contracts, for it measures the ability of the enterprise to meet its commitments and allows the evaluation of management.

Calculation of Composite Score

Criterion	Unit	Achievement	Raw Score	Weight	Weighted Raw Score
Gross Profit	million	385	2	.50	1.00
Exports	million	65	3	.30	.90
Project Implementation	months	5	1	.20	.20
					2.10

^a Adopted from an actual agreement prepared by Prajapati Trivedi of the World Bank for Thailand.

Management contracts can take the form of a lease (where the government receives a fixed rent), a concession (where the government is responsible for fixed investments), or a joint venture (where the private manager owns part of the equity). Management contracts in the developing world, especially of the lease or concession type, have often proved to be a blank check to the private management firm to milk the company out of its assets (sometimes in collusion with some high officials) and leave it in far worse shape than before. Partly because of this unsavory experience, no government has adopted management contracts as an important instrument of PE reform, and in no country do such contracts cover a large proportion of PEs. Joint ventures are a little better, but still risky.

However, management contracts can be a useful instrument in particular circumstances, when

- it is particularly costly for government to manage the enterprise directly;
- enterprise technology is not changing rapidly;
- output is homogenous;
- the supplier has an international reputation to protect and quality is easily compared (as with hotels);
- the enterprise faces severe managerial difficulties and needs to rehabilitate a major part of its operations, or government wishes to put in order the financial affairs of a state-owned enterprise before privatizing it; and, most importantly,
- government has the capacity to design a good contract and monitor it closely.

KEY POINTS AND DIRECTIONS OF IMPROVEMENT

Key Points

Direct government delivery of public services is only one option for government intervention. Public services may be also delivered by autonomous public entities, private businesses, or nongovernment organizations (NGOs). The basic distinction is between service policy, service financing, and service delivery. Depending on the nature of the service and on administrative capacity, appropriate government involvement is a continuum—from full and direct involvement in all aspects of service provision to only setting a few basic rules.

The distinction between the policy function and the implementation function has recently led some developed countries to a complete separation between the government organization charged with setting policy and an executive agency entrusted with service delivery—fully autonomous and responsible for results. The conceptual justifications for such complete separation have been the need for the leadership to focus on policy without operational distractions, or the risk of capture of policy by the bureaucracy that delivers the service. However, when policy is fully divorced from implementation, a policy focus can easily become a policy ivory tower. Also, while separation reduces the risk of capture by bureaucratic insiders, it creates a new risk of capture of the public service by private outsiders. When, as in developing countries, government has a weak capacity to measure results and monitor behavior of autonomous entities, the executive agency model is especially hazardous.

Aside from executive agencies, the drive for alternative modalities of service delivery has led to the growth of various nonministerial government bodies. Because they are intermediate between direct service delivery by a regular ministry and a fully autonomous executive agency, such bodies have more autonomy and flexibility than the former but are subject to a greater degree of government control than the latter.

Historically, PEs (i.e., enterprises majority-owned by the state, directly or indirectly) have played an important role in the continuum of service delivery. Their rapid and largely excessive growth in the 1960s and 1970s, combined with the technological and informatics advances of the 1980s and 1990s, has produced in most countries a bloated parastatal sector badly in need of reforms. Among these reforms, privatization is the best known and often the most appropriate. However, a number of public enterprises will remain in the public sector indefinitely, and others will take a long time to privatize. Clearly, there is a need for efficient ways to manage and control these enterprises and protect their assets—corporate governance. Corporate governance is therefore a component of public enterprise reform, not an alternative to reform. The main dimensions of corporate governance are as follows.

Corporatization is the setting up of a separate legal entity for the enterprise, which thus becomes subject to ordinary commercial law. It has resulted in major efficiency gains, and has the added advantage for developing countries and transitional economies of classifying legal title and sorting out property rights. Resistance to corporatization comes typically

from enterprise managers and their patrons in government, rather than from the employees, if the corporatization process is managed fairly and transparently.

The problem of *selecting an agent* to represent the state has different solutions. Experience suggest that the best solution, on balance, is to create a central public agency to exercise the state ownership rights in the public enterprises, but without managing the enterprises themselves.

The challenge of *improving management* can be met primarily by better selecting managers and evaluating performance, both of which call for developing independent channels of evaluation, locating the authority for managers' selection and removal in one entity, and severing the links between managers and their patrons in the ministries.

The main options for an arm's length relationship between the government and the enterprise, which still protects the public interest and the enterprise assets, are a board of directors and a performance or management contract. There are various ways to structure *boards of directors*, but the common problem is to assure effective board control over enterprise management. The effectiveness of *performance contracts* (between the government and a public manager) depends largely on the availability of reliable information, strong administrative capacity, a pool of competent public managers, and genuine commitment from both sides. Consequently, performance contracts have been effective only in the few countries that possess those characteristics, and ineffectual elsewhere. *Management contracts* (between the government and private management groups) have often been a blank check for private managers to strip the company assets or milk its profits, and are to be avoided unless they entail large equity participation by the private managers. Even then, close monitoring by government is a must, and management contracts are therefore extremely risky in developing countries.

Directions of Improvement

Because direct government delivery of public services is only one of several options, developing countries should periodically reexamine the effectiveness of direct delivery of public services relative to possibilities for the involvement of private businesses and NGOs. This is especially advisable in local government, which is normally responsible for providing those services that are generally more suitable for nongovernment delivery. Close monitoring is needed, however, to prevent service quality and access from declining as a result of "capture" by powerful local private interests.

A similar middle-of-the-road approach is advisable for handling the relationship between service policy and implementation. A sharp separation between the two functions is inadvisable in most countries, and the creation of an autonomous “executive agency” exclusively responsible for service delivery is an especially bad idea in developing countries. However, the two functions are in fact distinct. It is advisable for countries, within the existing organizational arrangements, to consider ways in which to sharpen the focus on formulating good service policy and standards, while at the same time giving more flexibility to government managers in the actual delivery of the public services. The appropriate improvements will depend largely on country characteristics, the service in question, and the organization of the government. Generally, however, the issue of how to give greater freedom to government managers to deliver services more efficiently should be viewed in conjunction with budgetary procedures (especially the desirability of some flexibility in reallocating budget within the same category) and the mechanism evaluation of public managers’ performance.

In a majority of developing countries and transitional economies, the PE sector as a whole is a drain on the public finances, without an offsetting benefit in terms of providing services to groups that would be underserved by private business. There is therefore a strong case for *both* reducing the size of the sector through privatization and improving the efficiency and responsiveness of enterprises that remain in the public sector. Because privatization carries special risks in countries with governance weaknesses, developing countries should pay close attention to the process of privatization, with all the expert assistance they can obtain. External donor agencies, too, need to shift their focus from the quantity to the quality of privatization, from the “what” to the “how” of the handling of privatization.

Concerning the improvement of the efficiency and responsiveness of the remaining PEs, reforms in corporate governance are necessary in many developing countries and most transitional economies. In this area, the selective approach recommended above is not desirable because corporate governance reforms and procedures must be uniform for the entire sector.

The following measures, among others, can help ensure the benefits of corporatization.

- Establish a single corporate form and avoid both hybrid organizational solutions (which blur accountability) and sector-specific schemes (which permit the ministries to retain undue influence).

- Ensure open communication and credibility, particularly the employees.
- Monitor the activities of reluctant enterprise managers during the corporatization process.

In selecting an agent to represent the state, it is preferable to establish a single central public agency rather than split the oversight role among different agencies, or entrust it to an existing entity with a different mandate. Such a central public agency would be responsible for the oversight of every PE, but the regulatory function should be vested in separate agencies to avoid conflicts of interests.

When considering the creation of a board of directors, the following are needed.

- First, evaluate whether a board is preferable to other mechanisms of effective control, based on the availability of good board members and the size and nature of the enterprises in question.
- Clarify board objectives and give the board adequate authority.
- Select independent and competent board members representing different constituencies—predominantly from the private sector.
- Help boards organize themselves and provide training where lacking. The formation of an institute for directors to provide such training is worth considering, ideally on a subregional basis for several countries.
- Provide adequate incentives and accountability systems. Board members' remuneration must be competitive with that of the management of enterprises, and procedures must be established to review board members' performance, including in particular the robustness of their supervision of enterprise management.

Performance and management contracts are not a panacea and are in most cases problematic. Therefore

- performance contracts should be used selectively;
- the information on which the enterprise performance targets are set should be made available to both parties;
- an independent body should be established to act as an arbiter and conflict resolution mechanism;

- performance indicators should be derived from an agreed three- to five-year plan, and performance targets should be adjusted only when major factors outside the control of managers change;
- once performance targets have been set, managers should be free to manage, subject only to general government policies and contractual provisions;
- if circumstances are not conducive to detailed performance contracting, a performance agreement can still provide the basis for a constructive dialogue on performance, provided that significant positive or negative consequences result for the enterprise managers; and
- because of the severe risks of management contracts with private managers in developing countries, when it is absolutely necessary to enter into such contracts the government should consider hiring an independent external entity to monitor and supervise the management on its behalf.

Annex II

GOOD PRACTICE IN EXECUTIVE APPOINTMENTS TO NONGOVERNMENT PUBLIC BODIES⁸

Appointments

Appointments to the boards of executive public bodies should be made on the basis of merit, to ensure balance of relevant skills and backgrounds.

Responsibility for appointments should remain with Ministers, advised by committees that include independent members.

A public Appointments Commissioner should be appointed to regulate, monitor, and report on the public appointments process.

The process should be open and dependents should have to justify any departures from best practice. Job specifications should be published and a wide range of candidates should be sought. The suitability of each candidate should be assessed by an advisory committee.

Propriety

Each executive should have a code of conduct for board members, and a similar code for staff.

A consistent legal framework should govern propriety and accountability in public bodies.

Openness and independent monitoring are important safeguards of propriety and should be extended. In particular, staff should have a confidential avenue to raise any concerns about issues of propriety.

The responsibilities of accounting and audit officers for propriety as well as financial matters need to be emphasized.

Appointments Procedures

Defining the task (job description) and the qualities sought ("person specification")

- Job descriptions and a summary of the key qualities sought ("a person specification") should always be documented, be publicly available, be sent to all candidates, and be held for scrutiny by the Public Appointments Commissioner.
- A description of the appointments process should be similarly documented and made available.

Identifying a field of candidates

- A wide field of candidates should be obtained by making appropriate use of
 - advertising—both for general and individual posts;
 - executive search;
 - consultation with interested bodies, which should always include any recognized consultative/user groups and, for local appointments, the elected local authorities; and
 - maintaining and using databases of interested and appropriate people.
- It should always be possible for anyone to nominate anyone, including himself, and this should be made clear in all advertising and publicity.

Selecting a short list and recommending candidates to ministers

- The sifting of candidates should be undertaken or overseen by committees or panels with independent members.
- Any candidate recommended to ministers should have been approved as suitable for the post by the committee or panel, taking up references where appropriate.

Choosing the preferred candidate(s)

- Appointments should be based on merit to achieve a balance of relevant skills and backgrounds on the board.
- Candidates should not normally be appointed without having been interviewed either by the advisory committee/panel or, in the case of more senior appointments, by ministers or senior officials.

- Reappointments should not be automatic. The performance of the postholder should be reviewed.

Confirming the appointment

- All appointments should be announced through press notices and other suitable means—either individually or for minor appointments in quarterly batches—and departments should report annually on their procedures.
- Sponsor departments and individual NDPBs and NHS bodies should have lists of their members that outline who they are and when their term expires.

Openness

Access to information

- Adopt a specific code on access to information incorporating the government's code, and building on it where possible.
- Establish clear and published procedures for implementing the code, including
 - well defined criteria for information that will be withheld, which should be cited whenever a request for information is refused;
 - standards for speed of response to inquiries (e.g., information to be provided normally within 21 days or correspondent informed of likely date);
 - an appeal mechanism, within the organization initially and then either to the ombudsman, or (where the body does not come under the ombudsman's jurisdiction) to another independent person appointed for the purpose; and
 - a policy on charging for information provided (with requests requiring only a reasonable amount of work incurring no charge).
- Provide information on executive salary levels, and average staff salaries.

Meetings

- Open meetings to the public or make minutes of meetings (and main committees) available for public inspection or describing key discussions and decisions in newsletters etc. after each meeting. Some items may be deemed confidential but the criteria for doing so should be published.

- Open to public and media a well-publicized annual general meeting, allowing an opportunity to question the board members on the performance and activities of the body.
- Other opportunities should be taken to involve and inform the public and organization with a major interest on major issues, through consumer groups, user forums, or public meetings.

Publications

- Annual reports and accounts should include information on the role and monolith of the executive body, long-term plans or strategy; membership of the board, performance against key targets; targets for the forthcoming year; their commitment and approach to open government; and where further information can be obtained (including how to inspect the register of board members interests and how to pursue complaints).
- Publish other important information depending on the body, including key statistic, the results of consultation exercises, details of key procedures (e.g., criteria for allocating public funds), and reports of regulatory investigations.
- All publications should be made as widely available as possible, such as through public libraries, and all annual reports and accounts should be deposited in the official government.

NOTES

¹ For major infrastructure projects, however, the forecast needs are so huge that most of the financing will need to come from private sources.

² We are grateful to Nick Manning for contributing much of the substance of this section. His contribution has been edited to fit the structure and thrust of the chapter, and combined with other materials. The authors claim responsibility for the views expressed here and for possible errors.

³ See especially the contributions of Niskanen and Dunleavy, summarized among other theories in Pollitt, Christopher, et al. (1998).

⁴ As Stewart (1996), puts it, “separation of policy-making and implementation will not prove the elixir that will resolve many of the problems of public management... It should be seen as *one approach* rather than *the approach*.”

⁵ This section relies on Commonwealth Secretariat; and Nellis and Shirley (1991).

⁶ This section relies largely on Schiavo-Campo and Pannier (1994), “Corporate Governance of Public Enterprises: The Comparative Experience.”

⁷ See Pannier and Schiavo-Campo (1994) for a fuller discussion.

⁸ Adopted from the first report of the UK Committee on Standards in Public Life.

PART II

MANAGING GOVERNMENT RESOURCES

Chapter 7

Managing Central Government Expenditure

It is better to rise from a banquet neither thirsty nor drunk.
—Aristotle

This chapter provides a quick run-through of the entire public expenditure management (PEM) cycle. The key message is that the management of public expenditure is neither a purely technocratic issue nor suitable for simple quick fixes, on the one hand, yet is always amenable to some practical improvement, on the other. Principles and practices of subnational government expenditure are examined in Chapter 8. Here we focus on central government expenditure management. Because of the summary nature of this discussion and the technical dimension of the subject, the reader interested in a fuller explanation is referred to Schiavo-Campo and Tommasi, 1999.

THE OBJECTIVES AND CONTEXT OF PUBLIC EXPENDITURE MANAGEMENT (PEM)

The government budget should be a financial mirror of society's economic and social choices. To perform the roles assigned to it by the people, the state needs to (i) collect sufficient resources from the economy in an appropriate manner; and (ii) allocate and use those resources responsively, efficiently, and effectively.¹ Hence, one should always keep in mind the integral relationship between revenue and expenditure—between the money collected directly or indirectly from the people (and, in most developing countries, from aid donors) and the use of that money in a manner that reflects most closely the people's preferences.² Also, close cooperation between tax and budget officials is a must for many areas, e.g., budget forecasting, macroeconomic framework formulation, and trade-offs between outright expenditures and tax concessions.

The Three Key Objectives of PEM³

Public expenditure management, as a central instrument of policy, must pursue all three overall economic policy goals of economic growth, stability, and equity. Financial stability calls for fiscal discipline; economic growth and equity are pursued partly through allocating public money to the various sectors; and, most obviously, all three goals require efficient and effective use of resources in practice. Hence, the three goals of overall policy translate into three key objectives of good PEM: fiscal discipline (expenditure control); allocation of resources consistent with policy priorities (strategic allocation); and good operational management.⁴ In turn, good operational management calls for both efficiency (minimizing cost per unit of output) and effectiveness (achieving the outcome for which the output is intended). But in addition, as stressed earlier, attention to proper norms and due process is essential as well.

There are linkages between the three key objectives of PEM, their corresponding major function, and the government level at which they are mostly operative. Fiscal discipline requires control at the aggregate level; strategic resource allocation requires good programming, which entails appropriate cabinet-level and interministerial arrangements; and operational management is largely an intraministerial affair. It should be stressed, however, that fiscal discipline and operational management are more amenable to technical improvement than is the strategic allocation of resources. Therefore, the allocation of resources is partly influenced by the organizational arrangement of central government discussed in Chapter 3. As Petrei (1998) puts it

Resource distribution among programs is perhaps the least technical part of the budget process. With the exception of investment projects, spending decisions are rarely based on technical principles or on detailed work to determine the population's preference. The allocation of funds results from a series of forces that converge at different points of the decision-making process, with an arbitrator who rules according to an imperfect perception of present and future political realities. The ministries, the headquarters of the principal agencies, and many other decision-making positions are occupied by politicians who, theoretically, have developed a certain intuition about what people want. In any event, the effort made at this stage of the budget process to collect and analyze information is less than at any other stage.

The focus on public expenditure management should not lead to forgetting the essential link between revenue and expenditure. The triad of PEM objectives can easily be expanded into a triad of *fiscal* objectives. Fiscal discipline results from good forecasts of revenue as well as expenditure; strategic allocation has a counterpart in the tax incidence across different sectors; and tax administration, of course, is the revenue aspect of good operational management of expenditure.

Table 7.1 summarizes these relationships.

Objective	Revenue Function	Expenditure Function	Organizational Level
Fiscal Discipline	<i>Reliable forecasts</i>	<i>Expenditure control</i>	<i>Aggregate</i>
Resource Allocation and Mobilization	<i>Tax equity and incidence</i>	<i>Expenditure programming</i>	<i>Interministerial</i>
Operational Efficiency <i>Economy Efficiency Effectiveness Due Process</i>	<i>Tax administration</i>	<i>Management</i>	<i>Intraministerial</i>

This scheme is a simplification intended to help fix the key concepts in one’s mind. The reality is more complex. First, as noted, the three objectives may be mutually conflicting in the short run (and trade-offs and reconciliations must be made) but are clearly complementary in the long run. For example, mere fiscal discipline in the presence of arbitrary resource allocation and inefficient operations is inherently unsustainable. Second, good aggregate budgetary outcomes must emerge from good outcomes at each level of government. For example, while fiscal discipline must ultimately be manifested at the aggregate level, it should emerge as the sum total of good expenditure control (and reliable revenue forecasts) in each ministry and agency of government, rather than being imposed top-down. (Chapter 2 discusses the importance of interministerial coordination.)

Therefore, an overall expenditure constraint is necessary but not sufficient for good PEM; on the contrary, imposing the constraint *only* from the top may result in misallocation of resources and inefficient operations. Typically, such top-down aggregate limits are intended to root out waste, fraud, and corruption. But waste, fraud, and corruption are hardy weeds. If the top-down limit is imposed *in isolation* and without any attention to the internal workings of the public expenditure system, the outcome may well be to underfund the more efficient and worthwhile activities, precisely because they do not carry benefits for the individual bureaucrats and their private partners.⁵ Conversely, it is not likely that internal systems can be improved without a hard constraint. Similarly, the best mechanisms for interministerial coordination are worth little if the sectoral expenditure programs are inappropriate or inconsistent with overall policy. Finally, management and operational efficiency cannot normally be improved except in an overall context of fiscal discipline and sound allocation of resources—to which good management itself makes a key contribution.

A Word about Sequencing

If you cannot control the money, you cannot allocate it, and if you cannot allocate it you cannot manage it. Fiscal discipline in many ways comes first; resource allocation and operational efficiency come next. This is literally true in those few developing countries that have extremely weak revenue forecasts and cash management systems. In those countries, the objective of improving expenditure control is first and foremost, and any effort at addressing the other two objectives of PEM would be futile and possibly counterproductive. However, it is essential to (i) design and implement improvements in expenditure control in ways that do not jeopardize the improvements in sectoral allocation and resource management that must eventually follow; and (ii) have a clear *ex-ante* sense of how far to push improvements in expenditure and cash control before addressing strategic allocation and management issues becomes timely and necessary.

In countries where expenditure control and cash management are already minimally acceptable, none of the three PEM objectives of expenditure control, resource allocation, and good operational management should be pursued in isolation from the others (just as the overall policy goals of growth, stability, and equity are interrelated). Improvements in one or another area can and should go forward as and when circumstances permit. But a coherent vision of the entire reform process is needed to prevent progress in any one objective from getting so far out of line as to compromise

progress in the other two, and thus the public expenditure management reform process in its entirety. Hence, a multiyear perspective is essential for good PEM. Specific reform priorities and sequencing considerations for each of the major components of PEM are suggested in the last section of this chapter.

Fiscal Transparency

Neither accountability nor good PEM can be achieved without access to reliable information by all major actors and the public. Box 7.1 summarizes some of the requirements for fiscal transparency, selected from the fiscal transparency code developed by the International Monetary Fund (IMF).

Box 7.1 Selected Requirements for Fiscal Transparency

Clarity of roles and responsibilities

- A budget law or administrative framework, covering budgetary as well as extrabudgetary activities and specifying fiscal management responsibilities, should be in place.
- Taxation should be subject to the law, and the administrative application of tax laws should be subject to procedural safeguards.

Public availability of information

- Extrabudgetary activities should be covered in budget documents and accounting reports.
- Original and revised budget estimates for the two years preceding the budget should be included in budget documents.
- The level and composition of central government debt should be reported annually, with a lag of no more than six months.

Open budget preparation, execution, and reporting

- A fiscal and economic outlook paper should be presented with the budget, including a statement of fiscal policy objectives and priorities, and the macroeconomic forecasts on which the budget is based.
- A statement of fiscal risks should be presented with the budget documents.
- All general government activities should be covered by the budget and accounts classification.
- The overall fiscal balance should be reported in budget documents, with an analytical table showing its derivation from budget estimates.

continued on next page

Box 7.1 (cont'd.)

Independent assurances of integrity

- Final central government accounts should reflect high standards, and should be audited by an independent external auditor.
- Mechanisms should be in place to ensure that external audit findings are reported to the legislature and that remedial action is taken.
- Standards of external audit practice should be consistent with international standards.
- Working methods and assumptions used in producing macroeconomic forecasts should be made publicly available.

Source: International Monetary Fund. 1998. Draft Manual on Fiscal Transparency. Washington, DC

THE BUDGET CYCLE: A BIRD'S EYE VIEW

This section summarizes the entire PEM cycle. Throughout the section we shall use the term ministry of finance to indicate the central government entity in charge of public expenditure.

The Budget and Its Preparation

Budget coverage

As explained in the appendix to Chapter 1, the general government consists of the central government and subnational levels of government, and the public sector includes the general government and all entities that it controls (e.g., state-owned enterprises). It is important for each level of government and public sector entity to have its own budget. For accountability and financial control, financial reports should consolidate the operations of the general government and (to the extent possible) the financial activities of all entities controlled by the government.

The coverage of the budget should be comprehensive. The budget should include all revenues and all expenditures of the government, whatever the arrangements may be for managing separately some particular programs, the legal provisions for authorizing expenditures, and the financing source.

Operational efficiency requires taking into account the specific characteristics of different expenditure programs when designing budget

management rules, e.g., rules concerning transfers of resources for one budget item to another. When there is a strong link between revenue and benefit, earmarking arrangements may be considered to improve performance in public services delivery; otherwise, such arrangements should be avoided.

Special management arrangements should not be allowed to hamper expenditure control and efficiency in resource allocation. Hence, extrabudgetary funds, special accounts, expenditures financed by external sources, etc., may need separate administrative arrangements but should be submitted to the same scrutiny as other expenditures. For this, they should follow the same expenditure classification system as other expenditure programs. Also, their related transactions should be recorded in gross terms, without “netting out” receipts and expenditures. For efficiency and anti-corruption reasons, it is necessary to know the magnitude of the receipts and the expenditures made from them.

In addition to direct spending, all policy commitments and decisions that have an immediate or future fiscal impact, or generate fiscal risks for the government, should be disclosed and scrutinized together with direct spending (tax expenditures, contingent liabilities, government loans, and quasi-fiscal expenditures).

Budget preparation

In keeping with the three key objectives of PEM, the budget preparation process should aim at (i) ensuring that the budget fits macroeconomic policies and resource constraints; (ii) allocating resources in conformity with government policies; and (iii) providing conditions for good operational management. Hard choices and trade-offs between expenditure programs must be made explicit when formulating the budget. Postponing such decisions until budget execution does not make them any easier, prevents the smooth implementation of priority programs, and disrupts program management.

Because the budget should be the financial expression of government policies, mechanisms for formulating sound policies and ensuring the policy-budget link are essential. These include

- coordination mechanisms for policy formulation within the government (Chapter 2);

- consultations with civil society (Chapter 14);
- adequate means for legislative review of policies and the budget; and
- regulations to reinforce the budget-policy link, notably (i) systematic review of the resource implications of a policy proposal; (ii) supremacy of the budget over other regulations on fiscal issues; and (iii) specific powers of the legislature in budgetary matters.

A medium-term macroeconomic framework should be the starting point of budget preparation. The degree of sophistication of macroeconomic projections depends on technical capacities within the country, but every country should prepare its budget within a macroeconomic framework based on realistic assumptions, without overestimating revenues or underestimating compulsory expenditures. To commit the government explicitly and to ensure public accountability, the fiscal targets and macroeconomic projections should be published in a user friendly format.

Financial constraints must be built into the expenditure programming process, to prevent the problems arising from open-ended approaches (i.e., excessive bargaining) and avoidance of necessary choices. Annual budget preparation (as well as any expenditure program) should be organized as follows:

- a *top-down approach*, which consists of (i) defining aggregate resources available for public spending over the planned period (within a sound macroeconomic framework); (ii) establishing sectoral spending limits that fit government priorities; and (iii) notifying line ministries of these spending limits early in the budget process;
- a *bottom-up approach*, which consists of formulating and costing sectoral spending programs for the planned period within the given sectoral spending limits; and
- *iteration*, negotiation, and reconciliation mechanisms to ensure overall consistency between expenditure aims and resource availability.

Budget preparation can be broken down in the following specific activities: (i) preparing macroeconomic framework; (ii) preparing a budget circular, which gives expenditure ceilings by sector and guidelines to spending agencies for preparing sector budgets; (iii) preparing of the line ministries'

budget on the basis of these guidelines; (iv) budgetary negotiation between the line ministries and the ministry of finance; (v) finalizing the draft budget; and (vi) submitting the draft budget to the legislature. All countries should adopt some appropriate medium-term budgeting perspective, consistent with the medium-term macroeconomic framework, and countries where conditions are conducive should consider implementing a formal multiyear expenditure programming approach.

To choose among expenditure programs and to plan for their implementation, spending agencies need to know the amount of resources allocated to their sector. Since they are accountable for sectoral policy and performance, line ministries should be responsible for preparing their sector budgets within those limits. The core ministries of finance and planning should facilitate and encourage that responsibility, and not usurp sectoral choices to themselves.

Weaknesses in the budgeting process depend in large part on political factors and on the organization of the government, e.g., lack of coordination within the cabinet, unclear lines of accountability, and overlaps in the distribution of responsibility (see Chapters 2 and 3). Mechanisms for budgeting and policy formulation should be explicitly designed to reinforce coordination and cohesion in decision making. Generally, strengthening the budget preparation process requires improvements in the following directions.

- Decisions that have a fiscal impact (notably, tax expenditures, lending, and guarantees and other contingent liabilities) should be scrutinized together with direct expenditure programs.
- Spending limits must be built into the start of the budget formulation process, consistent with policy priorities and resource availability. Spending agencies need predictability and should have clear indications of the resources available as early as possible in the budget preparation process.
- Policy coordination mechanisms that fit the country context are needed, with particular attention to the budget-policy link. The medium-term fiscal impact of policy decisions must be systematically assessed.

- Operational efficiency requires making line ministries accountable for implementing their programs. However, they can be held accountable only if they have participated in designing the programs and have authority for managing them. This requires, in a number of countries, reviewing and revising the distribution of responsibilities in budget preparation.
- Aid-dependent countries need to pay more attention to programming expenditures financed by external aid and should scrutinize their budget as a whole, regardless of the source of financing and despite the fact that the project approach adopted by donors may favor fragmentation in budgeting.

Implementing new policies and making shifts in the composition of expenditure take time. In the short term, most expenditures are fixed. Thus, assessments of forward costs, including the recurrent costs of investment projects, are required when preparing the budget, and the total costs of investment projects of a significant size (and their implementation schedule) should be reviewed when preparing the budget and shown in the budget documents or in annexes to the budget.

Rolling multiyear expenditure programs contribute to improving budget preparation, mainly by facilitating the setting of the ceilings that should frame the preparation of the annual budget, and by increasing predictability in sector management and efficiency in public spending. A formal and detailed program covering all sectors has recently become known under the medium-term expenditure framework (MTEF), but less demanding approaches to a multiyear perspective can be adopted. As discussed later, these are a multiyear program of investment expenditure across all sectors (public investment program or PIP) and a multiyear program of all expenditure in a single sector (sector expenditure program or SEP).

To avoid undesirable outcomes and perverse effects, the following principles should be adopted in multiyear expenditure programming.

- Multiyear expenditure estimates can be indicative for the out-years but must be fully consistent with the budget in their first program year.
- Whatever their coverage, multiyear programs must be framed by a multiyear macroeconomic framework, including estimates of aggregate

expenditures by function and by broad economic category (wages, other goods and services, transfers, interests, and investments). This requirement applies not only to comprehensive MTEFs, but also to multiyear approaches with a partial coverage (PIPs).

- Multiyear programs should not be used as an excuse for increased claims from spending agencies. Rather, they should focus on the forward impact of policy decisions to be made in the annual budget under preparation, and exclude new programs that are not funded with certainty. Therefore, the total costs identified in the multiyear programs should be less than the projected revenues from all sources.
- The process of preparing multiyear programs should be analogous to the budget preparation process. In particular, such programs should be prepared within the framework of annual expenditure ceilings.
- Depending largely on the country's administrative capacity, multiyear expenditure programs may vary in status (e.g., internal management document or published and official document), coverage (some sectors or programs only, or investment only, or MTEF with aggregate or detailed coverage), and degree of detail (as detailed as the budget or with a more aggregate presentation).

Organizational issues

The responsibilities of the different actors involved in budget preparation and policy formulation must be clearly defined and delimited.

- The center of the government (prime minister's or president's office, etc.) coordinates policy formulation and arbitrates any conflict that may appear in budget preparation. (See Chapter 2 for a coverage of these issues.)
- The ministry of finance sets the guidelines for budget preparation, scrutinizes budget requests, and ensures the coordination of the budget preparation process, as well as the overall consistency of the budget with policy and macroeconomic objectives.
- Line ministries and agencies are responsible for preparing their sector programs and budgets, within the policy directions and spending limits decided by the government.

As explained in detail in Chapter 8, assigning of expenditures to subnational government should be clearly made, and arrangements for revenue allocation should follow expenditure assignment. The central government should avoid downloading its fiscal problems onto subnational governments. Accordingly, increased expenditure assignments must be balanced by compensatory measures on the revenue side. Certain mandates of overriding national significance may not specifically carry additional resources, but should be the exception to the rule.

The legislature has a key role in reviewing and approving the budget. For this, adequate capacity and resources are needed. However, to achieve the three key objectives of fiscal discipline, resource allocation, and good operational management, certain limits are normally set on the amending power of the legislature.

Budget Execution

It is possible to execute badly a well-prepared budget; it is not possible to execute well a badly prepared budget. However, good budget execution requires more than simply assuring compliance with the initial budget. It must also adapt to intervening changes, and enable good operational management. Control procedures are needed, but should not hamper efficiency or lead to altering the internal composition of the budget, and must focus on the essential while giving spending agencies flexibility to implement their programs.

Assuring compliance: expenditure control

The budget system should assure effective expenditure control. In addition to a realistic budget to begin with, a good budget execution system should have the following:

- a complete budgetary appropriation accounting system, to track transactions at each stage of the expenditure cycle (commitment, verification, and payment) and movements between appropriations or budget items (apportionment, virements, and supplementary estimates);
- effective controls at each stage of the expenditure cycle, whatever their form and organization;

- a system for managing multi-year contracts and forward commitments;
- a personnel management system, which should include staff ceilings in countries undertaking civil service reform.
- Adequate and transparent procedures for competitive procurement and systems for managing procurement and contracting out.

Budget implementation

In implementing a well-prepared budget, allocative and operational efficiency calls for the following principles.

- Budget funds should be released on time.
- Cash rationing should be avoided (except in emergencies). A cash plan must be prepared, but should be based on budget estimates and take into account existing commitments.
- Supplementary estimates must be strictly regulated and their number limited.
- Virements (transfers between items) are justified, but should not lead to altering the priorities established in the budget. Rules for virements should be set up to allow for both management flexibility and control of the major items.
- Internal controls (within line ministries) are generally preferable to ex-ante controls performed by central agencies, but internal controls demand a strong monitoring and auditing system. Commitments and verification controls should be internal, to avoid excessive interference by central agencies in budget management.
- When payment processing and accounting controls are decentralized, central control of cash is required. When payment processing and accounting controls are centralized, a system is needed to assure that payments are made on time and according to the budget and the cash plan, without the central agencies superimposing their priorities. Advances in information technology should allow the government to reconcile the need to decentralize controls for efficiency reasons with the need to assure central control of expenditure.

- Some carryover of appropriations to the following fiscal year should be authorized, at least for capital expenditures, but needs to be regulated.

Cash management and the treasury function

Cash management is carried out to achieve the following: to control total spending, to implement the budget efficiently, to minimize the cost of government borrowing, and to maximize return on government deposits and financial investments. The following are key principles of cash management:

- Centralized cash balances (not to be confused with centralization of payments) is best made through a “treasury single account,” although advances in informatics make several treasury accounts feasible. A treasury single account is an account (or a set of linked accounts) through which all government payment transactions are made. It should have at least the following features: (i) daily centralization of the cash balance (when possible); (ii) accounts open under the responsibility of the treasury; and (iii) all transactions recorded in these accounts along the same classification. This model could fit both centralized and decentralized arrangements in PEM, provided that modern information technology is available.
- Cash planning includes (i) preparing an annual budget implementation plan, which should be rolled over quarterly; (ii) within this annual budget implementation plan, preparing monthly cash and borrowing plans; and (iii) weekly review of the implementation of the monthly cash plan. In turn, in preparing monthly cash plans, commitments must be monitored so that arrears or delays in payment are avoided.
- A borrowing policy is set in advance and a borrowing plan is made public. Borrowing by subnational governments must be regulated and should be consistent with overall fiscal targets.
- When contracting external debt, compliance with the budget or multiyear expenditure program should be monitored closely.

The Technical Infrastructure

Accounting

Good accounting and reporting systems are crucial for public expenditure management, accountability, and policy making. Accounting systems are classified as follows.

- *Cash accounting*, which focuses on cash flows and cash balances. Cash accounting is adequate for the objective of expenditure control, provided that it is complemented by an adequate system for registering commitments and reporting on expenditure arrears, or a false picture of the fiscal situation will result.
- *Modified cash accounting*, which adds to cash accounting a complementary period for recognizing year-end payments. (However, this system is normally cumbersome and risky as it may lead to corruption, and should be avoided.)
- *Modified accrual accounting*, which covers, in addition to cash, liabilities and financial assets. Modified accrual accounting gives a complete framework for registering liabilities and all expenditures.
- *Full accrual accounting*, which covers all liabilities and all assets. Accrual accounting, which is used in commercial enterprises, gives an appropriate framework for assessing full costs and performance. However, its requirements of review of data, and technical and administrative implementation capacity are heavy, making it unsuitable for most developing countries and very unreliable if inappropriately or prematurely introduced.

Whatever the basis of accounting, the accounting system should have the following basic features:

- adequate procedures for bookkeeping, systematic recording of transactions, adequate security system, systematic comparison with banking statements;
- use of the same methodology in recording all expenditure and revenue transactions into the accounts (including expenditures from funds and autonomous agencies, and aid-financed expenditures);

- common classification of expenditure along functional and economic categories;
- clear accounting and well-documented procedures;
- regularly produced statements (see “Reporting” below);
- systems for tracking the uses of appropriations (budgetary accounting) at each stage of the expenditure cycle (commitment, verification, and payment);
- clear procedures and full disclosure of budget financing operations (below-the-line transactions) and liabilities; and
- clear arrangements for the retention, access, and security of supporting documents, including computerized records.

Reporting

The reporting system must be designed to fit the needs of the different users (the legislature, the public, budget managers, policy decision makers, etc.). Minimum reporting requirements are

- budget management reports, showing all movements in appropriations and line items (allotments, supplementary estimates, transfer of expenditure between items, etc.);
- accountability reports to the legislature;
- financial reports (consolidated accounts of the general government, statement on arrears, report on debt and contingent liabilities, and report on lending); and
- budget policy assessment reports and line agencies’ reports.

Management control, audit, and evaluation

Management controls (also called “internal controls”) are the policies and procedures put in place by the managers of an entity to ensure its proper and effective operation. There are many kinds of management controls. Developing an effective system of controls requires, first, a careful

assessment of the risks facing the organization. Policies and procedures can then be selected to control those risks effectively and at reasonable cost.

Management controls are a basic responsibility of any manager. To be effective, the management control system must have the strong support of the entity's leadership. Policies and procedures must be observed consistently throughout the organization. Irregularities revealed by the control system must bring prompt and effective corrective action. To assure the continued effectiveness of the system, both the risks facing the organization and the control system itself must be reassessed frequently.

No system of controls can provide an absolute guarantee against the occurrence of fraud, abuse, inefficiency, and human error. However, a well-designed system of controls can give reasonable assurance that significant irregularities will be detected. At the same time, even well-designed controls can be defeated by collusion, especially if that collusion involves senior executives who have the power to disarm or bypass the control system. As stressed in Chapter 13, effective accountability requires appropriate external feedback and "voice."

Internal audit is part of an organization's management control structure. Lower-level units are audited by the internal audit office on behalf of top management. Among its most important functions, internal audit tests the management controls themselves and assists senior management in assessing risks and in developing more cost-effective controls.

External audit of government operations is typically performed by a supreme audit institution (SAI), which usually is independent of the executive branch of government and reports its findings to the legislature, the public, or both, as well as to the audited entity itself. SAIs may perform several types of audits, including ex-ante audits, compliance/regularity audits, financial (assurance) audits, and value-for-money (efficiency) audits. The appropriate audit emphasis depends on the particular circumstances of each country. Weak management controls and internal audit may require extensive ex-ante or compliance/regularity audit of individual transactions by the SAI. However, this is an inefficient use of audit resources. An SAI in these circumstance should work with the legislature and the ministry of finance to implement a coherent strategy for building effective systems of management control. Internal and external audits are complementary, not substitutes.

The credibility of external audit requires that the SAI and its staff be independent of the government units being audited, and have unrestricted access to required information. This independence is typically set forth in the legal provisions establishing the SAI. The SAI must guard this independence zealously, but, at the same time, its effectiveness depends on maintaining a professional, cooperative relationship with the legislature, the government, and the entities being audited.

There are several organizational models designed to reinforce the independence of the SAI, while also providing for its effective management as an organization. Most are variations of the “office” model, headed by an auditor general reporting to the legislature (typical of commonwealth countries) or of the “court” model, in which the auditors have the status of law court judges (as in France and Italy). Combinations of these two basic models are also seen in some countries.

To be effective, the SAI’s audit staff must have the professional skills required for the audits being performed. For an SAI to move from *ex-ante* and regularity audits to financial assurance and value-for-money audits, its present staff will have to be extensively trained in these more complex audits, or new professional staff will have to be hired. The cost-effectiveness of value-for-money audits must be demonstrated. In any case, strong compliance and financial audits come first.

The SAI, especially one pursuing strategic objectives such as improved management controls or undertaking more advanced types of audits, needs an effective means of communicating audit results and a sound approach for encouraging appropriate corrective action. No audit, however thorough, can provide absolute assurance of detecting every irregularity. An audit can give only reasonable assurance that any material errors will be found and reported. But even this level of assurance can be given only if the auditors have access to all needed records and the audit conforms to generally accepted auditing standards.

Program evaluation is a systematic effort to identify and measure the effects of government policies and programs. The more sophisticated forms of evaluation—experimental design and time-series analysis—involve the collection and statistical analysis of large volumes of data to isolate reliably the effects of the program from other factors that might have caused these effects (impact evaluation). Case studies provide less reliable information about causes and effects but have proven useful in identifying ways of improving efficiency.

For an evaluation to be useful, there must be clear agreement on the matter being examined and the data required to provide a reliable answer. Those performing the evaluation must have the professional skills and resources needed to collect and analyze the data. The evaluator must often depend heavily on the cooperation of operating units to gain needed access and to collect needed data. Program evaluation itself, like value-for-money audit, must show that it is cost-effective relative to the improvements identified or the progress expected.

Implementing a multiyear perspective

As emphasized earlier, a multiyear perspective is important for good budgeting. Such a perspective can be introduced in a variety of ways. The most comprehensive and detailed approach is frequently referred to as MTEF, which is a whole-of-government framework including all government expenditure at a high level of disaggregation. Such a full-fledged framework has heavy data and implementation requirements, and in many developing countries can be wasteful or even counterproductive if introduced prematurely or implemented badly. Fortunately, partial approaches to the necessary multiyear perspective exist and can be considered, especially in developing countries. However, in addition to improving the budget process in the short term, such partial approaches should be designed to help build the local capacity needed for eventually introducing more comprehensive multiyear expenditure programming.

The main points relevant to a comprehensive multiyear perspective in budgeting were made earlier when discussing budget preparation. The main points relevant to the partial approaches are summarized here. The two main partial approaches to medium-term programming are one that incorporates all government expenditure in a particular sector, and one that incorporates all expenditure in a major expenditure category.

The former approach is comparatively recent, and has become known as the SEP. The key points applicable to multiyear programming are also relevant to SEPs. However, because it covers only one sector, an SEP must be prepared under a stringent financial constraint flowing from the macroeconomic framework. Otherwise, this partial route to a multiyear perspective is likely to introduce a “needs” mentality, with all the problems such a mentality causes for PEM, or merely provide a “pet sector” for aid donors, with ensuing distortions in strategic resource allocation.

The latter approach is normally applied to investments, and has been common in aid-dependent developing countries under the PIP. PIPs emerged in the early 1980s as a reaction to the rigidities of the fixed development plans of the 1970s, and as a means to improve the programming of external aid, most of which is given for investment. PIPs are on a rolling basis and cover a three- to four-year period. When badly prepared and implemented, PIPs become wish lists of projects or shopping lists for donor monies, and can harm the expenditure management process. However, like a good SEP, a well-prepared PIP can improve the process as well as strengthen the recipient country's control over foreign aid. Ideally, a strong PIP should do the following.

- Include only economically sound investment projects that are clearly related to government policy. (For the out-years, the evaluation of projects may be indicative, but projects must always meet the “double sense” criterion of “development sense” and “common sense” before they are included in any form for any year.) Procedures to prevent the birth of “white elephant” projects are especially important.
- Cover all central government investment as well as investments by other public entities that are financed by the central government.
- Stay strictly within the ceilings set by the macroeconomic framework (although, according to the iterative nature of macroeconomic programming, public investment should never be defined as a mere residual derived from the other fiscal and macroeconomic targets).
- Include in the first year only projects for which financing is *certain*.
- Assure that adequate complementary local funding is included in the annual budget. “Counterpart funding” problems are likely in any event, but are a certainty if the aggregate budgetary provision for investment is insufficient.
- Include in the out-years only projects for which a firm decision has been made and financing is highly probable. (In effect, the PIP would then comprise only “ongoing policies,” as recommended for multiyear programming in general.)
- Prevent overreliance on external expertise, and foster systematic improvements in local capacity. This may well be the most important

requirement. External expertise may be needed. However, if the PIP process inadvertently becomes a mechanism for replacing local responsibility with expatriate experts, it will neither improve the budget process nor contribute to local capacity. This risk, of course, exists in aid-dependent countries whether or not they have a PIP process.

Aid management

In aid-dependent developing countries, all three objectives of government expenditure management require that the recipient government and not the donors should “drive” the allocation and use of aid funds—while respecting, of course, the procedural and fiduciary requirements of the donors concerned. Experience worldwide shows that there are several requirements for effective aid management.

- External resources must be integrated with overall resource use, and thus included in the budget.
- There should be one, and only one, aid management entity (preferably in the ministry of finance) covering all external aid, including technical assistance.
- Aid management should be structured along donor lines (e.g., an Asian Development Bank desk, a World Bank desk, etc.) rather than sectoral lines (e.g., a health assistance desk).
- The aid management entity should facilitate, not obstruct, and avoid interfering in ministries’ budget proposals or project selection.

KEY POINTS AND DIRECTIONS OF IMPROVEMENT

Key Points

Although public expenditure management is separate from tax and customs administration, good expenditure management is very difficult without reliable forecasts of revenue as a starting point.

The management of central government expenditure has three key *objectives* and one requirement for sustainability. The three objectives are expenditure control, allocation of resources in conformity with policy priorities, and good operational management. These objectives may be mutually conflicting in the short run but are complementary in the long run, provided that the requirement for sustainability is also met. This

requirement is that the budgeting system must abide by due process and meet the criteria of good governance, including transparency.

Because the budget should be the financial mirror of government policies, its coverage must be comprehensive (including all revenues and expenditure, whether financed locally or through foreign aid, and using the same classification for all expenditure categories), and it must disclose all decisions that have a fiscal impact (e.g., loans) or carry a fiscal risk (e.g., loan guarantees).

The *preparation of the budget* should start with a top-down approach, whereby a medium-term macroeconomic framework allows the definition of the initial spending ceilings—both for overall expenditure and expenditure for each sector. Next is a bottom-up stage, in which the ministries and agencies formulate their spending programs consistent with both the policy priorities and the spending ceilings. The budget is then finalized through a process of iteration and negotiation between the ministry of finance and the spending agencies. Without a hard spending ceiling to begin the process, the budget preparation turns into a list of sectoral needs, which are then difficult to reconcile with overall available resources. But, conversely, without iteration and negotiation to ensure overall consistency between aims and availability, overall fiscal discipline may be achieved at the cost of good sectoral allocation and sound operational management.

It is also important to frame the annual budget within a multiyear perspective, both because expenditure flexibility is very limited on a year-by-year basis while changes in policies require significant reallocation of resources, and because of the need to assess the future costs of today's decisions (especially public investment decisions). Partial multiyear approaches may be useful in moving toward a comprehensive multiyear perspective (MTEF). An SEP is a multiyear program comprising all expenditure for one sector; a PIP is a multiyear program comprising one category of expenditure for all sectors.

Good *budget execution* begins with good budget preparation, but entails more than just assuring compliance of actual spending with the budgeted amounts. There must be mechanisms to adapt to intervening changes, and to achieve a balance between external control and operational flexibility needed by managers. In particular, among other things, budget funds should be released on time and in predictable amounts; transfers between budget items, and some carryover of expenditure to the following year should be

permitted but clearly regulated; and internal controls on commitments and verification should be complemented by a strong monitoring and audit system.

Among the *accounting* systems, cash accounting is the simplest, and is adequate for expenditure control; accrual accounting is the most comprehensive, and the most demanding to implement. Most countries find it appropriate to use *modified accrual accounting*, which covers, in addition to cash, liabilities and financial assets. Whatever the basis of accounting, good, clear, transparent, and reliable bookkeeping and reporting are a must.

Without strong external *audit*, the expenditure management cycle is incomplete and risky. An independent audit entity, external to the executive branch, is essential, and should be well staffed and with complete access to requisite information. However, its effectiveness depends on good management controls and internal audit within the spending entities themselves. Operational effectiveness and integrity cannot be achieved only by external scrutiny. Also, before expending resources and staff on audits of performance and efficiency, the basic audits of compliance and financial integrity must be strong and effective.

Directions of Improvement

The approach to improving central government budgeting should be pragmatic, providing a menu of options rather than single “best-practice” models. However, certain principles are universal:

- making sure that changes in PEM strengthen the four pillars of governance (accountability, transparency, predictability, and participation);
- using improvements in public expenditure management partly to reduce opportunities for corruption, both home-grown and imported;
- paying attention not only to fiscal discipline, but also to strategic resource allocation, good operational management, and due process; and
- stretching the horizon of budgeting beyond the immediate future, through a concrete multiyear approach, when feasible, but at a minimum at the level of systematic reflection and dialogue.

In addition to these general principles, experience suggests three practical rules for assessing the merits of recommendations to improve expenditure management in the specific country context.

- Getting the basics right is a must for the process of spending the people's money, especially in poor countries where the people can least afford costly experiments. In the words of the Conference on Fiscal Policy and Reform (2–4 February 1999, Apia, Samoa), “fundamental elements of budgeting preparation, implementation, and monitoring that permit effective control, promote transparency, foster accountability, and ensure legitimacy need to be firmly in place before highly sophisticated concepts of budget management...[are] introduced.”
- Any measure to improve public expenditure management in developing countries must raise the country's own capacity to manage its public expenditure. An improvement in public expenditure management designed and implemented primarily by expatriate specialists is no improvement at all; quite the contrary, it may even worsen matters. Neither can improvements last if they are imposed top-down by the central agency with little involvement or implementation capacity of the sector ministries.
- Assess the record of actual success or failure of the measure being recommended by independently obtaining feedback from other countries that have experimented with it.

On *budget preparation*, priority actions are a reasonably comprehensive budget coverage, disclosure of policies that have an immediate or future fiscal impact (e.g., contingent liabilities), and a good expenditure classification. In addition, efficient line-item cash budgeting must be established on a solid basis before considering a move to other budgeting systems.

Hard financial constraints, flowing from a consistent macroeconomic framework, are essential at the start of the budget preparation process, to give the line ministries the predictability needed to design their expenditure programs, in conformity with government sector policy. Good operational management requires that line ministries be accountable for implementing their programs, but they can be held accountable only if they have sufficient authority to design those programs.

To move toward a *multiyear budgeting perspective*, the first priority is to prepare aggregate expenditure estimates by function and broad economic category, and review the forward costs of programs when preparing the

budget. As the next stage, multiyear expenditure programs can be prepared, including only programs/projects for which financing is assured—thus focusing only on ongoing policies. As a final stage, a formal and detailed medium-term expenditure framework can be prepared, with the same coverage and degree of detail as the annual budget. To achieve this final goal, a progressive approach can be considered. Aid-dependent countries should first prepare a strong and realistic public investment program (consistent with available resources and without “white elephant” projects). Other countries could focus on other costly expenditure items, e.g., pensions and other entitlements. In addition, preparing a full sector expenditure program for one or two key sectors can yield useful experience in multiyear programming.

Improvements in *budget execution* generally entail enhanced expenditure control, more efficient spending, and better cash management. Improved expenditure control results mainly from timely and predictable release of funds; effective controls and monitoring at each stage of the expenditure cycle (commitment, verification, and payment); clear procedures for registering commitments; and, of course, sound and well-enforced procedures for procurement (discussed later). Improvements in efficiency call for flexible rules for virements; some possibility for carry-over of authorized spending to the next year; and progressive decentralization of controls, but in parallel with a reinforcement of audit and financial reporting. Finally, priority actions for better cash management include a realistic cash plan consistent with the budgeted expenditure; centralization of cash balances (not necessarily of actual payments); and timely tracking of government borrowings and repayments.

In *audit*, efficiency (value-for-money) audits may be considered only after a strong financial and compliance audit is clearly established, and all resources should be concentrated on that basic priority. Similarly, in *accounting* the priority is on establishing a solid cash accounting basis and consolidating the operations of extrabudgetary funds—complemented, however, by a commitment register, accrual accounting for debt, and the recording of contingent liabilities. Further improvements could include modified accrual accounting and the formulation of asset registers—at least for the more valuable assets at risk. A move to full accrual accounting should not be considered until the previous steps are firmly in place (except for public sector activities, where accrual accounting is essential). Finally, *performance orientation* in budgeting can be fostered in several ways other than the formal introduction of quantitative performance indicators or performance budgeting, as explained later.

NOTES

- ¹ As Chapter 1 explains in detail, efficiency relates to the concrete results of government activity, while effectiveness relates to achieving the intended purposes of those activities.
- ² In this book, we do not address the complex question of how the people's preference can be ascertained. We do underline, however, the bureaucratic as well as inherently political nature of the process of allocating public monies to various users and beneficiaries. Indeed, Kenneth Arrow proved mathematically almost 40 years ago the "impossibility" of aggregating individual preferences into a single social preference function that is stable, consistent with economic efficiency, and not dependent on coercion. See Arrow and Scitovsky (1969). Other contributions, known collectively as "public choice theory," look at the budget as being determined by a market-type medium, whereby "rational individuals converge in an effort to maximize their own satisfaction" (Petrei 1998).
- ³ These are often called levels (by Campos and Pradhan [1995], among others). However, the term can easily be misinterpreted as implying a logical sequence or a hierarchy among the three.
- ⁴ The latter two objectives of strategic resource allocation and good operational management are easily recognizable in the distinction traditionally made in economics between allocative efficiency and efficiency of use.
- ⁵ Petrei (1998, p. 338) concludes that in Latin America, "pressure to spend less has led to better spending in many cases, but in many others it has led to the opposite result."

Chapter 8

Managing Local Government Expenditure and Fiscal Decentralization

So long as we do not ensure that expenditure of money upon local objects conforms with the needs and wishes of the locality, invest it with adequate power and assign to it appropriate finances, we will never be able to evoke local interest and excite local initiative.

—Balwantray Mehta, 1959

DISTRIBUTION OF FISCAL RESPONSIBILITIES BETWEEN CENTRAL AND LOCAL GOVERNMENT

As mentioned in Chapter 7, each government level (central, provincial, municipal, etc.) should have its own budget, enacted according to constitutional provisions or law. However, there are strong links between the budget of the central government and the budgets of subnational governments that require particular attention.

“Fiscal Federalism”: Key Issues

The degree of devolution, assignment of expenditures, and revenue arrangements should be tailored to the country context and depend on policy and political issues, as has been pointed out earlier. However, certain key principles should govern these arrangements in any country. Chapter 5 explained the efficiency approach to decentralization. It is embodied in Oates’ decentralization theorem, which states that each public service should be provided by the jurisdiction that controls the smallest geographic area that would internalize the benefits and costs of such provision. This is a pretty tough test to devise and meet in practice. The European Union has adopted a more operational approach in the principle of subsidiarity for assigning responsibilities among its members. According to this principle, taxing, spending, and regulatory functions should be exercised by lower

levels of government unless a convincing case can be made for assigning them to higher levels of government.

The literature on fiscal federalism discusses the complexity of decentralization and gives hypothetical and real-life examples of expenditure assignments (Box 8.1).¹ The need for increased fiscal decentralization is generally admitted. Many observers, however, stress the risk of loss of expenditure control, increased corruption, and inefficiencies in resource allocation that would result from hasty fiscal decentralization, even when theoretically justified.²

Box 8.1

Fiscal Management in Federal Systems

In the 1980s, Argentina and Brazil faced similar problems, with subnational deficits added to excess public deficits and high inflation. In the 1990s, both countries continued with fiscal decentralization and with the struggle to bring about macroeconomic stability. Argentina had greater success, partly because it imposed a harder budget constraint on the public sector at the national level and had stronger party control of the subnational governments and of the national legislators. For restraining local and state borrowings, getting the right incentives for subnational governments and particularly for its creditors in Argentina proved more effective than central government rules in Brazil.

In the People's Republic of China, the implementation of the Budget Law in 1994 strengthened the basis for fiscal operations. Central approval of local budgets was abolished and budgetary procedures were clarified, requiring the local and central budgets to be formulated in a consistent macroeconomic framework. Local governments were disallowed from financing any deficits through bond issues, bank borrowing, or grants from the central government. They were required to run balanced budgets or to use accumulated budgetary surpluses and extrabudgetary funds to finance deficits.

Sources: Dillinger, W. and S. Webb. 1999. Fiscal Management in Federal Democracies: Argentina and Brazil. World Bank; Ahmad, E., G. Quiang, and V. Tanzi, eds. 1995. Reforming China's Public Finances. International Monetary Fund (IMF).

Broad Principles of National-Local Financial Interaction

Whatever the degree of devolution appropriate to the country, the legal framework that governs the relationships between the central and local governments and the arrangements for budgeting must be clear and

efficient. However, it is impossible to provide for every situation in a codified law or contract. Conflict resolution mechanisms are therefore important to assure smooth intergovernmental fiscal relations. Such mechanisms can operate through specialized bodies. In Australia, India, and Sri Lanka, for example, a finance commission deals with financial relationships between the central government and the other levels of the government; in Germany, a second chamber of Parliament with state representation contributes to intergovernmental policy coordination; and specialized sectoral coordination councils are common in many countries.

The following principles are required for transparency and efficiency of national-local interaction.

- Each level of government should have clearly assigned responsibilities, regardless of what responsibilities are assigned to government as a whole (Box 8.2). Overlaps should generally be avoided, and long concurrent lists of shared responsibilities are particularly ambiguous.
- Fiscal and revenue-sharing arrangements between the central and local governments should be stable. They may be amended from time to time, but renewed bargaining each year should be avoided at all costs.
- Subnational governments need to have a sound estimate of these resources before preparing their budgets. In some countries (e.g., the Ukraine in 1996–1997), local governments had to wait for the draft budget of the central government to be finalized before preparing their own budgets. Such lack of predictability hampers both efficiency and fiscal control at the local level. Without an indication of the amount of resources to be transferred to them, subnational governments cannot program their expenditures. Accordingly, forecasts of revenues should be transmitted to local governments as soon as they are set, and estimates of grants to local governments need to be prepared early in the budget process of the central government.
- Incentives for increased efficiency are needed. Often, the central government reduces transfers to subnational governments when they make economies in spending or improve their own tax collection. This evidently does not stimulate them to seek economies in service delivery or improve tax collection. Subnational governments must be allowed to benefit from savings they make, at least in large part.

The same argument applies with respect to the commercial revenue of state agencies.

- It could be desirable to agree on multiyear contracts between the central government and local governments covering both expenditure assignments and revenue arrangements (tax sharing, grants, etc.). These contracts could, if appropriate, include performance criteria, minimum standards for services rendered by local government, etc. They would define relationships in a transparent manner and would ensure predictability. As with any other contract, of course, the utility of this arrangement would depend largely on how well it is monitored and respected.
- National law should provide standard accounting and budgeting rules for subnational governments.

Box 8.2

Defining Expenditure Assignments of the People's Republic of China

To date, the People's Republic of China (PRC) has failed to work out a law that clearly defines expenditure responsibilities for different levels of government. Expenditure assignments are murky and often motivated by political expediency, shift between levels of government in ad hoc ways. The central government may shift its own expenditure responsibilities to provincial governments in times of difficulty and provincial governments may use their broader responsibilities to bargain for a larger share of revenue. Intergovernmental bargaining has weakened budgetary planning and control and contributed to the instability of the PRC's fiscal system. Without first deciding on expenditure assignment, the PRC authorities have found it difficult to reform tax assignment rules and revenue-sharing mechanisms between the central and provincial governments.

Expenditure assignments between the provincial government and lower-level authorities, such as municipalities and counties, are even more vague. Local governments are often forced to take the responsibility that should belong to higher-level government, accentuating the mismatch between local revenue and local expenditure responsibility. Unspecific and unpredictable, the system of expenditure assignments has created budgetary uncertainty for the central government and made fiscal planning an impossible task for provincial and local authorities, thus adversely affecting the quantity and quality of the public goods and services they supply.

Source: Ahmad, Qiang, and Tanzi, eds. 1995. Reforming China's Finances. Washington, DC: International Monitoring Fund.

For expenditure control and strategic allocation of resources

- Fiscal targets should cover the *general* government.
- Revenue assignment should be fully consistent with expenditure assignment, and sufficient resources should be assigned to subnational governments to allow them to fulfill their duties. When new duties or responsibilities are transferred to subnational governments, compensatory measures should be provided on the revenue side. On the other hand, of course, if some duties or responsibilities are removed, transfers to subnational government should be correspondingly reduced.
- Dumping of the fiscal deficit should not be permitted (defining fiscal targets for general government helps avoid this problem). When balancing its budget, the central government should avoid passing its financial problems to subnational governments through cuts in intergovernmental transfers or increased expenditure assignments, without compensatory measures. To do so would neither change the aggregate borrowing requirements of the general government, nor generate arrears.
- Special mechanisms are needed to control local government borrowing (see Box 8.3 for arrangements in various countries).
- In case of local government budget overruns or accumulation of arrears, the law should stipulate sanctions or emergency measures. For example, local authorities could be forced to cut expenditures or raise taxes, or local budgets could be placed under the authority of the central government for a limited time until the situation stabilizes. An exception should be explicitly provided for instances when the overrun or arrears are directly related to a dumping of central fiscal problems, as mentioned above.
- A sound reporting and accounting system is critical. Subnational government financial operations should be consolidated with central government operations. Systems for budget execution, internal control, and audit for subnational governments should be similar to those of the central government. This leads back to the central question of local government administrative capacity, and hence the issue of the desirable degree of decentralization.

Box 8.3

Arrangements for Controlling Borrowing by Subnational Governments

Country	Control Provisions
Argentina	The provinces may contract debt both internally and externally. The Central Bank oversees the impact on the financial system, and the Ministry of the Economy oversees maximum external interest rates.
Australia	The Australian Debt Council determines the total public debt and the distribution between the different government levels, but in practice market mechanisms operate.
Brazil	The Federal Senate sets overall limits on the amount of debt that states, the federal district, and the municipalities can contract, and establishes the rules and conditions for their external and internal credit operations.
Canada	No formal restrictions. Market mechanisms are in place.
Chile	Municipalities and state-owned enterprises can contract loans for special projects. But this requires a law that must also indicate how the loan is to be repaid.
Colombia	According to constitutional regulations, a local government may not borrow more than it can repay. There is a law that establishes graduated authorization procedures according to debt levels.
Mexico	The states may not in any case, directly or indirectly, contract obligations or loans with foreign governments, companies, or private parties, or loans that must be repaid in foreign currency. States and municipalities may contract loans only for productive public investments.
New Zealand	Generally speaking, local governments must finance current expenditures with revenues for the same year.
Sweden	A balanced budget is required. Local and municipal governments are responsible for their own debt.
United Kingdom	A balanced budget is required.
United States	All local governments must have a balanced budget. Most states have either a constitutional or a statutory requirement for a balanced budget.
Venezuela	Local and municipal entities may not contract loans without the authorization of federal authorities.

Sources: Ter-Minassian, ed. (1997); Petrei (1998).

- Consolidating the expenditure of the different levels of government is necessary also for policy analysis, especially in decentralized systems and federal countries. It would be very difficult to know what is being spent on key sectors if only the accounts of the central government were considered. For the purpose of consolidation, local and central governments should have a common functional and economic classification of expenditures.

FISCAL DECENTRALIZATION: BENEFITS AND PROBLEMS

Prerequisites for Fiscal Decentralization

Some key conditions must be in place for fiscal decentralization.

- Related to political decentralization, a subnational government entity should be responsible to the local population in some appropriate fashion (normally through elections).
- Chief local executives should be elected or appointed directly or indirectly by such a local government entity. It is difficult for the local government to implement its own programs if local executives are appointed or seconded by governments at a higher level, as is the case in many developing countries (Chapter 5).
- Local government must have some taxing powers of its own to have effective control over its budget. If all local government revenues are in the form of fiscal transfers from the central government, it is actually the central government that decides the local budget, impairing the essence of fiscal decentralization.
- Local governments must have adequate tax administration capacity. Poor tax collection defeats the advantage of having some revenue-raising powers.
- Local governments must have some degree of autonomy in determining their service levels before they can be made accountable for delivering services that are important to the local citizens.

Potential Benefits of Fiscal Decentralization³

Efficiency

Fiscal decentralization can increase service efficiency and people's economic welfare, as local governments can better suit the differing tastes and preferences of residents and are more responsive to the public. More efficient services will be provided, since people can hold local officials accountable for service delivery at some acceptable quantity, price, and quality.

Revenue mobilization

A decentralized tax structure may lead to more effective tax administration and hence, with the same overall tax rates, greater revenue. Central governments typically exclude potential small taxpayers from the tax net because of the administrative difficulties associated with identifying them, and because the revenue gains are relatively small compared with the administrative costs of collection. Local governments, being closer to the people, may reach the lost potential revenues through some kind of user charges and other minor taxes. This is particularly applicable to subnational governments in transitional economies where small private business is a rapidly growing sector.

Resource allocation and equity

Because local government is closer to the users, it is in a better position to decide on appropriate user charges for some services and administer the system, thus improving the allocation of resources and fostering economic growth, while tailoring charges to ability to pay.

Potential Costs of Fiscal Decentralization

The potential costs are an almost exact mirror image of the potential benefit argument. One of the other argument will be valid, depending on the specific country conditions and time.

Efficiency

The converse of the efficiency case for decentralization argues that fiscal decentralization can worsen efficiency when local bureaucracies are

unresponsive, technically and managerially deficient, and poorly motivated—as they are in many developing countries and several developed countries. Also, the assumption that people express their preferences through their votes is not always valid, considering local allegiances in many developing countries that reflect economic dependence, political loyalties, religious affiliation, cultural identities, etc., rather than public tastes and preferences for certain services and government efficiency.

Poor resource mobilization

The same negative effect on tax administration and resource allocation can occur when local capacity is limited. And local government may be more vulnerable to “capture” by powerful local elites. Any revenue gained by expanding the tax base to include small taxpayers can be more than offset by the loss of revenue from underpayment of tax by wealthy people.

Regional inequality

Fiscal decentralization fosters regional inequalities and may lead to unequal treatment of individuals, where persons or households with the same income but residing in different localities are treated differently because of dissimilar tax and expenditure policies of local governments. In decentralized allocation of public goods and services, taxes are collected and expenditures undertaken differently in different jurisdictions. Fiscal decentralization may heighten regional inequalities. Rich regions, with higher income from their larger tax bases, can lower tax rates and provide better public goods and services. The lower tax rates may induce mobile persons to settle in rich jurisdictions, further enlarging their tax bases and concentrating activities and growth in a few cities and localities; and the better public services (especially in education and health) will provide a continuing advantage for human capital formation, growth, and competitiveness. Thus, rich regions become richer and poor regions become poorer.

Resource allocation

Local governments may be unable to build to proper standards and adequately maintain infrastructure and services, primarily because of poor technical and managerial capacity. The case of Tunisia is instructive (Box 8.4). This resource allocation argument against fiscal decentralization is generally the weakest, however. (See Chapter 5 for a discussion of vertical coordination among different levels of government.)

Box 8.4
Decentralization in Tunisia: A Case Study

Until 1974, local governments in Tunisia were responsible for the collection and treatment of used water. However, the quantity and quality of the service were bad. For one, local governments had very little technical expertise. A survey of people employed in the sector revealed that only 4 percent of the total workforce had any skills related to sewerage. Local governments kept no accounting information on service costs and no form of cost recovery was available.

Moreover, most local governments did not invest in the necessary equipment and technology useful for the sector. In 1970, only 20 out of 150 municipalities reportedly had some form of treatment plants, and all of these were overloaded and malfunctioning. Many sewer systems were also either poorly designed or poorly maintained. Manholes, grit traps, and other sewer accessories were out of service. Of the 27 sample lift stations inspected in 1974, only five were functioning.

The implications were serious. The Lake of Tunis, into which used and poorly treated water was discharged, was rapidly deteriorating. Infectious and parasitic diseases such as cholera therefore became prevalent.

Instead of helping local governments improve their systems, the central government of Tunisia decided to take over the provision of service from the local governments. In 1974, the Office National de l'Assainissement (ONAS), a specialized semiautonomous agency, was created and was given a monopoly over the service. ONAS' management was autonomous, it was appropriately staffed, and sound financial procedures were instituted. At first, ONAS operated only in the Tunis metropolitan area, then it gradually covered all other major urban centers of the country. In other parts of Tunisia, municipalities that had their own system continued to operate them but were later integrated into ONAS' operations.

With the help of foreign institutions such as the World Bank, ONAS developed into an effective and efficient institution. By 1987, many of its staff had become competent technical professionals and had replaced the foreign assistants who had been temporarily hired. Service costs had been recovered and the level of sewerage services had increased significantly. By 1988, ONAS was providing full sewerage services to the 30 largest cities, comprising about 50 percent of the urban population of Tunisia.

Most reports consider the centralization of the Tunisian sewerage system a success in terms of production or supply efficiency. Although the financial and technical assistance of foreign institutions and donor agencies may be a big factor in this success, it is also true that the resources for improving the system would have been more difficult to mobilize in a decentralized system. Also, it would have been more difficult and costly to train personnel and improve the financial and accounting procedures of 30 municipalities instead of a single institution.

Source: Prud'homme (1994).

Implementing Fiscal Decentralization

Given the various options for decentralizing expenditure and revenue assignments, problems arise as to their implementation. The major ones are fiscal gaps and fiscal inequities. They are summarized below and discussed in detail in the next two major sections.

Fiscal gaps (vertical imbalances) are the result of inconsistent tax and expenditure assignments. Most major taxes are typically assigned to the central government, resulting in a fiscal gap for local governments with growing spending responsibilities. As argued earlier, the central government is also often tempted to adjust to fiscal difficulties by downloading expenditure responsibilities to local levels without the resources required to carry them out. The mismatch of expenditure and revenue assignments that leads to vertical imbalances also leads to fiscal inefficiency, as differences in levels of services between regions caused by differential fiscal gaps can distort business and investment decisions.

Fiscal inequities (horizontal imbalances) among subnational governments arise from revenue differences between local governments with different tax bases, different technical and administrative capabilities to collect taxes, or different costs and demand for local public services. A grant system may be used to equalize fiscal capacities among subnational governments so that citizens residing anywhere in a country will receive the same level of basic service (see below).

Normally, subnational governments will not have the incentive to provide services whose benefits extend beyond their boundaries, and will therefore tend to underprovide these services. Fiscal transfers can supplement incentives for subnational governments. However, in practice, the extent of spillovers is difficult to gauge, so the matching between transfers and the spillover rate will be somewhat arbitrary.

VERTICAL IMBALANCE: EXPENDITURE AND TAX ASSIGNMENT

Expenditure Assignment⁴

Chapter 5 discusses the principles governing the decision on which level of government should provide a particular public service. Generally, the main guiding principle is to assign each type of expenditure responsibility

to the level of government that would benefit only the residents that it represents. On the basis of this general principle of local benefit, purely local expenditure responsibilities should include water, sewer, waste, and fire protection services, while central expenditures should be those whose benefits extend nationwide. However, this principle is far easier to state than to apply. Most public goods and services do not fit neatly within either category. There are services whose delivery can be shared by the central and local governments, such as those with unclear benefit regions, externalities, or national redistributive implications. In such cases, different aspects of delivery of the same service—policy, financing, and actual administration—may be assigned to different levels of government.

The lack of guidelines for sharing responsibility for delivering a particular service (especially when it comes to social spending) has led to diverse practices in various countries. For example, pensions and unemployment benefits are generally a function of central government, but in the United States (US) they are provided by the state governments. The administration of social assistance is a function of local governments in a number of countries, but it is a function of central governments in others.

Public services can be assigned to local or regional governments based on considerations such as economies of scale, cost-benefit spillovers, proximity to beneficiaries, consumer preferences, and flexibility in choosing the composition of budgets for public spending. Generally, the following types of services are the responsibility of central government:

- services that are not differentiated by local demand, such as defense, justice, or international affairs;
- services that would benefit many jurisdictions and can be handled only by contracting or by grant design, such as public transport or air and water quality; and
- services whose local administrative costs significantly outweigh the local benefits, such as income tax collection.⁵

Note, however, that these services may still be administered locally even if the central government makes the policy and provides financing.

Tax Assignment

Revenue sharing

The tax assignment approach entails that subnational governments (i) choose the tax base, (ii) assess the tax base, (iii) decide the tax rate, (iv) collect the tax, and (v) retain the tax proceeds. Rarely are all these conditions met. Some local taxes might be really central grants to local governments, or a central tax and a related transfer program may actually be a local tax. For a tax to be truly local, subnational governments must have the power to both decide on the tax rate and receive the proceeds. Normally, the types of taxes assigned to local jurisdictions depend partly on the overall mix of taxes in the country as a whole.

It is generally recognized that assigning all or most taxing powers to subnational governments with upward revenue sharing is not advisable, since such an arrangement does not allow the central government to perform its redistributive and macroeconomic management roles. The arrangement is, however, carried out in a few countries like the People's Republic of China. Upward revenue sharing is also considered viable in loose confederations where stabilization and redistribution policies lie with the member states, as well as in countries where subnational jurisdictions have homogenous economic conditions and close tax policy coordination and harmonization. Examples are Germany and, of course, the member-states of the European Union.

On the other hand, assigning all taxing powers to the central government and relying entirely on downward transfers to local government is equally undesirable. The arrangement inhibits local governments from matching spending authority with revenue-raising power, hence reducing their fiscal accountability.

Some countries completely separate the tax bases for each level of subnational government, while others allow certain overlaps (Boxes 8.5 and 8.6). Tiers of government in Australia, India, and Germany, for example, have separate tax bases, while Canada and the US have a certain degree of overlap in their tax bases.

Box 8.5**Peculiarity of Local Financing in Transitional Economies**

Transitional economies, in many ways, may be considered less decentralized than most countries. However, recent developments show that fiscal decentralization is on the way. Typically, their approach to local financing is revenue sharing on a derivation basis. The system may be considered somewhat decentralized, since local governments decide how they will spend their respective shares.

There are indications that transitional economies are moving toward the revenue assignment approach. For example, although the central government of the People's Republic of China determines all tax rates and bases, subnational governments collect the revenues from all income taxes and earmark a piggyback on the value added tax for local use. Russia allows its regional governments the option of levying the company income tax at a lower or higher rate.

One peculiar feature of decentralization in transitional countries is the backdoor approach to local government financing. Local governments in these countries, constrained by the limited transfers they receive to finance large expenditure responsibilities, resort to extrabudgetary financing. This can easily be done since local governments, which are responsible for tax collection, still have ties with the enterprises and can therefore exonerate them from taxes. Hence, local governments are able to hive off resources from the sharing pool, resulting in greater retention of revenues at the local level.

Sources: Bahl (1998); Wong (1999).

Revenue sharing can be on a (i) derivation basis, where sharing is based on the source of tax proceeds; (ii) grant basis, where the central government distributes the revenues to all subnational governments based on a formula or the cost of collecting the tax; or (iii) piggyback system, where subnational governments are allowed to add a rate onto the central tax and receive the full amount raised from the piggyback.

Most revenue sharing is made on derivation basis. One problem with revenue sharing, especially when different shares are established for different taxes, is that it gives the administering government the incentive to place more effort on collecting those taxes that will give it the most benefits. This has been the case in the People's Republic of China (PRC), India, and Russia. Creating a pool from which shared revenues can be distributed on a formula basis would avoid this complication. However, formula-based revenue sharing is problematic from the viewpoint of macroeconomic management.

Several criteria for tax assignment

In decentralized tax systems, tax policies must be coordinated between jurisdictions to avoid distortion in the free movement of economic resources (labor, capital, goods, and services) from one region to another, and prevent mobile taxable goods and services (such as capital) from migrating to attractive regions with low tax rates. Such migration would cause jurisdictions to compete with one another through lower taxes or other inducements, and thus create an inefficient and opaque fiscal system in the aggregate.

There should also be rules for allocating tax revenues among jurisdictions to avoid double taxation or no taxation at all. As noted, where the tax bases are relatively mobile, decentralized tax assignment opens opportunities for tax avoidance and evasion.

Taxes assigned to central government should

- *cover mobile tax bases* to avoid movements of factors of production and interjurisdictional tax competition;
- *be sensitive to changes in income* to provide the central government with stabilization instruments and to partly shelter the budgets of subnational governments from cyclical fluctuations; and
- *cover tax bases that are unevenly distributed across regions*. Taxes on natural resources are an example. In this case, however, since the exploitation of the environment will affect the local government concerned, the tax base should therefore be shared between the central and the local government.

Correspondingly, local taxes require

- a relatively immobile tax base;
- an adequate tax yield to meet local needs and the buoyancy to grow at least at the same rate as expenditures;
- a stable and predictable tax yield over time;
- relatively easy administration; and
- a nonexportable tax burden on nonresidents

Table 8.1 shows salient characteristics of four main groups of revenue sources to guide the choice of local taxes. The criteria refer to the above characteristics of an ideal local tax: *mobility* refers to the mobility of the tax base; *adequacy*, *buoyancy*, and *stability* refer to the tax revenues; *fairness*

refers to the conventional notion of tax progressivity; and *administration* refers to the ease with which the tax is administered at locally determined rates.

A Menu of Revenue Instruments

The following considerations apply to the major kinds of taxes. Table 8.2 provides the conceptual basis for tax assignment.

Box 8.6
Fiscal Federalism in the United States

The United States provides a good example of how the revenue assignment system can work. The Constitution allows the states to perform all functions that are not expressly reserved to the Federal Government and do not violate the Constitution, and to levy any tax that does not restrict interstate commerce. For their part, most states have a self-imposed balanced-budget constraint, and determine the rights and powers of their constituent local levels of government. Federal grants, mainly for externalities and equalization, account for about 20 percent of state and local government expenditures.

Table 8.1
Local Taxes

Criteria	Property Tax	Income Tax	Sales Tax	Business Tax
Mobility	+	-	-	-
Adequacy	-	+	-	?
Buoyancy	-	+	+	+
Stability	+	-	-	-
Exportability	+/-	+/-	+	-
Visibility	+	+	+	-
Fairness	+	+	?	-
Acceptability	-	-	?	+
Administration	?	+	?	+

+ good

- bad

+/- good to the extent that it falls on residents; bad to the extent that it falls on nonresidents

? indeterminate

Source: Bird (1995).

Table 8.2
Conceptual Bases of Tax Assignment

Type of Tax	Deter- mination of Base	Rate Setting and Collection	Adminis- tration	Comments
Customs Tax	F	F	F	International trade taxes
Corporate Income Tax	F, U	F, U	F, U	
Resource Tax	F	F	F	Very unequally distributed tax bases
Resource Rent (profits/income) Tax	F	F	F	
Royalties, Fees, Charges; Severance Tax;	S, L	S, L	S, L	Benefit taxes/charges for state-local services
Production, Output, and Property Tax	S, L	S, L	S, L	
Conservation Charges	S, L	S, L	S, L	To preserve local environment
Personal Income Tax	F	F, S, L	F	Redistributive, mobile factor, stabilization tool
Wealth Tax (tax on capital, wealth, wealth transfers, inheritance, and bequests)	F	F, S	F	Redistributive
Payroll Tax	F, S	F, S	F, S	Benefit charge, e.g., social security coverage
Multistage Sales Tax (value-added tax [VAT])	F	F	F	Border tax adjustments possible under federal assignment; potential stabilization tool
Single-Stage Sales Tax (manufacturers/wholesale/retail)				
Option A	S	S, L	S, L	Higher compliance cost
Option B	F	S	F	Harmonized, lower compliance cost

continued on next page

Table 8.2 (cont'd.)

Type of Tax	Deter- mination of Base	Rate Setting and Collection	Adminis- tration	Comments
"Sin" Tax				
Excise Tax on Alcohol and Tobacco	F, S	F, S	F, S	Health care a shared responsibility
Betting, Gambling Tax	S, L	S, L	S, L	State and local responsibility
Lottery Tax	S, L	S, L	S, L	State and local responsibility
Racetrack Tax	S, L	S, L	S, L	State and local responsibility
Taxation of "Bads"	F	F	F	To combat global/national pollution
Carbon Tax				
BTU Tax	F, S, L	F, S, L	F, S, L	Pollution impact may be national, regional, or local
Motor Fuel Tax	F, S, L	F, S, L	F, S, L	Tolls on federal/provincial/local roads
Effluent Charge	F, S, L	F, S, L	F, S, L	To deal with interstate, intermunicipal, or local pollution issues
Congestion Toll	F, S, L	F, S, L	F, S, L	Tolls on federal/provincial/local roads
Parking Fee	L	L	L	To control local congestion
Motor Vehicle Tax				
Registration, Transfer Tax, and Annual Fee	S	S	S	State responsibility
Driver's Licenses and Fee	S	S	S	State responsibility
Business Tax	S	S	S	Benefit tax

continued on next page

Table 8.2 (cont'd.)

Type of Tax	Deter- mination of Base	Rate Setting and Collection	Adminis- tration	Comments
Excise Tax	S, L	S, L	S, L	Residence-based tax
Property Tax	S	L	L	Completely immobile factor, benefit tax
Land Tax	S	L	L	Completely immobile factor, benefit tax
Frontage, Betterment Tax	S, L	L	L	Cost recovery
Poll Tax	F, S, L	F, S, L	F, S, L	Payment for local service
User Charges	F, S, L	F, S, L	F, S, L	Payment for services rendered

F = federal; L = municipal or local; S = state or province; U = supranational entity

Source: Shah (1998).

Value-added tax

Local administration of a value-added tax (VAT) is problematic, as each local government could set its own standard tax rates and methods of administration. There are also opportunities for local protectionism by setting higher VAT rates on purchases from outside suppliers. But even if the VAT rate and base structure are determined by central government, VAT proceeds should not be shared between levels of government; otherwise, some resource-rich areas would benefit greatly, while others would collect little net revenue.⁶

Nonetheless, the VAT is a subnational tax in Brazil and some transitional economies (e.g., People's Republic China and Russia) where central and provincial governments share VAT proceeds on a derivation basis. The problems noted above are mitigated because the tax is collected by a central tax service, and (in the People's Republic China, at least) the central government makes up for low yield in exporting to the provinces. Still,

protectionist measures have been taken in some Chinese provinces. In Brazil, the decision to allow VAT as a subnational tax has led to administrative problems and economic distortions. Overall, one useful way to funnel VAT proceeds to subnational governments is for the central government to administer and collect VAT, and earmark a share of it for a distributable pool, to be allocated among the recipient local governments on a formula basis.

Corporate income tax

The corporate income tax must be levied by the central government since it fails all the tests of a good local tax: it imposes high compliance costs, generates incentives for tax avoidance, offers an opportunity to export the tax burden to other regions, and is an uncertain and volatile revenue source. Corporate income taxes are still levied at the subnational government level in many developing and transitional economies and especially in the latter, where this tax base is among the fastest growing. Problems have not yet arisen because businesses tend to operate in a single province, but they will become apparent once businesses begin to operate in more than one province. It would therefore be advisable to begin tax planning in preparation for a smooth shift in company tax administration responsibilities.

Personal income tax

The individual income tax is a popular tax instrument for central government in most countries. The tax is, however, assigned to subnational governments in some countries (the Scandinavian countries, Switzerland, the Baltic countries, Russia, and the other former Soviet Union countries). Assigning personal income tax to subnational governments has advantages and disadvantages.

The personal income tax does meet most of the tests of a good subnational government tax: it is relatively easy to administer, resident-based, buoyant, and has fairly stable yields. However, the personal income tax is related to the redistribution function of a central government and is therefore more appropriately left to the central government. Also, it is the single best instrument of countercyclical fiscal policy.⁷ Finally, because of labor mobility, there is never a perfect correspondence between individuals' residence and the place where they receive their income.⁸

Excise and sales taxes

These are appropriate for subnational government if levied on businesses that operate within local boundaries. Local governments can thus recover the costs of “housing” these industries and public service costs. The tax is, however, not beneficial to local governments if levied against monopolistic industries because there is no correspondence between the tax burdens and expenditure benefits within local boundaries. Retail sales taxes are commonly used by local governments, as the burden falls on the taxing jurisdiction, administration is relatively easy, and revenue yield is significant and grows approximately in proportion to local public expenditure requirements.

Motor vehicle tax

Motor vehicle ownership and use represent an excellent but much neglected tax for urban governments in developing countries. Motor vehicles are easily taxable, and the tax burden falls on persons with higher incomes. All forms of vehicle taxation are likely to improve the distribution of income, and in terms of horizontal equity, most may be considered fair (Box 8.7). Vehicles used for public transport and financing for lower-income people can easily be exempted from such taxes.

Property and land taxes

Residential property taxes are often considered the ideal tax for local governments. Since property owners are the primary beneficiaries of local government services, the tax on *real* property is directly related to their benefits. Also, the tax is better administered by local governments rather than by the central government since it requires identifying each parcel of property and tracking improvements in those properties and changes in ownership. There are problems and limitations, however, when the quality of services is systematically higher in localities with higher property values and hence greater revenue (Box 8.8)

Box 8.7 Tax on Motor Vehicle Ownership

There are different ways of taxing motor vehicle ownership and use. Each of these has advantages and disadvantages for subnational governments.

Restricted area license charges and *parking fees and taxes* are most desirable in terms of economic efficiency: they can be designed to approximate the excess of the social over the private cost of using congested streets without restricting the use of uncongested streets. *Local fuel taxes* and *unrestricted license taxes* can be expected to provide good yield, buoyancy, and stability. *Automotive sales and transfer taxes* are likely to be less effective in revenue performance because of the narrower tax base and the greater likelihood of year-to-year variations in the base. *Fuel taxes* are the easiest to administer and are relatively easy to impose because they are usually hidden in the sales price of the fuel. Road tolls are also likely to be accepted by the public since they are linked to the benefit derived from the use of the roadway. *Local fuel and sales taxes* can overlap substantially with the national taxing authority and require greater coordination with the central government. On the other hand, *license taxes* and *congestion and parking charges* in most cities can normally be imposed without interference from higher-level governments.

Box 8.8 Local Property Taxes

The property tax is undoubtedly the most widespread form of local taxation. Unfortunately, experience suggests that such taxes are not easy to administer, particularly in countries where inflation is endemic (for example, Brazil), and that they are never politically popular owing to their visibility and certain inherent administrative difficulties. Even in the most sophisticated countries, local property taxes can seldom yield enough to finance local services. As noted elsewhere, no developed country that depends significantly upon property taxes for local fiscal resources has a local government sector that accounts for more than 10 percent of total public spending (Bird and Slack 1991). Similarly, property taxes seldom account for more than 20 percent of local current revenues—or less than 1 percent of total public spending—in developing countries. Moreover, despite substantial efforts in some countries and considerable foreign assistance, these figures have not changed (Dillinger 1991). The property tax, it appears, may be a useful, even necessary, source of local revenue, but it is most unlikely to provide sufficient resources to finance a significant expansion of local public services in any country. Indeed, countries have often been hard-pressed even to maintain the present low relative importance of property tax revenues in the face of varying price levels and political difficulties.

continued on next page

Box 8.8 (cont'd.)

A recent study (Dillinger 1991) concludes that a number of conditions must be satisfied for local property taxes to play a more important role in financing local activities. The political costs of relying on the property tax are so high that no government will willingly risk doing so provided it has access to cheaper sources of finance. Intergovernmental transfers, which can be spent as local governments wish (such as access to taxes on business which can largely be exported), must therefore be curtailed not simply to make property taxes more attractive, but more importantly, to confront local decision makers with the true economic and political costs of their decisions.

But even if this structural precondition is met, a number of other policy reforms are needed to turn the property tax into a responsive instrument of local fiscal policy. First, local governments must be allowed to set their own tax rates: very few developing countries give their local governments freedom in this respect. Second, the tax base must be maintained adequately. In countries with inflation, some form of index adjustment is therefore advisable. In other countries, the assessing agency must be provided with direct financial incentives to keep the tax base up to date. Finally, a series of procedural reforms is often needed to improve collection efficiency, valuation accuracy, and the coverage of the potential tax base (Kelly 1994). None of these steps are easy, either politically or, in some instances, in terms of available technical resources. Nonetheless, countries that want to have responsive as well as responsible local governments must follow this hard road. There are no shortcuts to successful local property taxation.

Source: Bird (1995).

Nontax revenues

Local governments may depend more on user and benefit charges, which can be efficient and relatively easy to administer, and can provide significant revenues. In the US, about one sixth of state and local government revenues comes from these sources. In most countries, however, revenues from user and benefit charges remain a distant potential rather than a reality. Often, revenue-generating essential local services are provided at subsidized rates. In the People's Republic of China and Russia, for example, public transit, utilities, and housing are not self-sustaining and, in fact, are part of national wage policy. The same holds true in many developing countries where the poor population is large, and affordability and politics are major problems.

Lottery proceeds are also sometimes a popular way of raising local revenue. Lotteries are easy to administer, and the tax is well hidden from public perception and generally produces no public resistance or resentment. However, lotteries are the most regressive form of taxation, falling almost exclusively on the poor, and should not be considered as an efficient and equitable source of local government revenue, especially in developing countries.

HORIZONTAL IMBALANCE: INTERGOVERNMENTAL FISCAL TRANSFERS

Intergovernmental fiscal transfers are instruments to correct the horizontal or vertical imbalances in the fiscal capacities of different subnational governments. These fiscal transfers can be broadly grouped into revenue-sharing arrangements and grants. Revenue sharing was discussed earlier. Grants can be conditional or unconditional, and open-ended or subject to ceilings. The mix of these transfers depends on the objectives of policymakers.

Policy Options and Conflict

The policy options for countering vertical and horizontal imbalances are

- correct each imbalance separately;
- correct both imbalances in an integrated system of equalization grants;
or
- correct only the vertical imbalance and largely ignore the horizontal imbalance.

In the first policy option, the vertical imbalance can be addressed through tax-sharing or grant arrangements, and the horizontal imbalance through transfer payments from rich to poor regions. This is the approach used in Germany. In the second option, used in Australia and Canada, horizontal and vertical imbalances are addressed simultaneously through a system of grants that includes both equalization payments and special-purpose grants. The last option makes use only of tax-sharing and grant arrangements. However, it can also be matched with special-purpose grants, as is broadly the case in the US, to reduce horizontal imbalance in specific functional areas (Box 8.9).

Box 8.9
Fiscal Transfers: Principles and Practices

Objective	Grant Design	Good Practices	Practices to Avoid
To bridge fiscal gap	<ul style="list-style-type: none"> • Reassigning responsibilities • Tax abatement • Tax sharing 	Tax abatement in Canada and tax base sharing in Brazil, Canada, and Pakistan	<ul style="list-style-type: none"> • Deficit grants • Tax-by-tax sharing as in India
To reduce regional disparities	<ul style="list-style-type: none"> • General nonmatching • Fiscal capacity equalization transfers 	Fiscal equalization programs of Australia, Canada, and Germany	General revenue sharing with multiple factors
To compensate for benefit spillovers	<ul style="list-style-type: none"> • Open-ended matching transfers with matching rate consistent with spillout of benefits 	RSA grant for teaching hospitals	
To set national minimum standards	<ul style="list-style-type: none"> • Conditional nonmatching block transfers with standards of service and access conditions 	<ul style="list-style-type: none"> • Indonesia roads and primary education grants • Chile, Colombia, and South Africa education transfers 	<ul style="list-style-type: none"> • Conditional transfers with conditions on spending alone • Ad hoc grants
To influence local priorities in areas of high national but low local priority	<ul style="list-style-type: none"> • Open-ended matching transfers (preferably with matching rate to vary inversely with fiscal capacity) 	Matching transfers for social assistance as in Canada	<ul style="list-style-type: none"> • Ad hoc grants
To stabilize the economy	<ul style="list-style-type: none"> • Capital grants, provided maintenance is possible 	Limited use of capital grants and encouraging private-sector participation by providing guarantees against political and policy risks	<ul style="list-style-type: none"> • Stabilization grants with no future upkeep requirements

Source: Shah (1998).

Policy objectives in addressing vertical and horizontal imbalances may either agree or conflict with each other. They may include the following:

- ensuring overall fiscal stability for the national economy;
- providing an acceptable degree of equity between individuals in different regions;
- encouraging efficient use of resources across the country; and
- ensuring minimum standards for services provided.

To illustrate these conflicts, when the central government increases income taxes for financial stabilization, it will inevitably reduce the tax bases of local governments and, hence, local revenue. Conversely, reducing central expenditures may raise expenditure needs at the local level. The central government, hoping to raise education standards in a certain region, for example, may opt to provide the local government with larger education grants even if the subnational government has greater revenue than other subnational governments but has invested poorly in education in the past.

Fiscal Transfer Options

The main transfer options may be grouped into two major categories: (i) conditional or specific-purpose transfers and (ii) unconditional transfers. In turn, conditional transfers may be matching grants, requiring a corresponding local contribution; or nonmatching grants for specific purposes. Unconditional grants may take the form of either revenue-sharing arrangements or block grants, general-purpose grants that are in effect budget support for local government. Close-ended distribution refers to grants with caps; open-ended distribution to grants without ceilings. The matrix in Table 8.3 summarizes these options.

Transfers may be given only to poor regions by central governments, or may be organized on a cooperative basis from richer to poorer regions. Both types of distribution can be transparent. Germany uses the latter type of distribution. Other countries will be able to replicate the German system only to the extent that they enjoy the same high degree of political cohesion. Elsewhere, the very visibility of the redistribution criteria may lead to strong political opposition by better-off provinces, particularly when regional ethnic differences are significant. In these cases, equalization transfers from the center to all provinces are preferable and may be politically inevitable.

Table 8.3
Fiscal Transfer Mechanisms

Transfer Mechanism	Mode	Redistribution Criterion
Conditional Transfers	Matching grants	With or without equalization formula, Close- or open-ended
	Nonmatching grants or specific-purpose payments	
	Block grants	
Unconditional Transfers	Revenue-sharing arrangements	With or without equalization formula
	General-purpose grants	Open- or close-ended

Central governments use *conditional grants* to increase influence over local spending, to attain and maintain minimum standards of local services, or to ensure a socially optimal outcome, especially in cases of interjurisdictional spillovers. The extent to which central governments impose conditions on grants varies from one country to another. At one extreme, conditions may be such that subnational governments are reduced to acting as mere agents of the central government; at the other extreme, conditions may be limited to reporting, leaving subnational governments with wide elbow room for local innovation and experimentation.

Matching grants are particularly effective in addressing spillover problems. Matching grants generally alter local spending priorities, as local governments adjust their finances to take the central governments' expenditure preferences into account. Indeed, changing local priorities is an objective of matching grants. These grants however also improve the leverage of local governments with respect to the size of the grant because of the size of their own contribution.

Capital grants specifically finance public investment projects or the delivery of vital public services for subnational governments. They are normally used in countries where the capital markets are not well developed, or where subnational governments do not have the fiscal strength to access such markets directly.

As mentioned earlier, capital needs are normally excluded from consideration in formulating equalization grants because of the difficulties associated with measuring and assessing the relative investment needs of different regions. A prudent approach may consist of using *block grants* or a *general-purpose equalization grant* to finance large infrastructure projects (such as regional airports and irrigation projects), and some recurring investments (such as roads and housing) financed through capital grants, with smaller investments. (See Schiavo-Campo and Tommasi [1999] for an analysis of the process of public investment programming.)

Open-ended grants encourage local governments to internalize identified spillovers and to deliver the required level of services. Of course, such arrangements are dangerous for overall macroeconomic stability, and central governments generally prefer capped grants with absolute monetary ceilings.

Grants may have a built-in redistribution mechanism or simply be distributed on an equal per capita basis. Redistribution mechanisms are usually used for general-purpose transfer systems, but can also be part of conditional grants, as in cases where poorer regions with greater education or health needs receive more grants. However, this approach then requires an overall framework for evaluating whether grants formulated separately can actually achieve the aggregate equalization objective.

One risk with all types of transfers from the central to local government is inducing local government to overspend without a clear link to citizens' preferences—the so-called “flypaper effect”, which describes a situation where the direct link between the taxpayer or voter and the services provided is broken. This is based on an empirical investigation of a number of countries, where revenues shared with local governments tend to “stick” with the latter in the form of higher expenditure rather than being passed on to taxpayers in the form of lower taxes. Hence, overprovision of services is not an explicit manifestation of public choices for those services but only of the greater availability of funds from central government. Empirical estimates suggest that the magnitude of the flypaper effect in some countries is considerable (Ahmad and Craig 1997). Of course, the solution to this problem lies in the hands of the local population and depends on the strength of the accountability mechanisms at local level.

Fiscal Capacity Equalization Transfers

More important than just filling fiscal gaps, fiscal transfer mechanisms should redistribute resources so that all regions will have the same financial capacity to provide the same standard of basic public services, assuming that they exert the same effort to raise incomes from their own sources and operate at an average level of efficiency. In an effort to equalize horizontal differences among subnational jurisdictions, the national government may try to resolve through unconditional equalization systems only regional differences in revenue or tax assignment, as in the case of Canada.

A more complicated formula is needed if both expenditure and revenue differences are simultaneously addressed, as in the case of Australia and Denmark, where the formulation of transfers incorporates the assessment of revenue capacities as well as expenditure needs (Box 8.10). The People's Republic of China introduced an interesting pilot scheme in that direction (Box 8.11).

In formulating such transfers, it is especially important to estimate expenditure needs independently of the actual expenditure of individual subnational governments. Otherwise, the transfers will be merely gap filling, with the obvious risk that recipient local governments will raise their expenditure to receive larger transfers. But such a system should also distribute lump-sum transfers so that even if equalization factors are taken into account, the recipient subnational governments can choose how to spend the money.

Box 8.10

Fostering Interregional Equity through Fiscal Equalization in Australia

Although Australia is a federal country comprising eight states and territories, most taxation power is assigned to the federal (Commonwealth) government, which accounts for almost three fourths of general government revenue. The federal nature of the system is preserved through large-scale intergovernmental fiscal transfers: in 1998–1999, these totaled about US\$20 billion equivalent, about half of which came in the form of unconditional block grants.

The fiscal transfer mechanism is designed to address both vertical and horizontal fiscal imbalances (see text). The vertical imbalance is addressed by transferring enough resources to permit states and local governments to spend almost 50 percent of general government expenditure (while raising about one fourth of revenue). The Australian system also has a mechanism to partly remedy the horizontal fiscal imbalance—differences in revenue capacity among the states—by focusing on equal access for all citizens to certain basic social services.

Until World War II, the annual negotiation between the states and the federal government concerned both the total amount of grants to be allocated and their distribution among the states. This generated a great deal of contention and the zero-sum nature of the allocation system made a national consensus very difficult. In the system introduced since then, the annual negotiation has centered only on the total amount. As soon as that figure is agreed, the allocation among the states follows a formula designed to equalize access to basic social services (thus providing a greater per capita amount to poorer states).

According to the allocation principle, each state is given “the capacity to provide the average standard of state-type public services, assuming it does so at an average level of operational efficiency and makes an average effort to raise revenue from its own sources.” This simple and powerful principle sets all the incentives in the right direction. Because these averages are *assumptions* used in the allocation formula, each state has a positive incentive to raise its revenue effort and its service efficiency above the national average. If it succeeds, it retains the increase in revenue and all the cost savings, and the national averages for the following years are automatically raised, adding a dynamic dimension to the fiscal and efficiency incentives.

In 1997, one of the authors asked the Chairman of the Australian Grants Commission whether the efficiency of the system depended on the relative interregional equality of income evident in Australia. He replied, rightly, “And how do you think it got that way?” Assuring that each citizen has access to quality basic education and health is probably the best single route to remedying both interpersonal and interregional income inequalities in the long term.

Source: Frank Jotzo (to be published); author’s interview with the Grants Commission chairman, January 1997.

Box 8.11
Pilot Equalization Scheme in the People's Republic of China

As a first step toward a formula-driven redistributive system, the People's Republic of China (PRC) introduced in 1995 a pilot transfer payments scheme. It was aimed at solving the urgent problem of meeting payroll in some provinces. Initially, the formula had two parts: an objective factor that attempted to measure the gap between standard expenditures and local fiscal capacity, and a factor for subsidies to regions with large ethnic minority populations. The latter was in line with the PRC policy for improving the welfare of its minorities.

The fiscal shortfall was determined by standard expenses on wages of civil servants, standard administrative expenses, agriculture and other productive expenditures, and other expenditures such as price subsidies. On the other hand, special transfers to provinces with minority regions were determined by the fiscal gap between the minority regions and the national average.

In 1996, another factor was added to the formula to reward the provinces for good tax effort. Tax effort is now measured by provincial tax collection relative to the national average. Generally, the transfers that a province was expected to receive in 1999 would be based on its fiscal gap and tax efforts in 1998.

There is large room for improving the PRC fiscal transfers system. For one, stronger links still need to be established between a province's fiscal need and its transfers. Also, there should be a better means of measuring provincial revenue growth, since it depends on a number of factors other than tax effort. Finally, over the long term, there is a need to measure fiscal needs more appropriately to include factors other than government personnel and costs of government.

For a detailed elaboration of the pilot transfer payments scheme in the PRC, refer to Annex IV of this chapter.

As repeatedly stressed in this book, one should be very skeptical of imported "models" of public administration. However, the Australian fiscal equalization system described in Box 8.11 comes close to the notion of a good "model" to be considered by other countries because it provides positive incentives to the constituent states for fiscal mobilization and for efficiency in basic social services. Moreover, it takes the politics largely out of the contentious issue of geographic allocation of resources. It does so through a mechanism of grants to the states, calculated *as if* each state had average efficiency in local resource mobilization effort and in service provision. States with greater than average efficiency retain all of their higher-than-average revenue or cost savings. This system is

worth considering even in developing countries, particularly those where different ethnic groups are concentrated in different regions. However, because the effectiveness of the system depends largely on solid data about local revenue and unit cost of services, countries must first ensure that such data are available and have wide credibility. Annex III elaborates on an equalization grant system.

Designing Intergovernmental Fiscal Transfers

The following provides pointers (Shah 1994) on designing fiscal transfers. Some criteria may conflict with others. Policymakers must therefore assign priorities to the various factors.

- *Autonomy*—Subnational governments should have complete independence and flexibility in setting priorities and should not be constrained by the categorical structure of programs or uncertainty associated with decision making at the center. Consistent with this objective is tax-base sharing (which allows subnational governments to introduce their own tax rates on central bases), formula-based revenue sharing, or block grants.
- *Revenue adequacy*—Subnational governments should have adequate revenues to discharge their designated responsibilities.
- *Equity*—Allocated funds should vary directly with fiscal need and inversely with the taxable capacity of each province.
- *Predictability*—The grant mechanism should ensure predictability of the subnational government's shares by publishing five-year projections of funding availability.
- *Efficiency*—The grant design should be neutral with respect to subnational government choices or resource allocation among different sectors or different types of activity. The current system of transfers to finance lower-level public sector wages in countries such as Indonesia and Sri Lanka contravenes this criterion.
- *Simplicity*—The subnational government's allocation should be based on objective factors over which individual units have little control. The formula should be easy to comprehend so that "grantsmanship" is not rewarded, as has apparently occurred with plan assistance in India and Pakistan.
- *Incentive*—The proposed design should provide incentives for sound fiscal management and discourage inefficient practices. There should be no specific transfers to finance the deficits of subnational governments.

- *Safeguards for the grantor's objectives*—The grant design should ensure that the grant recipients adhere to certain well-defined objectives of the grantor. This is accomplished through proper monitoring, joint progress reviews, and technical assistance with the help of a selective matching transfer program.

SUBNATIONAL GOVERNMENT BORROWING

Local borrowing has become an important issue in intergovernmental fiscal relations. Aside from the growing share of local debt and deficits over time, local borrowing has spurred macro concerns because of the debt crisis in some subnational governments in Brazil, the inflationary impact of subnational financing in Argentina, and city-level bankruptcies in the US.

Types of Local Financing

Borrowing is a major source of funds for the capital requirements of subnational governments, especially if large capital investment responsibilities are decentralized. Increases in current tax revenues will normally not suffice to finance public investments that are lumpy in nature. Also, since the benefits of public investments presumably last for decades, public borrowing allows future beneficiaries to share in financing such investments. Borrowing may also serve as a useful stopgap for local deficits caused by a vertical imbalance in subnational government revenue and expenditure assignments.

Subnational governments may obtain financing in four ways: (i) borrowing through the central government, (ii) borrowing through another public intermediary, (iii) borrowing directly from the capital markets, or (iv) financing through private participation in the delivery of public services. This last element is discussed in Chapter 6.

Borrowing through the central government ensures subnational governments of long-term credit. A major disadvantage, however, is that credit allocation through this channel will most likely become enmeshed with politics, possibly resulting in inefficient borrowing for unproductive public investments, as politically attractive investments are not necessarily the productive ones. To a lesser extent, the same is true for borrowing through a public financial intermediary, with the additional disadvantage that the debt of a financial intermediary is an implicit liability of the central government and thus less transparent.

In contrast, subnational governments' direct access to capital markets allows for the development of a more transparent and market-based relationship with lenders, and a greater chance for the central government to enforce a hard budget constraint. This is easier said than done in developing countries and transitional economies, where capital markets are nonexistent or are highly imperfect. It may still be possible, however, to explore possibilities for some local governments to access the international capital markets. Evidentiary requirements will be heavy and interest rates higher, of course (unless a central government guarantee is provided—which would be entirely inconsistent with the principles discussed here), but a good track record of timely repayment will lessen these problems in time for the local government concerned.

The main issue here is moral hazard. Subnational government access to capital markets involves implicit central-government guarantees, which allows imprudent action by both lenders and subnational governments, creating contingent fiscal liabilities for the central government. (On the general issue of fiscal risk, see Schiavo-Campo and Tommasi [1999], and for an in-depth analysis, Polackova [1998, 1999].) Accordingly, imprudent behavior carries no penalty, and good local fiscal discipline earns no reward. The key to appropriate policies on subnational borrowing is the proper design of fiscal decentralization in general, and the design of the mechanism for controlling local borrowing powers, in particular.

Three important considerations must be taken into account in designing decentralized borrowing powers: (i) minimize, if not eliminate, the implicit central government liability; (ii) insulate credit allocation from political influence; and (iii) strengthen capital markets as the preferred channel for local government credit.

Control of Subnational Borrowing

A good system of decentralized borrowing is one in which the regulatory framework controls excess borrowing through the following.

- Subnational governments should be required to disclose adequate and timely financial information based on standard accounting to both potential lenders and the central authorities.
- Explicit bankruptcy procedures should ensure that delivery of basic services continues, even at a reduced level, during the debt management and restructuring period.

- Local borrowing in excess of specified amounts or for violation of specified criteria should be subject to penalties.
- Subnational governments must be assured of access to revenue sources to serve as collateral for their debts. Without such collateral, lenders will rightly assume an implicit guarantee from the central government.

Various countries use different mechanisms to control subnational borrowing. These mechanisms may be broadly grouped into four categories: (i) control through market discipline, (ii) cooperation among different levels of government, (iii) controls based on administrative rules, and (iv) direct controls by the central government. Most countries use a combination of these approaches. Box 8.12 presents a comparative summary of control mechanisms in various countries.

The market discipline approach

Relying on the capital markets to control local borrowing assumes that a capital market exists and functions reasonably well; the government lets the capital market operate freely, without favoring government borrowers; and a bailout in case of default is perceived to be unlikely. As noted earlier, the realities in developing countries suggest that these countries cannot rely on market discipline. Most developing countries have widespread experience with central government intervention to prevent default by subnational governments. Also, because of short-term electoral cycles, local politicians tend to be unresponsive to warnings from the credit market.

The cooperative approach

Local borrowing can also be controlled through negotiation between the central and subnational governments. As argued at the start of this chapter, fiscal deficit targets should be set to cover the general government, prevent downloading of the central deficit, and improve overall fiscal transparency. For this to be realizable, however, subnational governments should be allowed to participate in some appropriate fashion in formulating macroeconomic programs and of the fiscal framework. This approach may slow the process somewhat, but has the greater advantage of promoting the flow of information among levels of government, thereby increasing awareness among subnational government officials of the fiscal implications of their actions and improving the overall effectiveness of the public expenditure management system. The cooperative approach can work best

Box 8. 12
Subnational Borrowing Controls in Selected Countries^a

Country	Market Discipline		Cooperative Control		Administrative Control		Rule-Based Control		Borrowing Prohibited	
	Overseas	Domestic	Overseas	Domestic	Overseas	Domestic	Overseas	Domestic	Overseas	Domestic
Industrial Countries										
Australia			■	■						
Austria					■					
Belgium			■	■						
Canada	■									
Denmark			■	■						
France	■									
Germany							■			
Greece					■					
Ireland					■					
Italy							■			
Japan										■
Netherlands							■			
Norway										
Portugal	■				■					
Spain										
Sweden	■									
Switzerland										
United Kingdom					■				■	
United States									■	

^a Classifications indicate the predominant form of control. Some countries may use a combination of several techniques.

Box 8. 12
Subnational Borrowing Controls in Selected Countries^a

Country	Market Discipline		Cooperative Control		Administrative Control		Rule-Based Control		Borrowing Prohibited	
	Overseas	Domestic	Overseas	Domestic	Overseas	Domestic	Overseas	Domestic	Overseas	Domestic
Developing Countries										
Argentina					■		■			
Brazil					■		■			
Bolivia					■		■			
Chile					■		■			
Colombia					■		■			
Ethiopia							■			■
India							■			
Indonesia					■		■			
Korea, Republic of					■		■			
Mexico					■		■			■
Peru							■			
South Africa			■							
Thailand									■	
Transitional Economies										
Albania									■	
Armenia									■	■
Azerbaijan									■	■

^a Classifications indicate the predominant form of control. Some countries may use a combination of several techniques.

Box 8. 12
Subnational Borrowing Controls in Selected Countries^a

Country	Market Discipline		Cooperative Control		Administrative Control		Rule-Based Control		Borrowing Prohibited	
	Overseas	Domestic	Overseas	Domestic	Overseas	Domestic	Overseas	Domestic	Overseas	Domestic
Belarus									■	■
Bulgaria									■	■
China, People's Republic of									■	■
Estonia					■					
Georgia						■				■
Hungary					■					
Kazakhstan									■	■
Kyrgyz Republic									■	■
Latvia					■					
Lithuania						■				
Poland									■	■
Romania									■	■
Russia	■									
Slovenia									■	■
Tajikistan									■	■
Ukraine									■	■

^a Classifications indicate the predominant form of control. Some countries may use a combination of several techniques.

Source: Ter-Minassian, ed. (1997).

in a situation where local officials are reasonably competent and representative, and where there is strong national leadership in economic and fiscal management. (Box 8.13.)

Box 8.13

Cooperative Approach to Controlling Local Borrowing in Australia

Australia uses the cooperative approach through its Loan Council, a long-established forum for the negotiation of state debts. Comprising representatives from all the Australian states and one from the central government, the council discusses the global debt limits of each state and monitors compliance with such limits. Monitoring is done through a before-and-after analysis of outstanding debts.

State borrowing was characterized by attempts to elude debt limits by resorting to off-budget operations, innovative financing techniques, and through borrowing by state-owned enterprises. Therefore, the Loan Council, in 1993, decided to shift its focus to prior analysis and subsequent monitoring of the net financing requirements of each state. It requires the states to present detailed projections of their yearly budgetary operations to show developments in their finances. To strengthen market discipline on state borrowing, the council facilitates the collection and timely dissemination of this information.

Source: Ter-Minassian and Craig in Ter-Minassian, ed. (1997).

Rule-based approach

This approach makes use of the constitution and laws to restrict and guide subnational government borrowing. Among other things, rules for borrowing commonly set absolute limits for subnational government indebtedness; specify the purpose or conditions for borrowing; and prohibit certain types of borrowing that involve macroeconomic risks, such as borrowing from the central bank.

The rules may be determined more by political considerations than by sound macroeconomic management. Also, the approach lacks flexibility and thus fosters practices circumventing the rules, including reclassifying current expenditures as investment; creating off-budget entities whose debts are not included in debt ceilings; borrowing through local government-owned enterprises; using hidden debt instruments (e.g., sale and leaseback arrangements of the so-called “private revenue” bonds in the US); and accumulating payment arrears to suppliers.

Direct control

Particularly in unitary countries, the central government may directly control subnational borrowing in different ways: setting limits on subnational debts; authorizing individual borrowing operations; or centralizing all government borrowing, with onlending to subnational governments. Administrative controls must be more stringent for foreign than for domestic borrowing, for several reasons. The Asian financial crisis has demonstrated however that only fully centralized control of foreign borrowing can prevent the contagion effect of a deterioration of the credit ratings of one borrower on the ratings of other borrowers, and on the country as a whole. The Republic of Korea provides a good illustration of this (Box 8.14).

In developing countries and transitional economies, therefore, direct central control of subnational borrowing appears preferable. But it is very important to avoid cumbersome and intrusive controls. The national authority must not micromanage local government through the back door of controlling its borrowing. There is no substitute for restraint and common sense in the practical implementation of this approach.

Box 8.14**Key Features of the Local Borrowing System in the Republic of Korea**

Local autonomous bodies in the Republic of Korea are allowed to borrow, subject to an elaborate regulatory framework that details the conditions for all debt instruments. The regulatory framework has the following general objectives: (i) to limit the aggregate amount of local borrowing; (ii) to expand the responsibilities of local bodies, given the short period of service of local officials compared with the maturity of debts; and (iii) to spread economic activities to poorer regions of the country.

The regulations for local borrowing in the Republic of Korea include detailed eligibility criteria. Local governments with a history of sound financial policies, such as those with no overdue obligations, a low debt-service ratio, and low fiscal deficit, may borrow. There are also regulations determining the types of projects that can be financed by borrowing. They include capital projects, disaster rehabilitation projects, and welfare improvement projects (not clearly defined). However, there is no preordained central government ceiling on the overall amount of borrowing.

A particular feature of borrowing regulations in the Republic of Korea is compulsory bond placement, a practice introduced in 1979. Cities, through an

continued on next page

Box 8.14 (cont'd.)

ordinance, can decide that those who will benefit from projects financed through borrowing should share in their financing. Aside from compulsory bond placements, local governments can issue bonds on the international market, particularly in Japan and the United States. Bonds are offered at well below domestic market rates, even after considering movements in exchange rate.

The functions and responsibilities of the Government of the Republic of Korea at different levels may be said to be historically closely integrated. This close integration extends as well to the borrowing process. Hence, the risks of borrowing are also shared in the sense that central government approval of any local borrowing automatically implies a state guarantee.

Despite the detailed and strict regulatory framework for borrowing, however, local borrowing could still have adverse macroeconomic effects. The absence of an overall ceiling on borrowing could lead to excessive or poorly timed borrowing, or to the inefficient use of borrowed resources.

Source: Chu and Noregaard in Ter-Minassian, ed. (1997).

KEY POINTS AND DIRECTIONS FOR IMPROVEMENT

Key Points

The *distribution of fiscal responsibilities* between central and subnational governments should be governed by the principles of

- clear responsibilities for each level of government;
- stable and predictable revenue-sharing arrangements;
- providing incentives for increased efficiency of local government; and
- uniform accounting and budgetary rules for subnational government entities.

It is also important for expenditure control and good resource allocation to define fiscal targets to cover general government as a whole, thus avoiding the temptation to dump fiscal problems on local governments; put in place mechanisms to control local government borrowing, and sanction expenditure overruns as well as accumulation of arrears; and assure sound accounting, reporting, and audit.

The potential benefits of *fiscal decentralization* include higher service efficiency—as local government is closer to the users; more effective tax administration; and improved resource allocation and equity. The potential costs are a mirror image of the potential benefits. Fiscal decentralization can worsen service efficiency when local authorities are unresponsive; reduce resource mobilization when local authorities are less honest or capacity is weaker; and foster inequities when local government is “captured” by powerful local interests. The cost-benefit balance of fiscal decentralization depends therefore on the specific country and local situation. Generally, as mentioned earlier, the key influence is the relative quality of governance at central and local levels of government. When local government is more representative and accountable than national government, fiscal decentralization can be presumed to carry a net benefit. Local capacity however needs to be expanded commensurate with the new responsibilities.

How to deal with *fiscal imbalances* is the key implementation issue in fiscal decentralization. Vertical imbalances between central and subnational governments result in general from a mismatch between revenue and expenditure assignments. Horizontal imbalances between subnational government entities at the same level result from differences in wealth and tax revenue between different regions and localities in the country.

Concerning *vertical imbalances*, expenditure responsibilities should in principle be assigned to that geographic level of government where they would benefit only the residents of the region. In practice, however, many public services have unclear benefit regions or carry implications for the country as a whole. Generally, the central government should be responsible for national functions (e.g., defense and international relations), services that benefit several jurisdictions, and services whose local administrative costs would outweigh the local benefits.

Tax assignment to local governments must be accompanied by coordination across jurisdictions—to avoid distortion and undesirable competition in offering tax incentives—and by rules preventing double taxation or tax loopholes. Accordingly, taxes assigned to central government should cover mobile tax bases and tax bases that are unevenly distributed across regions; taxes assigned to local government should be those that cover immobile tax bases as well as tax bases that are easily administered. Therefore, local value-added taxes are generally to be avoided as they carry the risk of competitive tax reduction or, conversely, of local protectionism by setting tax rates higher for purchases from outside suppliers. The corporate income

tax, too, fails the tests of a good local tax, with its high compliance costs, incentives for tax avoidance, and uncertainty of revenue. Assigning personal income taxation to local government has advantages as well as disadvantages. Sales taxes are well suited for local government if they are levied on local businesses. The revenue sources best suited for local administration are local property taxes and motor vehicle taxes, as well as user charges.

As a general rule, *revenue sharing* to remedy overall vertical imbalances should be from the top down, because assigning most taxing power to local government and then sharing revenue upward would weaken the key macroeconomic and redistributive functions of central government. On the other hand, relying entirely on downward transfers would reduce local financial accountability and disempower local government. Local government revenues should therefore comprise an appropriate mix of own-tax revenues as well as some revenue sharing from the top. Revenue sharing can be on a derivation basis, whereby revenue is shared on the basis of where it was collected; on a grant basis, whereby the revenue is redistributed according to a formula or to the cost of collecting the tax; or on a piggyback basis, which allows subnational governments to add a percentage amount to the central tax.

Horizontal imbalances are corrected by intergovernmental fiscal transfers, which can be conditional or unconditional, and open ended or subject to caps. A variety of considerations apply to the different types of transfers. More important than just filling fiscal gaps, however, is the role of fiscal transfers in redistributing resources to assure that all regions have the same financial capacity to provide *basic* public services, assuming they exert the same effort to raise income from their own sources and operate at an average level of efficiency. (The Australian system of grants from the center to the states is particularly effective in this regard.)

As noted earlier, good fiscal federalism requires robust controls on expenditure overruns, arrears, and borrowing by subnational government. When local borrowing carries an implicit national government guarantee, it creates a contingent liability for the national government while encouraging imprudent behavior by both local government and the lenders. In principle, therefore, central government guarantees for local borrowing should be minimized, at the same time as local credit allocation is insulated from political influence from the center, while private capital markets are strengthened as the preferred channel for credit to local governments. This

is particularly difficult to accomplish in developing countries and transitional economies, where capital markets are undeveloped and direct central control of subnational government borrowing remains generally necessary.

Directions of Improvement

The first priority in this area is to review the distribution of fiscal responsibilities between levels of government to make sure that it is clear and explicit. Next, it is necessary to verify that the formal assignment of responsibilities is in fact carried out and, where it is not, to assess whether the lack of implementation derives from insufficient local capacity or from central government interference.

It is also important to combat the temptation to “download” fiscal problems by devolving expenditure responsibilities to local governments without the means to carry them out. This practice makes it difficult for local governments to operate, and at the same time gives them an alibi for bad performance. Defining fiscal targets for general government instead of only for the central government (as recommended in the International Monetary Fund Code of Fiscal Transparency) would help accomplish this purpose. In developing countries and transitional economies, therefore, improving fiscal statistics at the local government level is important not only to promote a healthy fiscal policy overall, but also to help protect local governments against unfunded mandates.

Because fiscal decentralization carries costs and risks as well as benefits, it is essential to examine, *case by case*, whether a specific move toward fiscal devolution is likely to carry a net benefit. Such an examination should rest in part on the feedback of informed persons from local government and civil society, rather than a mere desk review by a central entity. Local administrative capacity is an important determinant of the effectiveness of decentralization. Weak local capacity is not necessarily a reason to keep expenditure responsibilities centralized. However, every move toward fiscal decentralization should be accompanied by measures to strengthen local capacity and governance, and should assure that independent channels of feedback and complaint between the local population and the central government are open.

It is especially important to consider the impact of fiscal decentralization measures on poverty, income distribution, and regional inequalities. Although all major policy changes entail shifts in the

interpersonal and interregional allocation of resources, when a loss is likely for poor and vulnerable groups, appropriate compensatory measures must be incorporated in the design of decentralization and forcefully implemented. Again, there is no substitute for ascertaining the views of local civil society in this respect.

When assigning taxes to local governments, it is necessary to encourage coordination across jurisdictions to avoid undesirable competition in offering tax incentives, double taxation, or tax loopholes. Such coordination can also exploit scale economies in tax administration and improve local administrative capacity by benefiting from the experience of other jurisdictions. Coordination in the tax area can thus become a testing ground for greater general cooperation and, to that extent, can alleviate local capacity constraints and build regional social capital.

Property taxes are the most suitable for assignment to local government, especially in developing countries where the only alternative may be overreliance on transfers from central government. Taxes on certain types of property, such as automobiles, are inherently progressive and relatively easy to administer. However, taxes on land and buildings, which can yield much greater revenue, are difficult to administer and are a frequent source of corruption. Improvements in this area are therefore important for effective fiscal decentralization in developing countries, but always difficult—especially in regions with weak governance and powerful local elites. Directions of improvement include mainly

- giving local governments the freedom to set their own property tax rate;
- improving the property tax valuation system;
- giving the assessing agency direct financial incentives to maintain the tax base and keep assessments up to date;
- strengthening procedures for collecting real estate taxes, normally including the power to seize the concerned property for nonpayment of taxes;
- assuring effective external audit of tax valuations and the assessment process; and
- introducing robust measures to raise the cost of corruption.

The objectives of fiscal transfers are often in conflict—between stabilizing and reducing of regional disparities, or between compensating for benefit spillovers and setting national service standards. Hence, it is important

to ensure that the fiscal transfer system as a whole is internally consistent and trade-offs between objectives are explicit. In practice, this entails relying not on a single type of grant but on a judicious combination of conditional and unconditional, capped and open-ended, and capital and current grants.

In revenue sharing, it is advisable to move away from annual bargaining (which is time-consuming, heavily politicized, and a potential source of corruption) and toward a rule-based arrangement, whereby only the overall amount to be transferred is decided annually, with the distribution to regions and localities governed by explicit criteria. In addition, the tax assignment and revenue-sharing rules must provide the right incentives for efficiency and fiscal discipline by local governments. For example, certain tax-sharing arrangements can lead local governments to put all efforts into collecting those taxes that give them the most benefit, and neglect the rest. A review of the actual behavior of local government in response to central rules, based partly on a survey of informed local opinion, can help pinpoint those rules that have had a disincentive effect, and can be a good basis for improving the fiscal regulatory framework.

Rule-based mechanisms, e.g., centrally set limits on local debt, borrowing, expenditure arrears, and approval of major loans, are also used to assure fiscal discipline in local government. In developing countries, where capital markets are undeveloped and there is an implicit assumption that the central government will bail out local governments if they get into trouble, such direct controls are unavoidable. It is important, however, to exercise them efficiently, avoiding cumbersome and intrusive controls that micromanage local government under the guise of controlling its borrowing.

Annex III

EQUALITY IN DIVERSITY: FISCAL EQUALIZATION IN AUSTRALIA

by Frank Jotzo

INTRODUCTION

The Australian fiscal equalization system is often seen as a model for other countries because of several reasons. Fiscal equalization manages to overcome large imbalances between own sources of revenues and own expenditures at the regional level. In doing so, the transfer system aims to distribute the funds so that all states have equal capacity to fulfill their fiscal responsibilities. Further, the grant system is designed to allow the states to decide how they use the funds and to avoid central government interference in state policy choices. This article examines the fiscal relations between the federal and state governments in Australia, looking in particular into the design of the grant system. It should be stressed here, that for incentive reasons, it is preferable to assign sufficient own sources of revenues to regional governments. However, a well-designed grants system can be a reasonable second-best solution for overcoming fiscal imbalances.

FISCAL IMBALANCES IN AUSTRALIA

Revenues

Australia is a federation of eight states and territories. There are three layers of government, namely, the federal, state, and local governments. The Australian tax system has evolved in a way that has given the central level ever more taxation powers. Today, all major taxes are levied by the federal government. Of these, the income tax is the most important. In a tax reform effective from July 2000, a value-added tax will be introduced. The states levy a variety of smaller and often inefficient taxes, such as payroll tax (on wage payments by employers), transactions taxes (stamp duties and taxes on financial transactions), as well as taxes on tobacco, alcohol, petrol and gas, motor vehicles, and gambling. These taxes are regulated by the states and vary between states (Australia 1998a). After introducing the value-added tax, some of these taxes will be abolished.

The federal government (Commonwealth) levies 76 percent of the total tax revenue, and accounts for 72 percent of total government revenue in Australia. The States account for only 24 percent and local government for 4 percent of revenue (Figure 1, left pillar).

Expenditures

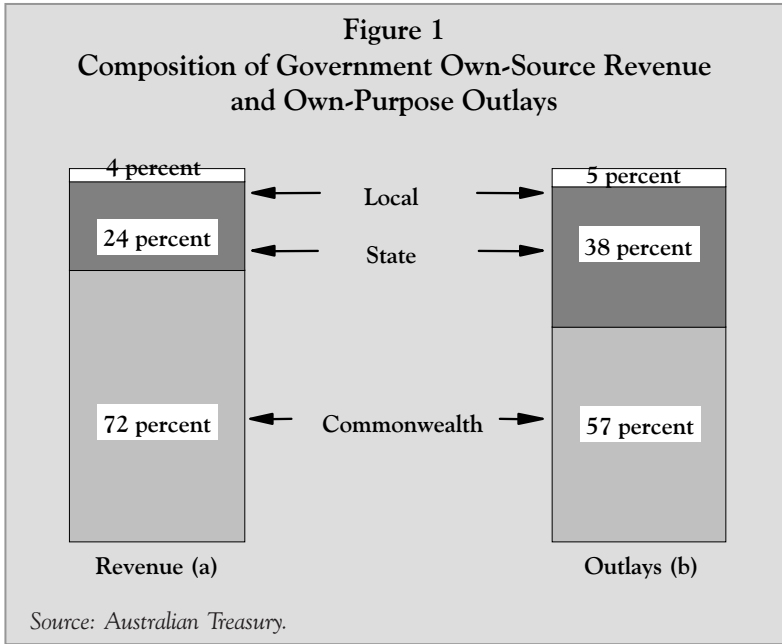
The structure of expenditure differs markedly between levels of government. For the federal government, more than one third of total expenditures is on social security payments. Other significant own-purpose expenditures occur in the areas of debt servicing, defense, and general public service. The states are responsible for expenditures on education, health, and the police. The largest expenditure category is education, followed by health, with the largest outlay for hospital funding. Other significant areas of state outlays are for debt servicing and transport (road and rail). Transport infrastructure and housing, as well as recreational and cultural amenities, are in the realm of both state and local governments. Public servants' salaries are paid separately by each level of government for its employees. The expenditure that the states make to meet their responsibilities account for 38 percent of total government outlays, which far exceeds their revenue raising capacities. By contrast, the central level accounts for 57 percent of expenditures for central level functions, which is much less than its share in total revenue (Figure 1, second pillar).

Vertical fiscal imbalance

The persistent mismatch between the revenue raised and expenditure undertaken at the federal and state government level is called vertical fiscal imbalance (VFI). If the imbalance cannot be remedied by changing the assignment of taxes and other sources of revenue, then a system of intergovernmental fiscal transfers is necessary. This is the case in Australia (James 1992).

Horizontal fiscal imbalance

Horizontal fiscal imbalance (HFI) arises when governments at the same level have different per capita capacities to raise revenue and unavoidable differences in their per capita costs of providing services. Such differences occur naturally between states that differ in their structural characteristics. The extent of HFI between states in Australia is probably lower on average than in many other countries, and certainly lower than in



Indonesia. The major states do not differ too much in structure; each has one or more metropolitan centers, some service manufacturing and heavy industries, and contains a significant rural area under agriculture.

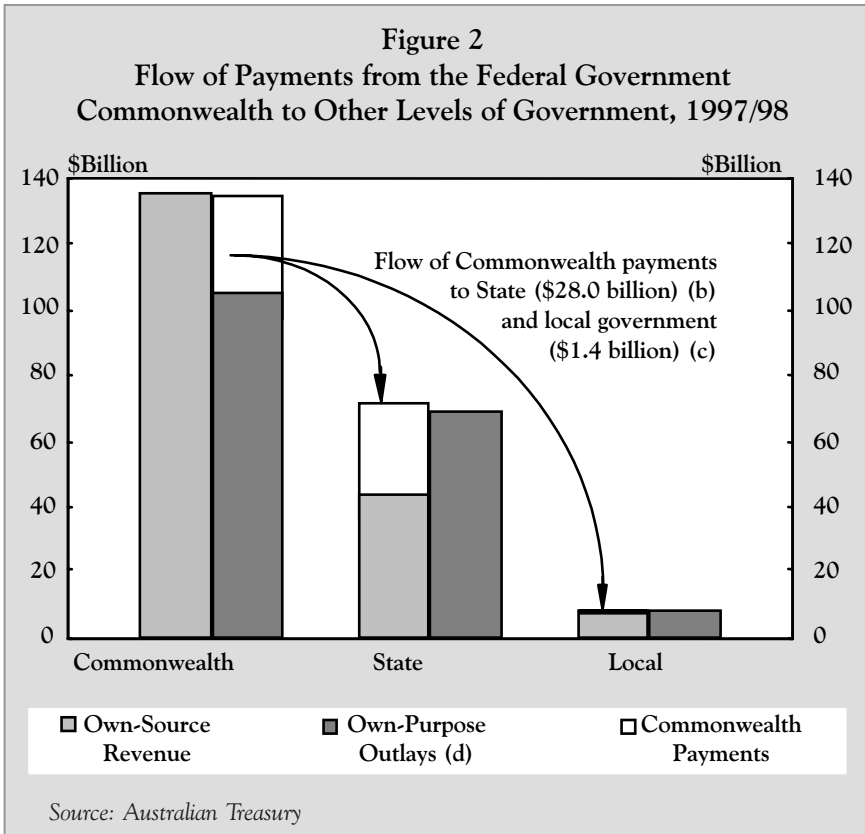
HFI is defined not in terms of actual revenue raised and cost of services provided, but on the basis of the *potential* of state governments to raise revenue and to provide services (Searle 1996). *Actual* revenue and outlays depend on each state's

- structural characteristics,
- policy on public spending and taxation (high or low levels of service, provision and tax rates), and
- efficiency of service provision and revenue collection.

Intergovernmental Fiscal Transfers

The Australian fiscal transfer system has to overcome a high degree of VFI and at the same time aims to remedy HFIs between the states. The main instruments are specific grants (specific purpose payments, SPPs) and block grants (general revenue grants) from the federal to the state and local governments. In the financial year 1997/98, total transfer payments

from the central level to the states and local governments was Australian dollar (\$) 29.4 billion. Of this, just over half was in the form of block grants, and about one third as SPPs. The rest is made up of specific grants paid through the states (to be handed on to universities, local government, etc.) and some direct payments to local governments.



Specific grants

SPPs are meant to enable the federal government to pursue national objectives in areas that are part of the states’ fiscal responsibilities. SPPs can be used to capture spillover effects between states, support standardization, provide seed money, and channel expenditure through the states in activities that are better performed by state administrations. Examples are interstate roads, higher education, and support programs for indigenous people, all of which might not receive adequate state funding from a national point of view. SPPs are generally unpopular with the states

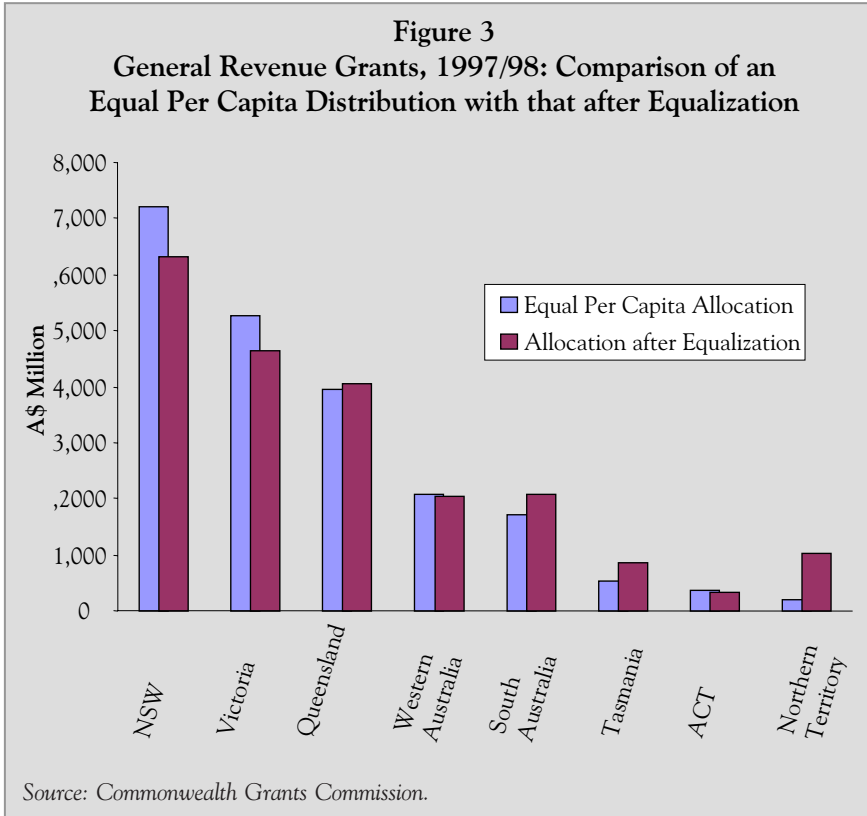
because they are seen as an intrusion of the central level in functions that are constitutionally assigned to the states. SPPs are paid both directly to the states and through the states, which means that state governments pass the funds on to local governments and universities. The largest functional category is health with A\$6 billion, followed by education. Other important categories for SPPs are housing, social security, and transport.

Block grants

Block grants (general revenue grants) are paid without any conditions on their use by the states. They are used to remedy any remaining VFIs and to address HFIs by allocating different per capita shares to individual states. All states receive payments, but the per capita amounts differ. The allocation system for these grants is examined in detail below.

The total pool of block grants is principally a matter of negotiation between the federal and state governments. For the last few years it has been indexed to inflation, so the real level of block grants has remained the same. After the tax reform, the pool will consist of the revenue generated by the value-added tax, which will rise with the growth of the economy (Australia 1998b).

Figure 3 shows the distribution of general revenue grants between the States and the effect of differentiating the per capita payments to remedy HFIs. New South Wales and Victoria, the two most populous states, get much less in block grants than they would if the money were distributed on an equal per capita basis. For example, in the last financial year New South Wales received A\$6.3 billion in general grants, but would have received A\$7.2 billion if there were no horizontal fiscal equalization. South Australia, Tasmania, and the Northern Territory receive substantially more than their equal per capita share. The Northern Territory receives A\$1 billion instead of A\$0.2 billion. For the other states, the effects of horizontal equalization are not very large.



Fiscal Equalization through Block Grants

The principle of fiscal equalization

The principle of horizontal fiscal equalization applied in Australia is that “each State should be given the capacity to provide the average standard of State-type public services, assuming it does so at an average level of operational efficiency and makes an average effort to raise revenue from its own sources.” (Commonwealth Grants Commission [CGC] 1998a).

There are three crucial aspects to this definition. First, fiscal equalization aims to achieve equal *capacity* among the states to provide public services, not equal results. It is left to the states to determine how much service they provide, how efficiently they provide it, and how much own revenue they raise. Second, using Australia-wide *averages* as the reference means that no particular level of services and taxes is prescribed. The standard is defined by what the states actually do, not by what some

authority might consider to be the correct spending level. Lastly, the states are free to decide what kind of services they provide, and in which manner.

Consequently, a state's policy choices do not directly affect the amount of revenue assistance it receives. Horizontal equalization is based solely on differences in the structure of the states. For example, if a state opts for lower tax rates, the shortfall in revenue will not be made up by increased fiscal transfer payments from the Commonwealth. That state will have to provide less services to its residents, provide them more efficiently, or borrow. By contrast, if equalization were based on performance rather than capacity, or on external standards rather than averages, then judgements would have to be made on the correct level of services and tax rates to determine transfer payments.

It is one of the principles of the Australian federation that states should be free to pursue individual policies in the fields of their responsibility. The design of the fiscal equalization system is in keeping with this principle. However, the fact that the states have only a limited range of taxes they can levy and regulate means that the leeway for differentiation in taxes is small. In practice, the states do not differ very much in their tax structure. Differences in service provision are larger.

Equalization in practice: the result

The pool of general revenue assistance is distributed between the states to achieve horizontal fiscal equalization according to the principles set out above. Each year an independent authority, Commonwealth Grants Commission CGC (see Appendix 1 of this book for description and interview), determines the grants allocation per capita in each state (CGC 1998a).

The allocation of block grants is determined by each state's costs of service provision, revenue-raising capabilities, and receipt of SPPs relative to the average of all states. The distribution of grants is determined by these three factors (for details see below). Starting from a hypothetical equal per capita distribution across the states, the amount paid per capita (Table A3.1, column [1]) is adjusted for expenditure needs, revenue needs, and receipt of specific grants.

As can be seen from the Table, the grants for New South Wales for example are adjusted downwards because of lower cost of service provision

Table A3.1
Disaggregation of 1997/98 General Revenue Grants Distribution

Province	Equal Per	Expenditure	Revenue	Per Capita	Per Capita	Per Capita	Per Capita	Total
	Capita	Needs	Needs	Adjustment	Adjustment	Adjustment	Adjustment	(6)
	(1)	(2)	(3)	(4)	(4)	(4)	(5)	(6)
	\$ p.c.	\$ p.c.	\$ p.c.	\$ p.c.	\$ p.c.	\$ p.c.	\$ p.c.	\$ m
New South Wales	1,145.39	-60.52	-97.26	17.48	1,005.09	1,005.09	1,005.09	6,326.1
Victoria	1,145.39	-228.97	68.02	23.82	1,008.26	1,008.26	1,008.26	4,639.5
Queensland	1,145.39	-24.08	40.04	8.89	1,170.24	1,170.24	1,170.24	4,046.2
Western Australia	1,145.39	251.62	-196.25	-75.57	1,125.19	1,125.19	1,125.19	2,037.1
South Australia	1,145.39	65.35	202.65	-14.02	1,399.38	1,399.38	1,399.38	2,082.5
Tasmania	1,145.39	254.05	406.08	-29.47	1,776.05	1,776.05	1,776.05	840.8
Australian Capital Territory	1,145.39	-178.17	88.48	33.90	1,089.61	1,089.61	1,089.61	339.2
Northern Territory	1,145.39	4,886.89	-28.87	-485.01	5,518.41	5,518.41	5,518.41	1,016.5
Australia	1,145.39	0.00	0.00	0.00	1,145.39	1,145.39	1,145.39	21,327.9

Source: Commonwealth Grants Commission.

(expenditure needs, -A\$60.52 per capita) and higher revenue-raising capability (revenue needs, -A\$97.26 per capita), but adjusted upwards because of lower-than-average receipt of SPPs from the federal government (adjustment for SPPs, -A\$17.48 per capita). The net effect is a lower-than-average amount of block grants per capita. The disaggregation also shows that the favorable treatment of the Northern Territory is entirely due to higher expenditure needs, while the high level of specific grants substantially reduces the amount of general revenue assistance to the Northern Territory.

The grant allocation tends to be higher for the less populous states. The more densely populated eastern states of New South Wales and Victoria have the lowest allocations, while the Northern Territory with its extremely small and dispersed population and particular socioeconomic structure (high share of aboriginal population) receives a disproportionately high share. Payments of block grants per capita to the Northern Territory are almost five times as high as in the national average. The allocations have changed over time, both because of changes in the structure, expenditures, and revenue of the states, and because of changes in the assessment methods. The overall pattern in the distribution of funds however has remained stable.

Equalization in practice: the methodology

CGC has developed an elaborate methodology to determine the allocation of general revenue grants. At the core is a comprehensive assessment of disabilities in revenue-raising capacity and expenditure needs for each state relative to the average of all states.

If a state raises less (or spends more) than the average, this is due either to a deliberate policy choice, less efficiency in revenue raising (or service provision), or structural factors (called disabilities). A *disability* is defined as “an influence beyond a government’s control that requires it to spend more (or less) per head of population than other governments to achieve the same objective, or reduces (or increases) its relative capacity to raise revenue from the same effort” (CGC). Fiscal equalization is concerned only with disabilities, not with the effects of policy choices or administrative efficiency. Revenue and expenditure needs can be either positive or negative, depending on whether structural characteristics put a state in an unfavorable or a favorable position relative to the Australian average. Table A3.1 details revenue and expenditure needs due to disabilities.

Expenditure assessment

Expenditure assessment is at the core of the Australian fiscal equalization system. CGC currently determines the cost and level of service provision in a total of 49 categories. The assessment is thus very detailed; education expenditure for example is analyzed in seven separate subcategories (Table A3.2).

Table A3. 2
Categories for expenditure assessment (1998)

Education

Preschool education, government primary education, nongovernment primary education, government secondary education, nongovernment secondary education, technical and further education, transport of rural children

Health

Hospital services, nursing home services, mental health services, community health services

Law, Order, and Public Safety

Police, administration and justice, corrective services, public safety and emergency services

Welfare

Family and child welfare, aged and disabled welfare, other welfare services

Culture and Recreation

Culture and recreation, national parks and wildlife services

Community Development

Planning and environment, aboriginal community services

General Public Services

Superannuation, other general public services

Services to Industry

Agriculture and fisheries, Brucellosis eradication, mining, fuel and energy, tourism, soil conservation, other services to industry

Transport

Road maintenance, other transport

Economic Affairs and Other Purposes

Debt charges, other services

User Charges

Technical and further education user charges, hospital patient fees, fees and fines, property titles, other user charges

Trading Enterprises

Urban transit, nonurban transit (freight), nonurban transit (passengers), country water supply and sewerage, country water supply and sewerage user charges, housing, housing user charges, other trading enterprises

Source: Commonwealth Grant Commission.

Expenditure assessment consists of three steps: (i) examining the characteristics of each state's population, economy, and physical environment; (ii) determining whether and how these characteristics influence the need for or the cost of public services; and (iii) deciding whether there are disabilities. Analogous to revenue assessment, the result is *expenditure needs*, which is the difference between the per capita amount a state needs to spend to provide the standard level of services and the Australian average per capita expenditure.

The cost of providing public services depends mainly on socio-demographic and geographic characteristics. Examples for such structural factors are the relative number of school-age children (education), the relative number of aboriginals (health), and the population density and dispersion (various services). Taking the subcategory road maintenance as an example, the Northern Territory is assessed to need 2.3 times as much money per capita of its population than the national average to provide road maintenance of the average Australian quality. This is because the Northern Territory has a very low population density that results in a high road length per capita, and because it is costly to maintain roads in remote parts of the state. If the policy of the state government is to provide road maintenance at below or above average quality, this does not affect the assessment. The Northern Territory has much higher-than-average costs of service provision in almost all expenditure categories, which is the reason for the very high assessed expenditure needs of A\$4887 per capita (Table A3.1, column [2]). As can be seen in the Table, expenditure assessment has a significant impact on the distribution of grants.

In many cases, the definitions of disabilities and what might be suitable indicators are debatable, and some necessary data are not readily available even though the Australian statistical system is comparatively comprehensive. The question of which expenditure categories should be included in the assessment is an issue of debate between the states, too. Such difficulties tend to affect the assessment of expenditures more than that of revenue. Consequently, the work of CGC requires a great deal of judgement as well as thorough economic and statistical analysis. This part of CGC's work uses up substantial resources.

Revenue assessment

For each state, CGC determines the revenue raising capacity and the revenue raising effort for 20 revenue sources, of which 14 are taxes and 6 are nontax revenues (Box A3.1).

For each revenue source, indexes are calculated by putting each state's assessment in relation to the Australian average. The results of the categories are then weighted with their share in average expenditure to yield aggregate revenue needs.

The results of revenue assessment can be expressed as *revenue needs*, defined as the difference between the per capita amount a State needs to spend to provide the standard level of services and the average Australian per capita expenditure. Revenue needs can be positive or negative. This is the measure presented in Table A3.1, column 3. Revenue-raising capacity depends on the available revenue base. In the assessment of revenue capacities it is not relevant whether a revenue source is actually levied in a particular state, at what rate, and how efficiently. Differences in revenue bases between states can be due to differences in the structure of industry and demand, the value of property, natural-resource availability, and so forth.

An example for a characteristic that affects revenue disabilities is mining revenue, which consists largely of royalties. The assessed revenue raising capacity for Western Australia and the Northern Territory in this category is around four times as high as in the Australian average. This is because these states are rich in minerals and have a large area per capita. By contrast, the revenue capacity in mining is assessed lower than average in the more populous states, where mining plays a less important role.

Box A3.1
Categories for Revenue Assessment (1998)

Taxes

Payroll taxation, land revenue, stamp duty on conveyances, financial transaction tax, stamp duty on shares and marketable securities, gambling taxation, insurance taxation, vehicle registration fee and tax, stamp duty on motor vehicle registration and transfer, drivers' license fee, tax (business franchise fees) on petroleum products, tobacco and liquor, other tax revenue.

Nontax revenue

Interest earnings, mining revenue, electricity and gas, metropolitan water supply, metropolitan sewerage, other enterprises.

Source: Commonwealth Grant Commission.

Adjustment for specific grants

The fact that SPPs from the Commonwealth to the states are at a relatively high level presents a difficulty for fiscal equalization. The receipt of a specific grant changes both a state's revenue and its expenditures. It is debatable however to what extent SPPs represent disabilities according to the definition above. To achieve full equalization, other grants received from the federal government need to be counted as revenue. However, this runs counter to some of the intentions behind specific grants because the recipients of SPPs are subsequently punished by receiving less in block grants. However, there is no evidence yet that any state has refused a specific grant offered to it for this reason. This may be because CGC bases all its assessment on a period of five years, averaging out year-to-year fluctuations. The money received through SPPs thus reduces block grants only after a lag of several years.

CGC is now including most SPPs in the calculations, so that differences in the per capita allocation of specific grants between states are almost fully compensated by the allocation of block grants. The adjustment for SPPs has the effect that the states that benefit from equalization receive slightly less than they would if SPPs were excluded (Table A3.1, column [4]). This is because the states that need more financial assistance generally also receive more specific grants.

CONCLUSION

The Australian grants system is a technically sophisticated way to address vertical and horizontal fiscal imbalances. However, it has to be kept in mind that the system of intergovernmental fiscal relations in Australia exists in a very favorable environment. The nature of relations between the federal level and the states, and to a certain extent between states, is generally cooperative. The Australian federation as a whole is relatively homogenous and stable. The small number of States and the fact that there are only two levels of government that are important fiscally, help to make the system workable. Applying the same principles in a different environment may not be possible politically, or may not yield similar results.

Regarding the technical implementation of fiscal equalization, the Australian example shows that it requires a substantial amount of technical resources. Australia has a sophisticated statistical system both on the national and the regional levels, which is essential for equalization. Even

with this superior statistical base in a relatively small country, CGC is quite a large organization, taking up substantial resources. It is far from clear how a similar system would perform under less favorable conditions. In Indonesia, a similar system of fiscal equalization would probably be only feasible if the assessment of revenue and expenditure were restricted to some core categories.

Studying intergovernmental fiscal relations in Australia can provide important insights and ideas for reform in Indonesia. Ultimately however each country needs a system tailored to its specific requirements.

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Appendix

THE COMMONWEALTH GRANTS COMMISSION

Background and Interview with Bob Searle, Secretary of the Commission

The Commonwealth Grants Commission (CGC) is an independent statutory authority that provides advice to both the Commonwealth and state governments on the distribution of the pool of general revenue assistance. It is only concerned with the distribution, not with the total amount of block grants paid to the states. The size of the pool is negotiated annually between the federal and state governments.

CGS's motto is "equality in diversity," expressing the aim of providing states with equal financial capacity while leaving them free to make their own decisions on taxation and service provision.

CGC was established in 1933, in the wake of the attempted secession of Western Australia, to assess claims made by states for financial assistance. It was thus concerned only with claimant states' minimum financial need, not overall fiscal equalization. The role of CGC changed and was expanded with the introduction of general revenue-sharing arrangements in 1976 that necessitated the calculations related to horizontal fiscal equalization. It conducts a full review of relative attributes (relativities) and the methodology used to calculate them at five-year intervals. In between these reviews, the relativities are updated annually, using the latest available data but retaining the same methodology. CGC does a substantial amount of statistical analysis, and it even conducts some original data collection, mainly in the area of expenditure assessment.

The commission is headed by four part-time members who are appointed for a limited period by the federal government after consultation with the state governments. The commission has a permanent staff of around 50.

Overall, CGC is considered an integral part of Australia's federal structure, with an important role in promoting fiscal and political stability between the state governments and the Commonwealth government. It can be credited with fulfilling its role as a competent technical advisory body, in effect acting as an impartial arbiter between state governments.

Interview with Bob Searle, CGC, Canberra, 10/12/98

How many out of the 50 staff of the Commonwealth Grants Commission are technical?

All but four or five of the 50 staff work in a technical environment, their background mainly being in statistics, economics, and accounting.

How important is technical work relative to negotiating the state's interests?

The Commission is not involved in any negotiations with the states. All its work is on technical aspects of fiscal equalization.

How close is the cooperation with the states?

The states are involved in the technical aspects of the Commission's work, and there is communication with the states at all stages of the process of determining the relativities. The states are particularly involved in the reviews of methodology, to a lesser extent in the annual updates.

With which state institutions does the Commission have contact?

The states communicate with the Commission principally through their state treasuries. All other arms of government channel their participation through the treasuries. Submissions are the main instrument for the states to put their arguments forward. There is a formal process for these submissions to the Commission, and states also comment on each other's submissions. The Commission also has some contact with other state departments, for example, education, health, and police. This is important for expenditure assessment.

How closely does the Commission keep the states informed of its work?

In the three years leading up to the review of methodology to be published in February 1999, there have been approximately eight conferences with the states on technical matters. The Commission also produces detailed working papers on past assessments. These were originally exclusively for the use of the states but are now distributed to reference libraries also.

Do the states have an influence on Commission methodology?

Yes, they do. It is necessary to find a basis of assessment which is fair to all states. The most important influence the states wield is by proposing areas to be used to identify disabilities.

Do the losers accept technical arguments?

There is general consent on the technical ability of the Commission. Whether states agree on particular assumptions underlying the relativities calculations in another

matter. Generally speaking however, the states are very accepting of the Commission's judgements. They know that they are dealing with an expert body, and that they themselves could not do it any better.

How does the appointment process for the Commissioners work, and is there proportional representation in terms of party politics?

Commissioners are appointed for their particular expertise rather than their representational role. The only condition is that the commissioners cannot be full-time employees of a state or the federal government, since they might then be seen as being biased.

What happens in the appointment process is that the heads of the Commonwealth and state treasuries get together and consider names. It is a cooperative movement—if any of the parties involved has an objection to a particular candidate, that person will have little chance of becoming a commissioner.

Have there been swings in the Commission's position on equalization?

No. The Commission developed the concept of fiscal equalization in the 1930s. There has been a development process over time, but as for changes in the federal government, there has been no political involvement.

The Australian parliament is currently debating a tax reform proposal. It includes the introduction of a value-added tax levied by the central government, the revenue of which will be distributed to the states. Will there be changes in the Commission's role after the tax reform?

There will be very little difference for our work. The revenue from the new value-added tax will be distributed to horizontal fiscal equalization principles, and the Commission will continue to determine the equalization formula. The only difference is that the states will have less own revenue, because they will have to stop levying some of their taxes.

From the Commission's point of view, should there be less specific grants?

The Commission is not concerned about the extent of special purpose payments, as long as they can be included in the Commission's assessment. Currently, they are accounted for in the calculation of relativities and do not negatively affect horizontal fiscal equalization. In fact, SPPs can serve good purposes, and the Commission acknowledges that.

From the point of view of the Commission, would it be desirable if the Commission had influence over the amount of general revenue to be distributed, too?

That really has never been a concern. For horizontal fiscal equalization, control over the amount of funds to be distributed is not necessary, as long as the level of funding available is high enough. That is of course the case.

We deliberately do not see ourselves as giving economic policy advice, such as on the total amount of grants payments. Otherwise, we might be seen as an arm of government. We need a high level of independence for our work.

Can or should the Commission be a model for other countries?

I think all federations are different, so they should have different systems of fiscal transfers and equalization. There has been a continuous stream of interest from other countries in the Australian system, and it has frequently been studied. That probably speaks for itself.

Can the Commission assist countries that want to reform intergovernmental fiscal relations, and how?

We frequently have officers from other countries visiting, and some are staying with us for some time. The topic they usually focus on is expenditure equalization. Our involvement is through technical cooperation programs, organized by international agencies such as the World Bank and the IMF, or AusAID.

What are the most recent examples for technical assistance to developing countries?

South Africa has modeled its new system of intergovernmental fiscal transfers on the Australian system. The ANC had contacts with us even before Mandela was elected. After the election, members of the South African commission came here.

More recently, China has initiated an international search for suitable models of intergovernmental fiscal relations, and is now concentrating heavily on the Australian system.

Annex IV

THE PILOT INTERGOVERNMENTAL
TRANSFER SCHEME OF 1995-1996
IN THE PEOPLE'S REPUBLIC OF CHINA¹

A transitional transfer payments scheme was introduced in 1995 as the first step toward a formula-driven redistributive system. The initial formula had two parts: an objective factor that attempts to measure the gap between standard expenditures and local fiscal capacity, and a policy component that directs subsidies to regions with large ethnic minority populations. In 1996 a third factor was added to the formula to reward good tax effort. Since then more tinkering has been done.

The 1996 formula for transfer was as follows

Transfer to province i = f(measured fiscal shortfall of province i) + g(special transfer to province i as a minority region) + h(province i's good tax effort)

The fiscal shortfall is measured as

Standard expenditure = standard wage expenses + standard administrative expenses + agriculture and other productive expenditures + other expenditure

where

- *standard wage expenses* are derived from standard wages, number of civil servants, and a regional wage factor;
- *standard administrative expenses* are those for government administration, police and security, and other government agencies. In 1995 the actual expenditures for all government units were included. In 1996 this was shifted to include personnel and running costs for fully funded units, and lump sum costs for units that received only partial funding from the budget.
- *agriculture and other productive expenditures* are expenditures for agriculture and other productive departments.
- *other expenditure* includes price subsidies.

¹ World Bank.1998. Managing Public Expenditures for Better Results. Washington, D.C. Annex 9.

The policy component, or special transfers to province *i* as a minority region, also calculates the fiscal gap between the minority regions and the national average as

$$(NR - PR_i) \times POP_i$$

where

NR = national per capita revenue; PR_i = province *i*'s per capita revenue;
 POP_i = population of province *i*

The coefficients a_1 and a_2 are determined ex post, as the ratio of funds available for transfer divided by the size of the gap. For example, in 1996 the central government had Y2.2 billion to devote to equalization transfers, compared with a fiscal gap of Y63 billion. So a_1 was derived as 0.035. Similarly, the total fiscal gap for minority regions was estimated at Y13 billion in 1996, while the amount allocated to filling the gap was only Y1.2 billion in the central budget; the coefficient a_2 was derived as 0.09.

Finally, the tax effort reward was derived in 1996 as follows: if province *i* had revenue growth in 1995 that exceeded the national average, then the total transfer to province *i* would be supplemented by the coefficient a_3 , where

$$a_3^i = 0.5 \times (r^i - r)$$

and

r^i = revenue growth of province *i*

r = national revenue growth

so that

$$(\text{Transfer to province } i)_t = \{(1 + a_3^i) \times [a_1 \times (\text{standard expenditure}_i - PR_i \times POP_i) + a_2 \times (NR - PR_i) \times POP_i]\}_{t-1}$$

and t = current year, $t - 1$ = previous year

In other words, the transfer to province *i* for 1997 will be based on its fiscal gap and tax effort in 1996. The system should be recognized as transitional and does not obviate the urgent need to get a more appropriate transfer scheme installed.

Recommendations for Improving the Pilot Scheme

For the transfer scheme to be effective, it must be more adequately funded. The scheme was allocated only Y2 and 3.46 billion in 1995 and 1996, respectively. These comprised just over 1 percent of the total of nearly Y300 billion in central transfers to the provinces in 1996 and was dwarfed by the tax rebates of Y195 billion. Because of the small sums allocated, their effect on the distribution of fiscal resources is marginal: the coefficients a_1 and a_2 are very small, so that the scheme provides only a very weak link between a province's fiscal need and their transfers.

At present the scheme mixes two sets of considerations: fiscal need and support for ethnic minority regions. These objectives should be kept separate, with one equalization scheme that provides transfers according to need (plus a tax effort factor), and the other scheme to support ethnic minorities reported separately. The total of Y3.46 billion spent on the pilot scheme in 1996 was in fact split into Y2.2 billion for the equalization scheme, and Y1.2 billion for the minority's scheme.

The transitional scheme duplicates the old pre-1994 equalization transfers under quota subsidies, which totaled Y11.1 billion in 1996 and were heavily biased toward minority regions. These schemes should be merged as soon as possible—if the pilot scheme is considered an improvement over the quota subsidies, then it should simply absorb and replace the quota subsidies.

The tax effort measure takes the gap between national revenue growth and the provincial revenue growth. This is a convenient proxy that should be replaced by better measures as better data become available. Provincial revenue growth depends on too many factors other than tax effort, most notably economic growth and structural change.

Finally, it is urgent that the pilot transitional scheme be replaced by a model that measures fiscal needs more appropriately. At present, the measured fiscal gap only considers the personnel and running costs of government, with wage costs weighing heavily. This reflects the short-term concern in meeting payroll requirements. In the long run, however, it is more appropriate to look at fiscal needs in terms of the costs of providing services such as education, health care, government administration, public transport, water, sewerage, and sanitation services. This package of fiscal needs should contain not only wages and running costs but also some capital

costs for building schools, clinics, roads, etc. Regional cost differentials in providing these services must also be included in the calculation of fiscal need—the present regional factor contains only a small differential for wage supplements and is insufficient.

NOTES

- ¹ See Shah (1994) and Ter-Minassian, ed. (1997).
- ² See Prudhomme (1994).
- ³ Drawn in part from Bahl (1999), Ebel and Yilmaz (1999), and Prud'homme (1994).
- ⁴ This section and the following are drawn from a number of authors: Rodden (2000), Ter-Minassian (1997), Bahl (1998, 1999), Shah (1998), Bird and Wallich (1993), Wallich, ed. (1994), Ebel and Yilmaz (1999).
- ⁵ Bird and Wallich (1993).
- ⁶ See McLure (1998), cited in Bahl (1998).
- ⁷ Problems have however been experienced in the US where subnational governments regularly raise tax rates during periods of economic contraction, thus worsening the situation.
- ⁸ US cities compensate for this by levying local income tax on commuters as well as residents. In Russia, the personal income tax is fully returned to the local government of the place of employment and none to the place of residence. As labor mobility increases and housing becomes less scarce, this will become a significant problem with personal income tax sharing in Russia.

Chapter 9

Acquiring Goods and Services: Public Procurement

Where there is honey, there are bees.
– Nepali proverb

Besides financial resources, discussed in the two previous chapters, and labor, discussed in the next three, government needs a variety of equipment and materials, as well as consultants and other services, to perform its activities. The acquisition of these goods and services is normally referred to as procurement.

NATURE AND SCOPE OF PUBLIC PROCUREMENT¹

Government procurement is the acquisition of goods, services, and public works in a timely manner that results in best value to the government and the people. The performance criterion for evaluating procurement activities is economy, i.e., acquisition at the lowest price without sacrificing quality and timely delivery. Public procurement gives substance to the tasks of government. A major proportion of public expenditure at every level of government is incurred through the procurement of goods and services and construction activity. Typically, procurement accounts for 20 percent of central government expenditure, and up to 50 percent of public expenditure in developing countries (including construction contracts). The range of government contracting and purchasing is vast, from weapons systems and large industrial plants to raw materials, paper and milk, custodial services, etc. Poor procurement management has an impact beyond project implementation and the functioning of the public agency concerned. It also delays or dilutes the intended program benefits to society, constrains private sector performance, and is commonly perceived to be associated with bribes for the award of contracts. Consequently, procurement and public works engage the attention of a significant number of civil servants and

political leaders throughout the year, and the ex-post scrutiny of auditors and legislators.

Historically, the role of the public service was to procure goods and services for the king. Samuel Pepys was appointed in the 17th century by the British monarch to look into the reasons why the quality of ships and supplies for the British Navy was so unreliable, and prices so high (Box 9.1).

Box 9.1
Procurement Function in 17th Century England

... But I see it is impossible for the King to have things done as cheap as other men.
- Samuel Pepys, 1662

The diary of Samuel Pepys gives a striking description of the procurement function in 17th century England and the uncontrolled scope for self-enrichment by government officials in those times. Pepys managed to clean up the defense procurement process for the King by delving into administration as a professional, learning about what was required by the navy and why, negotiating fiercely on quality and price, and following up to see that contracts were properly fulfilled. He was troubled by the ease with which he (like many others before him in his position) could receive “tokens” of appreciation from successful contractors. On occasion, Pepys himself yielded to the temptation.

The diary also speaks about the required reporting on procurement to the increasingly assertive Parliament in its watchdog role, and the type of meticulous documentation that was needed to justify the conduct of the executive.

Source: Richard Latham. 1978. The Illustrated Pepys. London: Bell and Lyman.

Public procurement includes procurement by government and by statutory boards and nonministerial bodies as well. Often, the purchase of goods and services by nongovernment public entities is far greater than that undertaken by ministries and reflected in the budget. These entities follow regulations similar to those of ministries, and are subject to government audit in their use of funds. Procurement in the broad sense also covers issues of procurement strategy, storage, distribution, contract monitoring, and supplier management, and is thus synonymous with total supply chain management. The purchasing phase of the procurement cycle involves selecting suppliers, negotiating, and contracting for goods and services.

Contracting for public works and construction is usually treated separately from purchase of goods and services for a number of reasons.² Unlike goods and services that go into the consumption stream or serve as intermediate inputs, public works (roads, bridges, buildings, etc.) represent tangible final outputs. The standards and specifications for construction tenders and contracts are also different, and the contracting process lends itself to the unbundling of the project, and thus to separate contracts for each component (e.g., design, technical services, and actual construction). The process accordingly stretches over a much longer period than the procurement of goods and services, and calls for closer and continuous supervision.

As a part of the broad procurement process, contracting out in some countries has become more prominent. Contracting out the delivery of services, such as transport and garbage collection, has been common for years, but has increased in use since the late 1980s, at both national and subnational levels of government. (Contracting out is discussed in Chapter 13 on “exit” mechanisms.)

Procurement can be centralized or decentralized in different degrees. Central purchasing agencies continue to function in many countries; often prompted by the fear of waste and abuse of power by field offices. Genuine decentralization, as discussed in Chapter 5, would imply the autonomy and flexibility of subnational units to procure goods and services either under centrally financed programs or as an agency function carried out on behalf of the central government. Standards and criteria, however, should still be set at the central government level. Similarly, central procurement operations are generally to be carried out by the ministry or agency concerned, but under policy, guidelines, and oversight by a central procurement entity.

It is useful to distinguish between international and local procurement, and between large or complex purchases and routine procurement of daily supplies. These distinctions have practical implications for the manner of organizing the procurement function, the form of the bidding required, and the scope for decentralization and delegation.

There are essential differences between the procurement process in the government and that in a private firm. A private firm places less emphasis on formal competitive bidding, documented procedures, and constraining conflicts of interest than governments do. Private managers have built-in

incentives to purchase goods that provide high value for their price, and to hire contractors who will accomplish high-quality jobs at competitive prices. The dimensions of accountability are related to results, not process, because in the private sector the results are more easily quantifiable, by reference to their impact on overall company profit.

In contrast, the public manager must follow prescribed competitive procedures, and the rules give a major weight to fairness and equity. Also, public procurement is subject to oversight by the legislature and audit (in addition to internal accountability mechanisms). Mistakes or malfeasance in public procurement can have vast political repercussions, owing to the focus that the media and the public place on the subject.

Also, private firms and nonprofit agencies prefer stable relationships with suppliers and long-term contracts, for certainty and easier business planning, but several factors (including the fear of collusion with contractors and financial rules) prevent public agencies from developing such long-term relationships. Finally, public procurement is often used as a tool for public policy goals (e.g., fostering the growth of local industry, or benefiting groups of poor women or disadvantaged groups).

OBJECTIVES OF PUBLIC PROCUREMENT

Economy

As noted, the criterion of “economy” (which is common to both public and private procurement) involves acquiring goods and services of defined specifications on a timely basis and at the lowest cost. Economy is a useful criterion for administrative purposes, as it is linked to the performance of the procurement function. However, from an economic point of view, it is subsumed under the broader criterion of *efficiency*, i.e., lowest *unit* cost of production: if the goods and services to be procured are not the appropriate ones for efficient production, procuring them at least cost is no advantage.

Wasteful procurement can arise from duplication and overlap in government operations, from a lack of predictability in the flow of funds to public agencies (which leads the agencies to use the funds available when they happen to be available, entailing higher cost of storage), and from a lack of incentives for employees to make the best use of supplies. Sound procurement, therefore, depends also on a variety of organizational

and incentive factors within government well beyond the control of those in charge of the procurement function itself.

Import Substitution

The government procurement strategy may deliberately encourage the growth of local industry by giving preferences to local suppliers or restricting purchases from foreign firms. Many governments seek to ensure some advantage for domestic industry in competing for the business of public organizations. These preferential practices must be kept carefully distinct from regulations intended to offset market imperfections that prevent domestic suppliers in developing countries from competing on a fair and equal basis with international suppliers. Unlike those regulations, preferential procurement practices may well be inadvisable from both an efficiency and a development viewpoint.

Some preference to domestic firms in international competitive bidding has traditionally been recognized by donor agencies, e.g., the World Bank. The European Union (EU) allows countries applying for membership (from central and eastern Europe) to keep domestic preference provisions, but only for a limited time. The rules of the World Trade Organization (WTO) call for uniform treatment of domestic and foreign suppliers in procurement. However, WTO provides for special and differential treatment of developing countries to safeguard their balance-of-payments position, promote the development and establishment of domestic industries, and support industrial units that are substantially dependent on government procurement.

Fostering Competition

Competition in procurement is defined as equality of opportunity for qualified suppliers to compete for public contracts. Competition and impartiality are needed not only to ensure a beneficial outcome in price and quality, but also to promote public accountability in the process. Increasing competition in public procurement is a goal of most governments, and is supported by international organizations as well. In the United States (US), for example, the Competition in Contracting Act of 1984 aims to increase competitive efforts within departments and to narrow the justification for sole-source (direct selection) contracting. Countries like the United Kingdom (UK) require their local governments to resort to compulsory competitive tendering for all purchases and services. Many

countries require their national and subnational governments to increase their use of open bidding, improve the handling of competitive bids, and streamline administration and payment procedures, to attract more firms to compete for government business. Because the number of qualified suppliers is directly related to the degree of competition, many developing countries and most aid agencies support the provision of information and technical assistance to bidders to better understand the rules of procurement and become qualified to compete.

In developing countries, competition is often restricted by market imperfections such as barriers to entry and information gaps for small and less experienced suppliers. These barriers are sometimes put up by the administrative process itself, such as the tendency to float large bids to have a single centralized decision, or the expensive or formalistic overspecification of requirements that small and less experienced firms find very costly to fulfill. In some areas, e.g., emerging technology, specialized services, or complex equipment (as in military procurement), aid-dependent developing countries may be obliged to deal with only one or two bidders because the government is often restricted to choosing only from the donor country's suppliers. The long-term strategy is to encourage the development of the domestic contracting industry through various means, to lower the barriers to entry for small business and voluntary agencies, and to untie aid as much as possible through better cooperation among donors and stronger leadership by the multilateral financial institutions in this respect.

The Governance Dimension

Predictability, a key principle of good governance, presupposes consistent principles and regulations for procurement, qualification of contractors, award of bids, and contract management. Information and documentation on these rules should be widely available, and the rules should be enforced fairly and consistently. Predictability in procurement also requires a well-understood system for registering and resolving complaints speedily, a well-functioning system for dispute settlement, and checks on the arbitrary behavior of procurement managers and on the inconsistent exercise of discretionary power in contract award, enforcement, and management.

Accountability and transparency are vital to procurement management as well. Lack of oversight mechanisms to ensure accountability undermines the capacity of governments to secure the confidence of

contractors in the public procurement process and the trust of citizens in the proper use of that public funds. Trust and confidence can be especially eroded by secrecy in procurement transactions, especially at the local levels (although a degree of confidentiality is essential to protect business privacy and the legitimate interests of individual bidders). Transparency reduces uncertainty and inhibits corruption in procurement by assuring equality of access to information for all bidders before, during, and after the bidding process.

Protecting the Interest of Citizens

Whether or not the responsibility for service policy is separated from that for service delivery (Chapter 6), governments have a responsibility of assuring that the services reach the citizens, reaffirmed in judicial decisions in many countries. This responsibility implies setting up recourse mechanisms in case of contractor failure, carefully monitoring contract execution by private suppliers, giving credible information to citizens about the actual providers of service, and opening avenues of complaint.

Environmental Protection

The United Nations (UN) advocates making the preservation of environmental quality and the reduction of waste a part of procurement guidelines.³ Governments could review the purchasing policies of their agencies and departments to improve, where possible, the environmental impact of government procurement policies, including those related to packaging and recycling. In a policy of environmentally conscious procurement, apart from other requirements, the choice of products and production methods is based on criteria of environmental protection and conservation of nonrenewable natural resources; and no specifications discriminate against the use of recycled materials.

LEGAL AND REGULATORY FRAMEWORK FOR PROCUREMENT

Public Procurement and the Law⁴

The legal framework for public procurement includes international obligations, specific domestic legislation on procurement, contract and commercial law in general, and patent and copyright law, labor law, and laws governing lease- and hire-purchase agreements, arbitration, and

conciliation. Some countries (e.g., South Africa) have constitutional provisions as well as enabling laws for procurement (Box 9.2). Others (e.g., the Republic of Korea and US) have passed regulations and legislation. In the US, procurement-related laws include the Competition for Contracting Act of 1984 and the Federal Acquisition Streamlining Act of 1994. The Republic of Korea in 1990 passed the Act Relating to Contracts to which the State is a Party (ARCSP) and the regulations to enforce it.

Box 9.2

South African Constitution and Procurement

South Africa is among the developing countries whose constitution contains a special provision on government procurement. Section 187 of its 1994 Constitution provides the following.

- The procurement of goods and services for any level of government shall be regulated by an act of Parliament and provincial laws, which shall provide for the appointment of independent and impartial tender boards to deal with such procurement.
- The tendering system shall be fair, public, and competitive, and the tender boards shall have to justify their decisions at the request of interested parties.
- No organ of state or any member of state or any other person shall improperly interfere with the decisions and operations of the tender boards.
- All decisions of the tender boards shall be recorded.

Public Procurement Reform in South Africa

Procurement reform in South Africa is part of the extremely difficult challenge of balancing short-term efficiency with the imperative of gradually redressing the racial discrimination of the apartheid regime. South Africa gained nine provinces after the 1994 election, but the Government was hampered by a procurement system that was fragmented, hard to use, and biased toward large, established businesses. The fragmented and onerous procedure often caused delays in delivering services and prevented the government from taking advantage of its size to negotiate in procurement contracts. All contracts had to be approved by 10 Tender Boards (one national and nine provincial), and there were separate boards or committees for parastatal and local authorities. Each of these boards was autonomous, with its own procedures, requirements, and policy interpretations.

continued on next page

Box 9.2 (cont'd.)

The procurement system clearly did not meet the requirements of the Constitution, which stated that procurement must be “fair, equitable, transparent, competitive and cost-effective.” Public sector procurement reform in South Africa is therefore aimed at three main objectives: good governance, uniformity, and achieving socioeconomic goals. An important aspect of the planned socioeconomic transformation, balanced with the objective of efficiency, is encouraging broader participation and overcoming discrimination. The Preferential Procurement Policy Framework Act 2000 is a key piece of legislation in this delicate process. The act specifies a two-tier preference system. For contracts below a certain threshold value, 80 points are rewarded for price and 20 points are allocated to empowerment and development objectives. For projects above the threshold, the split is 90/10. The aim is to enable smaller contractors to bid for lower-value contracts, and to allow some redress for past discrimination. The act will apply to all organs of government (not including the public enterprises), although the Minister of Finance may approve exemptions. A penalty clause is included to discourage established firms from establishing front companies to qualify for preference.

This South African legislation is well worth considering by other multi-ethnic countries that must reconcile short-term efficiency with long-term sustainability and equity.

Source: Laura Walker. Personal communication. 2000.

The Regulatory Framework

Most countries that rely on *general contract law* regulate public procurement by internal rules that prescribe the formal process of bidding, the evaluation of bids, the award and conclusion of contracts, and contract management (Box 9.3). The rules also mandate procedures for dealing with possible court challenges from unsuccessful bidders, and procedures for contract interpretation, breach of contract, and dispute resolution and arbitration. The intention is to provide a self-contained regime for contract award and management, which would avoid recourse to external arbitrators.

The procurement regulations and audit rules place great reliance on competition and objective decision making (except in specified emergencies such as natural disasters). This approach often results in extensive regulatory control and oversight by external agencies, and heavy bureaucratic review and approval processes. Many government entities feel that the procurement

Box 9.3 Procurement Guidelines in the United Kingdom

In the United Kingdom, the Procurement Practice and Development team is the central unit in the Treasury that promotes best practices and the development of procurement strategies by departments. The Government has stipulated the following key points for its senior management: value for money; compliance with national and international legal obligations; cost-effective fulfillment of users' needs; appropriate level of competition; and honest and impartial relationships with suppliers. The procurement process would ensure fairness, efficiency, courtesy, and firm dealings; high professional standards; wide and easy access to information on the procurement process and documentation; prompt notification of the outcome of the bidding; efficiency and integrity in contract management; and prompt response to suggestions and complaints.

In selecting bidders, undue emphasis should not be placed on size, and the standards of financial and technical capacity should be proportionate to the contract in question. The criteria for the award should not consist of price alone, but should also consider other factors like whole-life cost, quality, and delivery. Whole-life cost is relevant in complex procurements, including large supply and service contracts and construction projects, and in offsetting higher expenditure for better quality against the lower maintenance costs over the asset's life.

New Zealand has published *Government Purchasing: A Guide for Suppliers* to help suppliers understand and operate in the government purchasing environment. It is intended to improve communication between public sector buyers and industry to their mutual benefit. Canada provides an integrated electronic public tendering service, which supports open, cost-effective procurement for all levels of government, and all sizes of suppliers in the private sector.

Source: UK Government and World Trade Organization web sites.

process has become an end in itself, stressing compliance with rules to the neglect of economy or efficiency. In 1993, the US had 889 laws that controlled every aspect of defense procurement alone, making a product 50 percent by estimate more costly simply because it was being purchased by the government. Federal regulations filled 1,600 pages, supplemented by 2,900 pages of agency-specific regulations, supplemented in turn by instructions and case law (US Government 1993). Some of these additional regulations are important in public procurement because of its special nature

and risks. In many countries, however, procurement rules would be substantially simplified without compromising the integrity of the process.

After the award of contracts, additional regulations to deal with breach of contract and unsatisfactory contractor performance can be reduced in the first instance through clear and complete specifications, well-defined performance standards, and the inclusion of incentives and penalties in the contract. However, these measures inevitably add costs and delays to the initial phases of contract execution. Formal legal remedies, such as financial penalties or exclusion from future contracts, are costly and dilatory in countries with inadequate judicial systems.

Many countries are consequently moving to streamline and consolidate existing laws and regulations, or writing simpler laws and regulations to govern procurement transactions. In the US, as recommended by the National Performance Review, the Federal Acquisition Streamlining Act of 1994 repealed or modified 225 provisions, and raised the thresholds above which the agencies needed to follow the regulations, thus exempting 95 percent of transactions.

Model Codes

The stress in recent years has also been on a uniform procurement code to set the basic framework for procurement, supplemented by the more detailed rules by implementing ministries. For example, in Australia, the procurement framework is contained in the 93-page *Commonwealth Procurement Guidelines* issued in December 1997. In the UK, the procurement function is exercised under Treasury guidance (Box 9.4). At the subnational level one of the earliest efforts at a uniform procurement code was the *Model Procurement Code for State and Local Governments* in the US. This was the most comprehensive and consistent attempt to apply the elements of good practice, and was meant to be adapted to particular state and local circumstances. The EU insists on enforcing a model procurement code (Box 9.4) as a condition for membership of countries in the Union. The People's Republic of China, for its part, has drafted procurement legislation with Asian Development Bank support.

Box 9.4 Procurement Regulations in Europe

Countries seeking European Union (EU) membership are required to establish and maintain procurement systems that meet standards of transparency and of open and fair competition. Central and eastern European countries have been working to establish modern public procurement systems from the start of their transition to a market economy. Creating such systems is part of the process of forging an efficient, competitive market economy and is necessary for these countries' full integration into the international trading community.

To build and implement the system, significant changes have had to be made from the days of the command economy, when procurement was part of the central planning system. In particular, central and eastern European countries are designing a legal and administrative framework that facilitates the integration of the myriad procurement entities throughout the public sector into a functional and coherent network with high professional standards, and that is consistent with international obligations. Such a framework would define the financial and legal responsibilities of all participants in the procurement process, including suppliers and procurement entities in central and local government.

Slovakia and Latvia have already passed a national procurement law consistent with international standards. Poland has set up a central organization to draft and disseminate procurement regulations and rules for decentralized operation. The Organisation for Economic Co-operation and Development and the International Labour Organisation have collaborated in preparing a public procurement manual for central and eastern Europe.

Source: OECD (1999a).

The most widely used model public procurement law is the one adopted by the UN Commission on International Trade Law (UNCITRAL) in 1994,⁵ consolidating previous model laws. A detailed guide was later issued. The model law was intended to be a model for developing and transitional economies in modernizing their procurement regulations or in establishing such regulations. It is expected to address the inefficiencies and the potential for abuse in the laws of many countries, and to make these laws more compatible with international trade practices. The law has formed the basis for national procurement legislation in many developing countries, with support from international donor agencies. Annex V lists the provisions of the model law. The model law does not supersede

international obligations or the applicable national laws for contract, criminal, and judicial procedures. Although as a framework law the UNCITRAL model law does not itself set forth all the necessary regulations, it mandates open tendering as the method of procurement that is generally most effective in promoting competition, economy, and efficiency in procurement. For circumstances in which tendering is not feasible, the model law suggests alternative methods of procurement.

Manuals and Procedures

Public procurement manuals typically comprise (i) a policy manual, which can include purchasing rules and administrative procedures; (ii) an operations manual of internal practices and procedures; and (iii) a vendor manual, which often takes the form of a booklet entitled *Doing Business with the Government*. Matters of policy (e.g., giving preference to domestic suppliers in international competitive bidding) are generally issued as binding instructions for all ministries and departments, but different countries allow different degrees of departmental discretion in devising procurement regulations. In Singapore, for example, all government entities must follow the administrative procurement procedures laid down by the Ministry of Finance in an instruction manual. On the other hand, New Zealand, the United Kingdom, and other developed countries issue central guidelines but allow individual departments to issue regulations specific to their needs within those guidelines. There are advantages to issuing a single set of procurement guidelines for common guidance, while allowing individual agencies to supplement and vary these according to their needs and those of their clients.

ORGANIZATIONAL ISSUES IN PROCUREMENT⁶

Systematic Neglect

A fundamental problem in public procurement is disinterest and neglect by operational managers, who tend to leave procurement to the “specialists.” There are several reasons for this neglect. Managers are typically more interested in policy, and find the tasks of purchasing dull by comparison. Also, they rarely have enough time to understand the intricacies of product quality, pricing structures, and technical specifications. Moreover, in a climate where the integrity of government operations is coming under increasing scrutiny, keeping some distance from purchasing operations insulates a manager to some degree from potential charges of corruption.

Finally, management distance from procurement decisions is often encouraged by the procurement staff themselves—usually because they view management involvement as interference with little value added, and occasionally for less honorable reasons. A time-honored defensive response to a sudden interest by managers in procurement is to provide them with a large volume of indigestible technical material.

The general disinterest of public managers in procurement matters finds its expression in the absence of the subject from the curriculum of public administration schools. In contrast, business and management schools normally offer one or more courses in purchasing and in contract monitoring.

This is not a healthy state of affairs. In the first place, as noted earlier, the entire field of public administration has its historical origin in the ruler's concern with a malfunctioning procurement system. Second, as stressed throughout this book, the effectiveness of public management depends largely on achieving a good balance between control and flexibility; between protecting systemic equity and providing individual incentives for performance; and between short-term results and long-term continuity. Civil servants have an understandable aversion to risk because of the lack of corresponding rewards and the special external scrutiny to which public service is exposed. Only a climate of trust and higher-level support can prevent such risk aversion from turning into operational paralysis. In the area of procurement, this calls for more involvement by managers and consequently greater support for and control of the actions of the procurement specialists.

Therefore, senior public managers have a central responsibility to become much more involved in the procurement function, especially for large contracts, than is currently the case in most governments. The political leadership can persuade managers to accept this responsibility by making its exercise part of their explicit performance expectations. Of course, senior managers cannot and should not become procurement specialists, but they must be aware of the process and its risks, and there are a variety of ways through which senior public managers can assure themselves of obtaining competent contestable advice. Such an evolution in the public sector would find a parallel in the earlier evolution in the private sector—from product orientation to client orientation—with the result that in the 1970s the separate purchasing activities were merged and entrusted more and more to top levels of management.

Organizational Arrangements

A central question is whether responsibility for procurement should rest with the agency that requires the service or with a central purchasing agency. The main advantage of centralization is that the central procurement officers know the law, policies, and procedures, and have the institutional memory to gain the maximum benefit for government. Decentralization, on the other hand, speeds up the process and places greater emphasis on the services and goods to be delivered. The conflict between central procurement offices and line agencies is typical, and is part and parcel of the general issue of central versus decentralized authority. This conflict draws attention to a number of broader issues that concern not only the executive branch of government but also the legislature and oversight entities such as the audit and anticorruption agencies.

In most countries, the ministries and other spending agencies undertake their own procurement and award contracts for civil works and supplies, subject to procurement guidelines and goals prescribed by a central unit (normally in the ministry of finance). The central unit fixes the threshold for purchases or contracts within the discretion of the head of each spending agency, as well as the procurement threshold for more rigorous tendering under central bidding procedures. In countries where executing agencies are set up for operational functions (Chapter 6), the framework agreement provides for financial autonomy in procurement, subject to certain binding features of national procurement policy.

The following illustrates the variety of practices in different countries. In the UK, a Procurement Policy Team, a joint unit of the Treasury and the Department of Technology and Industry, advises the ministers on procurement policy. In Slovakia, procurement is the responsibility of the Ministry of Construction and Public Works. In Singapore, the Government has decentralized the bulk of its procurement to the ministries, departments, and statutory boards, which make their own arrangements. However, several centralized procurement functions are performed by the Budget Division and the Procurement Policies Unit in the Ministry of Finance, the Construction Industry Development Board, and the Health Ministry (for pharmaceutical products). Australia's federal structure combines central agencies and decentralized departments, as well as central procurement entities with significant support functions (Box 9.5). It is a good example of strategic coherence in procurement. Some countries (e.g., Australia, Canada, and a number of Asian and European countries) have set up specialized

purchase agencies to provide common services and materials for several departments.

It is useful to build a consultation mechanism into the procurement process, not only to give the spending agencies the benefit of expert advice but also to check imprudence in procurement. As an outgrowth of such consultation, purchases by spending agencies may be exempt from the bidding process if they are made from an approved-rate contractor preselected by the central procurement agency. Alternatively, agencies may be required to consult specialized entities or experts when acquiring computer systems and scientific services. Interagency committees may be set up for procuring supplies involving several sectors or agencies. Various other coordination and flexibility mechanisms may be established for effective consultation between the procurement entity and the spending agencies.

Box 9.5
Procurement Organization in Australia

In the commonwealth government, procurement management is substantially decentralized, with each agency responsible for its own procurement within a centrally prescribed framework of procurement policy and advisory guidance on best practices and techniques. The framework also covers government business enterprises. The Department of Administrative Services coordinates purchasing policy and civil purchasing.

Among the entities with procurement responsibilities is Purchasing Australia, which administers the purchasing and disposal framework of the commonwealth government.

Purchasing Australia also supports the general supplier community through the following mechanisms:

- a supplier development program, which assists small to medium enterprises in gaining access to the commonwealth marketplace by linking suppliers with buyers, providing information, and facilitating skills development; and
- The Government Electronic Marketplace Service, which provides information through the Internet about the purchasing policies of the Australian Government and special purchasing opportunities in the Government.

continued on next page

Box 9.5 (cont'd.)

The Office of Government Information and Advertising provides advice and assistance in advertising, market research, public relations, and related matters. It manages the centralized arrangements for commonwealth advertising; disposal of surplus assets; contracting assistance; the facilitation of electronic purchasing; buyer training; and publications and other advisory material on procurement matters.

The Public Works Policy Group (PWPG) assists agencies in applying public works policies. The PWPG promotes the implementation by agencies of best practices in the procurement of construction and related services, and facilitates the ongoing development of best practice strategies.

The National Procurement Board monitors, reviews, and reports on the efficiency and effectiveness of the Government's buying framework and plays a key role in ensuring that all agencies carry out the Government's policies.

Source: World Trade Organization web site: <http://www.wto.org>

WHAT TO DELEGATE AND WHEN

General Issues

As already emphasized in Chapters 5 and 8, the issues of delegation and decentralization pivot around the right balance between efficiency and risk. Typically, line ministries and spending agencies always push for delegating the procurement function, on the grounds that they are the best judge of their own requirements, and can meet them faster and at less cost than going through a central procurement agency. This would be almost always true, except for the problem of the senior managers' disinterest and neglect of the procurement process, discussed earlier. The disinterest of senior managers means that once procurement is delegated to the line agency, it falls under general administration and is no longer given the prudential attention it deserves. The risks correspondingly increase with the delegation of procurement. However, the solution is not to keep all procurement centralized because of the risks. On the contrary, the previous section has pointed to the advantages of decentralized purchasing and contract decisions, subject to central rules, criteria, and oversight. The risks, however, must be addressed—both by encouraging sufficient attention to procurement by senior managers in the line agency, and by retaining robust central oversight.

The key questions to be considered when deciding to decentralize procurement are

- whether it is more effective to develop strict purchasing procedures and contractual safeguards at the center, or to give public managers more discretion to develop procedures and safeguards tailored to the particular goods and services they need;
- how to delegate procurement to the line agencies, while installing appropriate safeguards to prevent abuses;
- the role of the central procurement agency in a context of delegated procurement responsibilities; and
- the degree of corruption and the inefficiency risks of delegation at different stages in the procurement cycle.

The degree of risk varies in different sectors, countries, agencies, and transactions. To achieve a good balance between efficiency and risk one should therefore unbundle the procurement issue. The following considerations may be useful in this context.

Generally, three variables determine the degree of risk:

- specificity;
- market structure; and
- size and complexity of the transaction.

Specificity is inversely related to risk: the more specific the product or contract, the fewer the opportunities for manipulating the procurement process. However, artificial specifications may be included in the standards to favor a particular supplier. Also, other things being equal, greater specificity also entails a smaller market. The market structure in a sector is itself important, with a more restricted and less competitive market associated with greater risk. Next, a large transaction is normally also technically more complex, thus offering greater openings for manipulation and making oversight more difficult. Note also that in the area of procurement the riskiest level of management is middle management, either in terms of inefficiency (through a narrow insistence on the literal application of every extant rule) or in terms of corruption.

To illustrate, information and communication technology is an especially sensitive area. It normally entails the bulk purchase of expensive equipment; requires a level of buyer expertise that is not normally found in

government; and is frequently supply- or donor-driven or both, irrespective of the real needs of the users in a particular country. In this and similar sectors, some mechanism is needed to obtain independent technical advice, as well as to assure much greater participation from the very beginning of the purchasing process by the final users of the equipment or the software.

The sequence of delegating procurement is as important as the end point. Government may delegate certain phases in the procurement cycle first, keeping close tabs on their functioning and strong central control on the other phases—progressively delegating more and more procurement phases as experience permits and performance warrants. Or, delegation may begin first in the less risky sectors or agencies, and gradually be expanded to other sectors. The main phases of procurement (as explained in the next section) are the setting of standards and criteria, the bidding process and evaluation, contract negotiations, and contract monitoring.

A simple scheme may help categorize the degree of risk (which will of course differ according to the specific circumstances of the country), and hence help in deciding which procurement phase to delegate, and for which sector. In the hypothetical illustration below, where the risk of delegating a specific stage of procurement is measured on a scale of 1 to 10 (10 being highest risk) and the risk potential of sectors is assessed on the three determinants discussed earlier (specificity, market structure, and size and complexity of transactions), procurement can be fully delegated in sector V, and not at all in sector Z, while strong central control should be kept in the monitoring phase for sector W, in the standard-setting phase for sector X, and in both the bid evaluation and negotiations phases for sector Y.

Risk Matrix for Delegating Procurement Functions

Sector	Phase of Procurement			
	Criteria/ Standards	Bidding/ Evaluation	Negotiations	Monitoring
V	1	1	2	2
W	3	3	3	9
X	9	2	2	2
Y	2	8	7	1
Z	8	8	8	9

Local Government Procurement and Intergovernmental Aspects

Procurement is becoming important at the local level, in parallel with decentralization (Chapter 5) and the increasing range of functions performed by local governments in most countries. However, legal restrictions on procurement apply much more at the local level because of conditions attached to grants from the center or because of the mandates by national government in areas such as environment.

Some developed countries (e.g., the UK) have been enforcing compulsory competitive tendering at the local level for years, in the interest of service efficiency and quality. Model procurement codes for state and local governments, developed in countries such as the US, envisage a procurement policy unit reporting to the city manager or the district or county commissioner. The unit has no operational responsibility for procurement, but provides research support, maintains a contractor database, and monitors complaints. This could be a suitable system for cities in developing countries, with limited staff and skills.

As noted earlier, there is substantial agreement on the need to integrate centralized procurement policy with decentralized measurement operations. In developing countries, with their scarce skills at local levels, and the greater scope for imprudent and discretionary expenditure, such delegation has to proceed carefully. The higher levels of government must be cognizant of the risk of corruption and waste in local government procurement, and take steps to build local capacities, along with nonintrusive oversight mechanisms. Of course, in countries where corruption in the central government is pervasive, decentralized procurement is likely to improve matters even without special safeguards or technical assistance.

Once the authority is delegated, the higher government level should have the power to monitor and conduct audits, but should not intervene in the award or administration of any specific contract. To address the problem of limited capacities in local units, the state or provincial government could encourage joint procurement, or the award of contracts covering a number of jurisdictions, as is done in France. Also, the provincial government could have the important function of removing barriers to entry for small contractors in local jurisdictions, organizing training programs for contractors and construction firms, and providing support services. Some countries have set up public sector consultant organizations, staffed by experts, to assist local governments in planning and managing large construction and

irrigation works, and in procuring supplies and services from domestic and foreign sources. Finally, the subnational units could take advantage of central rate contracts with reputable suppliers (as in India).

Although not subject to the same rules and constraints, a good deal of procuring takes place *between* levels of government. This partly takes care of the problem faced by agencies in the audit and oversight of contracts with private parties. In addition, contracting with another state agency may ensure for smaller local units a more uniform level of assured services than contracting with private entities. It is important, however, to avoid making local government a captive consumer of higher government series, and therefore the choice of whether to purchase from higher-level government or from private suppliers must be left entirely to the local government concerned (subject only to the general procurement regulations).

THE PROCUREMENT PROCESS⁷

Forms and Stages of Procurement

The forms of procurement practiced in different countries depend mainly on the nature of the goods and services, the size and complexity of the contract, the administrative level, and the market structure. International organization guidelines and bid documents recognize the following forms of procurement, although special procurement procedures may also apply in certain cases:⁸

- competitive bidding (international or national),
- shopping (international or national),
- direct contracting (sometimes called sole-source contracting or direct selection),
- force account, or
- procurement through agents.

Competitive bidding (also known as open tendering) is aimed at providing all eligible bidders with timely and adequate notification of the requirements of the procuring agency and an equal opportunity to bid for the required goods, services, or works. Some countries may give preference to domestic suppliers, as noted earlier. National competitive bidding is normally used when foreign bidders are unlikely to be interested because of the nature of the goods and services or the purchase is of a small size.

Otherwise, international competitive bidding is used. Limited competitive bidding without public advertisement is indicated when the values are small or when there are only a few suppliers. Bids are sought from a limited number of potential suppliers, but broad enough to assure competitive prices. Many local governments float such limited tenders for repetitive purchases, including engineering items and construction materials, on an annual basis and place repeat orders with one or more contractors.

Shopping involves comparing price quotations obtained from at least three suppliers for readily available off-the-shelf goods of small value, such as office equipment, furniture, medicines, books and educational materials, information and communication materials, and similar small supplies. World Bank projects in India, for example, permit shopping procedures for items estimated to cost less than the equivalent of \$30,000 per contract, up to a specified maximum amount.

Force account, or direct government supply and public works, is the provision by the government's own personnel and with its own equipment. It is justified where the works are small or scattered, the amount of work cannot be specified in advance, or in emergencies. In all other cases, procurement by force accounts has tended to be less economical owing to the lack of any competition for the services.

Where the buying agency lacks the necessary organization or skills, it may employ as its agent a specialized procurement spending firm, or a project management firm for construction contracts. Consultants are also often used to draw up documents or to inspect supplies and works.

Direct selection, or sole-source selection, is used for relatively small contracts requiring the specialized skills of a specific individual or firm, and in situations where time is of the essence.

The different forms of procurement are applied to contracts of different value, with the simplest forms being used for lower-value purchases. For example, the World Bank normally requires international competitive bidding for purchases worth more than US\$200,000; permits national competitive bidding for purchases between US\$30,000 and US\$200,000; and permits shopping and direct selection for purchases of less than US\$30,000 (or vehicles costing less than US\$100,000).

In various forms of build-operate-transfer contracts or under turnkey projects for construction, the private company is allowed to procure the goods and services for the project, in accordance with designs and specifications agreed in the contract. Conversely, government agencies in developing countries sometimes handle international bidding and related services for small firms.

Competitive Bidding

Stages of the process

As noted, competitive bidding is prescribed for procurements above a specified value threshold set by the ministry of finance or the central procurement agency. Besides private suppliers, potential bidders include city and county departments (for local services), nonministerial public bodies, and nonprofit organizations.

The complexity of the process depends on the value and nature of the goods or services being procured, but the requirements for competitive bidding are similar in all cases and largely applicable to other forms of procurement as well (Transparency International 1996):

- a clear and fair description of what is to be purchased;
- a publicized opportunity to bid;
- fair criteria for selection and decision making;
- the receipt of bids from responsible suppliers (or contractors);
- comparison of bids and determination of the best or most responsive bid, according to the predetermined and publicized rules for selection; and
- contract award.

Accordingly, the stages in the process of competitive bidding are

- prebid,
- public notice and invitation of bids,
- bid opening and evaluation,
- resolution of complaints, and
- contract award and conclusion.

Prebid process

Prebid requirements include standardized bid and tender documents, rules for classifying and registering contractors and suppliers, rules for prequalification, bid evaluation committees (if necessary), and process of deciding on the award of bids. The documents must contain clear specifications, instructions to bidders, and contracting terms. The key requirement of a fair and open process is the easy availability of bid documents in comprehensible language to all willing bidders. A number of countries make the information and documents available in electronic form through convenient outlets or through associations of contractors.⁹

Enough time must be allowed for potential suppliers to bid, for the purchasing agency to evaluate the bids and make the award decision, for the final details of the contract to be negotiated, and for the goods and services to be received or the work to begin. Procurement planning must take these time requirements into account, and the purchasing agency needs to begin the process early enough to ensure that the goods and services will be ready when needed, and avoid having to make high-cost decisions. Recall that timeliness of purchase is one part of the economy criterion.

The bidding process in many developing countries is often impaired by unclear specifications because of a deliberate intent to leave room for discretion or imprecise thinking at the agency level. Contractors and suppliers need clear specifications to respond competitively to the requirements of the purchaser. The specifications should be substantive and permit the acceptance of offers of generic goods that substantially provide the performance specified. Services must be clearly specified in terms of their outcomes or outputs, not only their inputs, but without dictating exactly how the activity is to be performed. Sometimes the specifications and required qualifications are so detailed as to apply to only one or two potential bidders. This is almost invariably done to circumvent the requirements of competitive bidding and in effect operate by direct selection, for good or bad reasons.

Participation of small contractors is often facilitated by dividing the service area into a number of smaller regions or a number of similar packages of equipment and works (a form of unbundling), and encouraging competitive bidding for each area or package. There is less risk of disruption of supply or services in this process of unbundling, but the downside is the likely higher cost of overall procurement and the bias of central governments in favor of large tenders.

Public notice and invitation to bid

Timely notification of bidding opportunities is essential in competitive bidding. The notice should be published in local and national newspapers, official gazettes, or electronic bulletins, to suit the nature and size of the project. Information on the invitation to bid should be available in offices of the agency, and the district or county administration for local projects. Bid notices should be publicized in the local language where small contractors and community organizations may be likely to bid. International bids should be published in widely circulated trade journals and newspapers, and through the Internet.¹⁰

In the case of large, complex works, turnkey contracts, or large consultancies, a two-stage bidding procedure may be used. Unpriced technical proposals are first invited based on technical and performance specifications. Bidders whose proposals are judged to be responsive to the technical criteria are then invited to submit price bids.

Prequalification of bidders is usually necessary for large or complex works or in cases where the high cost of preparing bids may discourage competition, such as for custom-designed equipment, industrial plants, specialized services, turnkey contracts, or management contracts. The process ensures that invitations to bid are extended only to those with adequate capability and resources. Prequalification is also used to determine eligibility for preference for domestic contractors in donor-assisted projects. Prequalification should be restricted to the capacity, experience, and resources of the contractors to perform the particular contract satisfactorily, taking into account their past performance in similar contracts. As always, prequalification must be based on transparent and well-publicized guidelines.

Specified criteria are used in deciding which persons or entities are allowed to bid. Sometimes contractors are prequalified for a group or type of contracts over a period of time. In case of projects financed by donor agencies like the Asian Development Bank (ADB) and the World Bank, as well as some governments, prequalification also serves as a check on the integrity record of the contractor, by stipulating that the bidder shall not be under a declaration of ineligibility for corrupt and fraudulent practice. This practice is increasingly required, in parallel with the recent emphasis on fighting corruption in developing countries (Chapter 17).

The guidelines of ADB and the World Bank provide that, as far as possible, the bid package or contract is of such size as to attract competition. Where a number of separate but similar works or items of equipment are to be procured, bids may be invited under alternative contract options from large and small contractors so that the contracts can be evaluated separately or together, or sliced and packaged to secure the most advantageous terms.

The *bidding documents* should furnish all the information necessary for a prospective bidder to bid for the goods, services, or works to be provided. While the detail and complexity may vary with the size and nature of the proposed procurement package, the bidding documents generally comprise the following:

- invitation to bid;
- instructions to bidders, including the criteria for bid evaluation;
- form of bid;
- form of contract;
- general and special conditions of contract;
- specifications (and drawings where relevant);
- list of goods or quantities;
- delivery time or schedule of completion; and
- necessary appendixes for such items as the types of deposits or securities.

The documents should be both in the local language and in an international language (normally English).¹¹ To assist developing country governments, international organizations have prepared standard bidding documents for different types of procurement. In many cases, the aid-receiving government is required to use the standard bidding documents of the donor organization. This practice may appear to be intrusive, but it saves resources and provides needed protection for both the donor and the recipient, and boosts the confidence of suppliers.

Bid opening and evaluation

Key to transparency and fairness is to open the bids at a designated time and place in the presence of all bidders or their representatives who wish to attend. Such public bid openings reduce the risk that bids will be leaked to competitors, lost, or manipulated. After the bids are opened, no information on the bid evaluation and award recommendations should be disclosed until after the successful bidder is notified of the award.

Bid evaluation is one of the most difficult steps to carry out correctly and fairly in the procurement process, and one of the easiest steps to manipulate. Most countries provide for bid evaluation committees for procurement above a threshold value. Experts are called in to assist in evaluating complex bids. Decisions on bids of small value are delegated to the appropriate lower level. A report on the evaluation of bids should be prepared, giving the specific reasons for the recommendations. This process also calls for the exercise of judgment in spotting unrealistically low bids, which will lead to change orders during a project or to unsatisfactory performance. Management in developing countries especially has to be on guard against rigging of the process by a group of suppliers or contractors willing to share the market or rotate jobs. It is important for the results of the bidding process *as a whole* to be evaluated periodically to identify suspicious trends.

Unusual or lengthy delays in bid evaluation are often a sign of trouble, an indication that someone in the system is attempting to discourage the best bidders or give extra time to favored bidders on the basis of leaked information. Such delays should be strongly discouraged.

Award of contract

The agency should award the contract within the period of validity of the bids to the bidder whose bid has been determined (i) to be substantially responsive to the bidding documents and (ii) to offer the lowest evaluated cost. The bidder should not be required to undertake responsibilities not stipulated in the bidding documents or to otherwise modify the bid. However, if the winning bid exceeds the prebid estimates, the agency may negotiate with the successful bidder to lower the contract price by reducing the scope of work or reallocating responsibility. This process should be transparent and according to objective criteria. There, too, delays are often a symptom of unfair or corrupt practices.

EU requires purchasing agencies to make the results known by means of a contract award notice published in the official journal and the data bank of the EU. The notice should specify the conditions under which the contract was awarded (i.e., the criteria applied and the price). EU also requires agencies to give the reasons for selecting the successful bid to the unsuccessful bidders, and entitles the latter to ask for review based on the claim that proper evaluation procedures were not followed. While many countries follow the practice of making information on the award of contracts

available to the public, there are no uniform practices for informing the unsuccessful bidders.

Rejecting all bids is justified where there is lack of effective competition or none of the bids is substantially responsive. If it rejects all bids, the agency should consider wider advertising, after examining the reasons for the lack of responsive bids or the low number of bidders, and possibly make suitable revisions in the bid documents. Note, however, that rejecting of all bids is sometimes an indication that improper negotiations are being conducted on the side. Similar to undue delays in evaluating bids, rejecting bids may be a device to elicit bribes from contractors, or provide privileged information to “friendly” contractors who can subsequently place an artificially low bid.

Redress of complaints

Avenues should be available for entertaining legitimate grievances and complaints from bidders about the fairness and confidentiality of the process, and for furnishing clarifications. Most countries provide for procedures within the procurement entity itself for investigating complaints from contractors and their redress or disposition. In Japan, a special unit in the cabinet office considers complaints relating to international competitive bidding. In some countries, complaints can be addressed to the ombudsman if the purchasing agency is unresponsive. Some countries provide for a review of the decision on the award of the bid if representations are received from the other bidders in time, but all procurement decisions are open to judicial challenge in most countries. Attitude is also important. The unresponsive behavior of procurement staff to complaints and suggestions can make it less attractive to do business with the government, and thus reduce effective competition in the future. This, of course, may sometimes be precisely the goal of the unresponsive behavior of procurement staff.

EU requires the establishment of complaint procedures, which allow the bidding firms to challenge decisions taken during the procurement process, either in general courts or in courts with standing jurisdiction over public procurement, or (as in central and eastern Europe) by administrative commissions empowered to intervene. Hungary and Poland have created specialized institutions to deal with public procurement complaints, inspired by the model UNCITRAL law.

Other Forms of Procurement

Sole-source procurement

Sole-source procurement is also called single-tender purchase, direct selection or direct contracting. It is manifestly appropriate for the purchase of highly specialized systems and equipment, in cases of emergency or natural disasters, or when the standardization of equipment or spare parts (and reasonable prices) justifies additional purchases from the same supplier. In some developing countries, competitive bidding is waived if the procuring entity directly entrusts the supply or works contract to a state-owned enterprise on a negotiated basis. Sole-source purchases account for more than 50 percent of federal purchases in the US, mostly for certain specialized equipment or supplies (as in the aerospace and defense industries), where only one firm is technically qualified to provide the goods, services, or works.

Direct selection is also appropriate and cost-effective in the procurement of consulting services, when a track record of specialized technical expertise is essential and timing is important. This is often the case for public sector management services, when contracts are comparatively small and individual consultants are required.

Direct selection is defensible in developing countries if there are rules for how and when this form of procurement is used and the determination is based on some form of market research and product testing. Otherwise, it could become a cover-up for collusive corruption or bureaucratic laziness in exploring better alternatives. Care must be exercised especially in evaluating the bids in spot purchases of commodities like crude petroleum and armaments, as these have been the subject of scandals in many countries.

Requests for proposals

Requests for proposals (RFPs) are negotiated bids, wherein the parties enter into a contract after discussing its terms, provisions, costs, and other elements. There is no formal bidding. RFPs are most common in consulting or other personal professional services, such as those of architects. Unlike the invitation to bid, which focuses on minimum qualification, RFPs focus on quality. RFPs are also used for sole-source suppliers of special products such as computer software programs or special patents (as for experimental programs like a new process of sewage disposal).

The RFP process starts with defining the scope of services and proceeds to identifying the possible bidders, who are then encouraged to make an offer to provide the service or product. The price and other terms are then negotiated. In developing countries, RFPs create an impression of corruption as they are inherently judgmental, often not transparent, and may lead to higher costs. The combination of technical judgment and negotiation calls for agency skills that are in short supply in many countries, possibly leading them to depend on the judgment of foreign consultants. Since many developing countries use RFPs for projects, this procedure needs carefully worded and transparent policy guidelines and procedural regulations, and personnel skills to manage the process.

Procurement from other government entities

Intergovernmental contracting is a service delivery choice in which one government unit agrees to provide a service to another government unit (Rehffuss 1989). A simple example of such a contract is one where a county agrees to collect refuse for a city—a service for which it would normally bill the citizens directly. The county may receive payment from the city or use property tax levies to defray the costs. These quasi-contractual arrangements could be informal.

Joint service agreements, such as those in countries following the French tradition, are formal agreements between local government units (and sometimes state agencies) for joint planning, financing, and delivery of services (such as water supply or data processing) to the inhabitants in the participating jurisdictions. These agreements generally entail formal service contracts (such as for the maintenance of streets and sewage plants) approved by the legislature or the government and legally enforceable. A newly incorporated city could compare the cost of providing all services through its own employees, with the cost of having them provided by another city, and make a rational choice between self-provision and joint services.

Intergovernmental contracting is also a useful means of governmental integration in developing countries. It can ensure uniformity of services and economies of scale, avoid many of the hassles of contract management, and, more importantly, create a habit of cooperation among local government units, or what we may call governmental social capital.

Small purchases

Virtually all countries and international organizations have established a value threshold below which competitive bidding is not required and procurement is delegated to lower levels of authority or shopping procedures are permitted (India and Singapore are Asian examples; also refer to the World Bank practice noted earlier). The procuring entity is allowed to award the contract based on a simple evaluation of at least three quotations obtained from a number of known suppliers. The contract agreement is simple and often consists of a mere exchange of letters. Some countries permit the registration of authorized vendors and the placing of orders with them by rotation during the year. Many countries have made provisions for contracts to be awarded, at a negotiated price, to labor and community associations, after ascertaining their competence and experience.

In developing countries, poor-quality goods are often bought at exorbitant prices through collusion, using the procedure of purchase through quotations, as the Presidential Commission in Tanzania (Box 9.6), for example, has found. This is sometimes the reason behind the practice of splitting annual purchase requirements into several small packages below the threshold level. However, the practice may also be due to fluctuations in the availability of funds for agencies during the year, and the considerable delay from central purchasing. Splitting up a large purchase may be the only way for an agency to get around the inefficiencies of central purchasing offices. Still, since small purchases can add up to a significant part of the budget, the scope for corruption and waste can be substantial. The main safeguards are alert public managers and robust audits of such small purchases on a sample basis. When the splitting-up practice is forced on public managers by inefficient central procurement or overly complex rules, however, the solution is not to prevent the practice but to reform the central procurement entity or streamline the procurement rules.

Box 9.6
Government Procurement in Tanzania

The report of the Presidential Commission against Corruption in Tanzania has described and illustrated the nature of corruption in construction tenders and procurement. It noticed a total disregard for rules and regulations. There were huge differences between the tendered cost and the final cost of completion. The commission felt that these contracts were being used to defraud the Government.

Government procurement procedures revealed several deficiencies, allowing loopholes for corruption and large financial misappropriations to develop. Corruption in procurement from the central government stores was because of poor leadership, scarcity of essential commodities due to poor recordkeeping, a lengthy bureaucratic process of collecting goods, and poor procurement systems. Purchase through price quotations, which was to be used only during emergencies, had become the normal procurement procedure. Poor-quality goods had been procured at exorbitant prices through collusion and without the approval of the relevant authority. The procurement of nonexistent goods through the use of proforma invoices had become widespread because of this procedure. Financial orders were not updated and were deficient in laying out procedures for construction tenders. The personnel who handled costing and evaluated tenders did not check current market prices in evaluation. Some bidders bribed their way into the preparation of favorable bid specifications and prequalification. The procurement officers sometimes advised the bidders to quote a low price, and then assisted them with change orders to enable them to receive higher payment. Bids awarded in violation of procedures were nonetheless often ratified by higher authorities.

Source: Tanzania (1996).

Procurement from nonprofit and community agencies

Local communities or nongovernment organizations (NGOs) are encouraged to participate in contracts in a number of countries, and even in projects assisted by donor agencies. The objective could be to promote project sustainability, achieve specific social objectives, develop local “ownership” of a project, meet user requirements more precisely, or reduce transaction costs. The approach is particularly relevant to the delivery of social services to targeted groups. The nature of community-based procurement will depend on local circumstances and could vary even within the same country. Despite the many advantages of NGO participation in government procurement, there are also risks and pitfalls, and developing

countries need to exercise caution. These issues are discussed at length in Chapter 15.

In many countries, affirmative action policies dictate set-asides for small business, minority business, or women-owned business. These transactions are not always meant to be market-based because they attempt to correct perceived market imperfections or introduce social purposes into economic outcomes.

Bidding in Projects Financed by Donor Agencies¹²

Because of the importance of public procurement in the management of public expenditure and the proper use of external aid, multilateral organizations such as the UN, ADB, World Bank, and EU have issued guidelines for procurement in projects they finance. Most bilateral donor agencies have also issued procurement guidelines, but their practices vary. Several still insist on tying aid to the purchase of all goods and services that are not locally available, including consulting services, to suppliers in the donors' own country, despite the well-known distortions and inefficiencies caused by tied aid.¹³ Some donors insist that international competitive bidding be limited to countries within the region. Others require contract clauses relating to social purposes such as the prohibition of child labor. Preference for domestic suppliers is not always included. However, all donors insist on integrity provisions similar to those of the ADB and the World Bank.

The World Bank, ADB, and the other regional development banks recognize that the responsibility for implementing a project rests with the borrower and that the mode of procurement for the project depends on the circumstances and policies in the aid-recipient country. However, they generally insist on the use of standard bidding documents.

Four considerations generally guide the requirements of aid organizations (World Bank 1995):

- economy and efficiency in implementing the project;
- opportunity for all eligible bidders from developed and developing countries to compete for the right to provide goods and works financed by the organization;
- promotion of domestic contracting and manufacturing industries in the aid-receiving country; and
- transparency in the procurement process.

Independently, both the World Bank and ADB have been assisting member countries in incorporating the best principles of procurement in new or amended regulations, and in devising procurement procedures and tender documents that meet the requirements of international conventions. A similar objective has guided the efforts of the Organisation for Economic Co-operation and Development (OECD) to assist the countries of central and eastern Europe in reforming their procurement regulations and practices.

Recently, ADB and the World Bank have issued guidelines on fraud and corruption to require borrowers, as well as contractors, to observe the highest standards of ethics in the procurement and execution of contracts. Some credits have been canceled and a number of contractors and suppliers have been sanctioned—some who were found to have engaged in corrupt practices were barred for long periods (Chapter 17).

CONTRACT ADMINISTRATION AND MONITORING¹⁴

Importance of Contract Administration

Contract administration and monitoring is a neglected area in many developing countries, reflecting poor implementation capability in government in general. Contracts must be carefully implemented and monitored. Resorting to contracts with private parties does not solve the problems of bureaucracy. Indeed, accountability may become more difficult because at least three organizations are involved: the public organization that completed the bidding process and awarded the contract, the public agency that is expected to oversee the execution of the contract, and the private entity that will execute the contract. Developing countries are rife with examples not only of outrageous delays and excessive costs of implementation, but also of abuse, waste, and fraud in contract execution. Contracting out services, supplies, or works does not relieve the government of responsibility for the manner in which the service is provided or the work constructed, and for the quality of both. Any government that forgets this rule will be very sharply reminded by an angry public as soon as something goes wrong.

The effectiveness of contract management is strongly influenced by decisions made prior to the award of contract. Ambiguous, unrealistic, or conflicting agreements make it very difficult for the public manager to oversee their execution. Contract size also plays a part in determining the scope of contract administration, but the skills of coordination and

negotiation, and in-depth knowledge of contract terms and customer expectations are important in all cases.

Many contracts do not have clear performance standards, which permit the contractor's work to be judged and also protect contractors from arbitrary interference. Procurement managers need to be encouraged to draft contracts that emphasize results, make monitoring feasible, and are easily understandable to field officers and contractor representatives alike.

It is important to note that while the government operates all over the country its procurement for large contracts is concentrated at the center. Consequently, the field administrative units responsible for supervising contract execution often have no idea of the basis for the award of the contract, but nevertheless have to subject themselves to inspection by the oversight agencies.

Nature of Contract Monitoring

Contract monitoring

Monitoring continues through the life of the contract. No amount of careful preparation of the contract or detailed specifications will ensure adequate performance if the actual performance is not monitored. Monitoring contract execution includes reviewing contractor reports, making inspections, commissioning audits, and obtaining citizen feedback. The relationship between the public official and the contractor should not be adversarial and antagonistic. Nevertheless, direct inspection and observation of the progress of the work remains the most important element. Financial audits, while necessary and usually required, come too late to remedy problems of execution, though they can provide evidence of wrongdoing, which can be used to fight a court case or disqualify the contractor from future work. In contrast, experience suggests that detailed reviews by higher officials often take up too much time and effort without significant results. On the positive side, establishing good and professional relations with the contractor can do much to assure good contract execution.

Often, corruption is permitted by the filing of unrealistically low bids, in the tacit agreement that the contract assessment will be increased after contract negotiations due to unforeseen circumstances. Only strong contract monitoring can prevent these practices.

Quality assurance

Quality is a component of economy and quality assurance is a critical aspect of contract monitoring. It relates critically to the clear drafting of the technical and other characteristics of the product, work, or service to be provided under the contract. The nature of the quality assurance task will depend on the nature of the output. Inspectors of construction work, for example, demand compliance with building codes and similar legal mandates in addition to compliance with the purchaser's specifications. Many countries have established quality control units in their public works ministries.

Some developed countries have established the policy of making the contractor responsible for verifying and assuring product quality prior to delivery. However, this policy requires a high degree of contractor responsibility, contract management skill, and swift dispute resolution. All three factors may be deficient in many developing countries. Accordingly, governments in developing countries should be especially careful about relying on physical output performance indicators as this could lead to a lower-quality output (Chapter 18 for a full discussion).

The central procurement office should disseminate guidelines for the inspection and testing of goods and services under different types of contracts, including information on the available testing facilities and on other quality assurance techniques (such as a requirement to obtain certificates of compliance or certified test results to accompany deliveries). There should be a formal system for reporting complaints against vendors by user agencies and the public, for taking action on deficiencies noted during inspection, and for dealing with product warranties and latent defects in goods. The payment schedule should be tied to inspections so that payments can be withheld when problems occur and until they are resolved satisfactorily. Citizen associations should be systematically consulted, not only because of their involvement as stakeholders, but also because feedback from informed citizens is a highly reliable and cost-effective way of monitoring contracts and ensuring the integrity of public officials.

MILITARY PROCUREMENT¹⁵

Military procurement differs from civilian procurement as it is affected by considerations of national security and conducted in a less transparent manner than other forms of procurement. Equally important is the bilateral

monopoly structure of the market for military equipment and weapons on both the supply and the demand side in the US and some European countries, and the consequent political sensitivity of this area of procurement. On the supply side, the enormous fixed costs and scale economies involved in the production of costly defense equipment, and the need for high research and development (R&D) investment in new technology, raise barriers to entry for new companies and establish different principles for recovering costs from the contract. On the demand side, the government exercises monopsony control as single buyer of the equipment and spares produced by the defense industry.

As noted in Chapter 1, despite its decline in the past decade, military expenditure is still huge, amounting to almost US\$500 billion worldwide in 1998, or US\$130 per year per person. Military expenditure must be considered together with the turnover of arms-producing companies in order to comprehend the magnitude of military procurement. The top 100 arms-producing companies had combined arms sales of US\$156 billion in 1997, with the US, France, Russia, and Germany as the major producers.

The officially reported military expenditures in developing countries do not reveal the much higher actual expenditure. Defense allocation is not often disaggregated, and is shown as a single line item in the budget. The additional income from arms exports and the earnings from the business activities of the army are not shown on the revenue side. Off-budget items, such as expenditure on paramilitary forces, food subsidies to army personnel, military research and development, and subsidies for arms production and imports, are often not shown at all. Secrecy in security matters leads to the omission of provisions made for major equipment purchases. All this makes it difficult for oversight agencies to exercise audit and vigilance.

Military expenditure goes to staff emoluments and pensions, various forms of civilian supplies and amenities, and military equipment and supplies. In the US, 60 percent of the amount spent on depot-level weapons systems and maintenance supplies in 1995 was acquired under contract (Jones 1999). Regional agreements, such as those of the EU, seek to eliminate local preferences in the public purchase of civilian goods but exempt military equipment.

It is usually difficult for the ministries of finance in developing countries to regulate expenditure on defense procurement and the use of scarce foreign exchange because of overriding political perceptions of threats

to national security, internal solidarity, and the sensitivity and secrecy surrounding the purchase of major equipment. The requirement for the emergency purchase of equipment and supplies and the superior bargaining advantage of foreign suppliers in many cases, circumscribe the capacity of purchasing departments and the treasury in striking financially favorable deals.

A distinction has to be drawn between sophisticated equipment with a specific defense use and commercial off-the-shelf defense supplies, including items for both civilian and defense use. In the case of purchases of foodstuff, transport, and civilian supplies, the defense establishment can easily apply the principles of procurement discussed above. But even here, of course, there are stories of grotesque overpricing, such as US\$5,000 coffeepots and US\$200 pliers, etc. (Gregory 1998). Aside from possible fraud, overpricing usually arises because of excessive specifications even for everyday items in military contracts, and the need for the military contractor to recover the entire sunken cost of production from a few items supplied to the army (as opposed to spreading the cost across millions of items in the production run for civilian sales).

In the case of defense supplies, many countries tend to buy from home suppliers, even at some additional cost. The label military-industrial complex sums up popular perceptions of the nexus between domestic industry and the defense establishment. Military hardware (aerospace equipment, electronics and telecommunications equipment, explosives, shipbuilding equipment, etc.) accounts for the largest share of total equipment expenditure. Defense equipment and R&D contracts can give a competitive advantage to supplying firms in technological, commercial, and financial terms. The Association of Southeast Asian Nations (ASEAN) countries have pursued a policy of preference for local private industries when it comes to defense supplies.

Other countries rely on defense equipment and supplies from public factories to reduce their dependence on foreign suppliers and their vulnerability to arms embargoes. Some form of arms production is undertaken by 41 countries, including Asian countries like People's Republic of China, India, Korea, and Pakistan (Brazoska 1999). Many of them, including Brazil, Israel, Republic of Korea, Singapore, and South Africa, undertake defense exports of varying magnitudes. Production of arms by the public sector helps to avoid the fraud and abuse associated with procurement from private domestic and foreign suppliers. However, such

production usually covers small arms and ammunition, rather than high-technology equipment, and may be much more costly than outright purchases. Some countries in Europe and Asia have sought to achieve a compromise between outright imports and indigenous self-sufficiency in defense by setting up licensed production units with foreign companies.

It is important to note that the risks and costs of defense procurement are markedly different for countries without an advanced defense industry. Where the countries are obliged to secure defense supplies through imports or purchases in overseas markets, the balance of bargaining power is with the suppliers. Aside from force and corruption considerations, there is a risk of purchasing outdated equipment—weapons that do not fire, planes that do not fly, etc. At the same time, self-sufficiency in defense requirements has not been possible or desirable for developing countries. Even countries with defense production units are obliged to shop for sophisticated arms and aircraft from foreign suppliers. Apart from problems of patents and secrecy, the research and development costs of defense equipment and supplies are unaffordable to most developing countries.

Some countries have sought to apply the principles of civil procurement to defense supplies as well, with built-in procedures for confidentiality. There is a specialized defense procurement division in the Singapore Ministry of Defense, and other countries like Canada have set up similar specialized divisions or agencies for defense procurement. The procurement process is subject to oversight by supreme audit agencies in many countries, and the publication of audit reports for the benefit of the legislature and the public.

Many developed countries have prescribed an elaborate process for defense procurement and a protracted approval process through various levels from the contracting officer to the treasury, and then to a cabinet subcommittee. The process is further complicated by detailed requirements and specifications, compelling the industry to prepare costly and voluminous proposals, which are then analyzed in great detail by a large team of evaluators. Much of the waste and delay that has been publicized in the US has been attributed to overregulation, overspecification, excessive paperwork and audit compliance, too many layers of authority and supervision within the executive, and micromanagement by the Defense Department and the Congress (Gregory 1989). Canada devised the Smart Procurement Initiative in consultation with the defense industry to improve the procurement process. It included innovative steps like incremental acquisition, greater

flexibility and delegation for small-value and off-the-shelf items, streamlined decision making, and partnerships with business.

The situation is different for most developing countries that have a poor defense industry and depend on imports, and the question is not just one of making things easier and fairer for the contractors. The problem there is not overregulation and complexity, but the lack of transparent, credible, and consistent systems for defense procurement, inadequate legislative and audit oversight, and the failure to institutionalize decisions relating to the acquisition of costly equipment. In countries with a weak defense industry base and inadequate purchase evaluation capacity, the potential for bribery is mixed with the danger of purchasing inefficient equipment. Where military aid is provided by developed countries with tied purchases from the donor country, the recipient country often has no control over the cost and quality of the equipment and spares, and merely watches as its foreign debt rises with its defense spending. The country that is locked into the use of particular equipment and transport also becomes vulnerable to a supply cutoff in spare parts and replacements by the donor country. Defense procurement thus becomes the handmaiden of the vicissitudes of foreign policy. At the same time, developed countries seeking to procure military supplies in support of their army operations in a friendly country are beset by collusion and cartels (as in the case of the Republic of Korea in the 1960s; see Klitgaard 1998). Efforts to deal with the problem through bilateral bargaining have opened new avenues for corruption.

The military procurement process is permeated by the interplay of international and domestic companies, liaison agents, arms bazaars, contributions to political parties, and bribes, and is punctuated by the outbreak of scandals and media exposés. The best single cover for corruption in international defense procurement is the commission paid to a local agent by the foreign arms manufacturer or supplier. The agent is given sufficient funds to land the contract without the parent company having to know the details, creating a comfortable wall of distance between the supplier and the act of corruption, and enabling all the parties in the recipient government and the parent company to disclaim any association with the unsavory details of the deal, should these be exposed.

Once again, Singapore is one country that has declared and observes a transparent policy for defense procurement based on open tender. The principle is to go for the best source that meets the requirement and gives value for money. The policy is to deal directly with overseas and domestic

suppliers and avoid dealing with intermediary agents in contract negotiations. This is much easier said than done, however, for most developing countries, where accountability and public management are not as strong.

SAFEGUARDING INTEGRITY IN PROCUREMENT¹⁶

Areas of Corruption

The subject of corruption is dealt with in Chapter 17. This section discusses briefly specific aspects of corruption in procurement, which is a major problem in all countries and at all levels of government and administration. This problem is hardly new. Over 2,000 years ago, Kautilya wrote in *Arthashastra*

Just as it is impossible not to taste honey or poison that one may find at the tip of one's tongue, so is it impossible for one dealing with government funds not to taste, at least a little bit, of the king's wealth.

Corruption can occur in procurement mainly if there is excessive regulation; the rules are not clear and accessible to the public; the bid documents are poorly drafted or ambiguous; the specifications and standards are not clear; and contract monitoring is loose. Accordingly, either the procurement unit or the bidder can corrupt the procurement process. The procurement unit can

- tailor the specifications to benefit particular suppliers or contractors;
- restrict information on bidding opportunities to only some potential bidders;
- claim urgency as an excuse to award the contract on a sole-source basis;
- give preferred bidders confidential information on offers from other bidders;
- disqualify potential suppliers through improper prequalification or excessive bidding costs; and
- act directly in collusion with the bidders or outside influences to distort the entire process.

The bidders, too, can take a number of actions to distort the bidding process and its outcome, such as

- colluding among themselves to fix bid prices;
- colluding to establish a rotation or other system by which bidders will not participate by turns or will deliberately submit unacceptable or technically unsuitable offers (even the most careful scrutiny of individual transactions will not reveal this tactic, as mentioned earlier, it is necessary from time to time to review all the procurement results for a given period);
- promoting discriminatory technical standards; and
- using their influence or bribes to push political leaders or senior public officials to interfere improperly in bid evaluation.

However, the most direct approach to bribery is to avoid competitive bidding altogether, and contrive to have the contract awarded to the desired party through direct negotiations without any competition.

After the bids are submitted, other opportunities for misbehavior arise. As noted earlier, confidentiality is critical to the fairness of the exercise. Where the rules do not provide for all bidders to be present at the time the bids are opened, it is easy for the procurement officer to reveal the lowest bid to the desired bidder and enable the latter to submit an even lower bid, which is then included in the bid evaluation process.

Serious corruption problems arise also during the contract execution phase, after the award of contract, through practices such as

- failing to enforce quality standards, quantities, or other performance standards of the contract (it is often understood in advance that enforcement will be superficial or nonexistent);
- paying for shoddy construction, or agreeing to the delivery of unacceptable goods and services, or acceding to fictitious claims of losses in transit or false deductions for material losses in construction;
- permitting “lowballing” (accepting artificially low bids, which are then jacked up by mutual consent, for a price);
- delaying payments to extort a bribe;
- spot purchases of commodities during emergencies; or
- giving individual legislators influence over the award of contracts in their constituencies (the so-called pork barrel).

By far the easiest and most profitable form of corruption in public procurement or works is simply not to deliver the goods or build the works.¹⁷ In countries with weak accountability systems, very low administrative

capacity, or widespread systemic corruption, it is not a difficult matter to falsify delivery documents or certificates of work completion. It is in this area that citizens' feedback can be a powerful weapon against corruption.

Political corruption, either financing of political parties in exchange for contracts or official posts, or cooptation of legislators by giving them influence over the award of contracts in their constituencies, is frequent in many developed and developing countries, but goes beyond the scope of this book. It is clear, however, that illicit political financing or pork-barrel politics are a blight on the integrity, efficiency, and effectiveness of public administration. The remedies, however, are almost entirely political and not technical or administrative. This is a major reason why illicit political financing is excluded in the OECD Anti-Bribery Treaty (Chapter 17).

International Efforts to Secure Integrity in Procurement

International lending agencies like UN, World Bank, and ADB are contributing significantly to combating corruption in procurement. The General Procurement Principles for UN agencies require all procurement officials in these agencies to maintain an unimpeachable standard of integrity in their business relationships, both inside and outside the organizations in which they are employed, and not to use their office for personal gain. The amendment made by the World Bank to the standard bid documents in October 1996 requires the borrowing countries, as well as bidders, suppliers, and contractors, to observe the highest standards of ethics in the procurement and execution of such contracts.

The guidelines of all UN agencies and many bilateral donors require that the bidders shall not be under a declaration of ineligibility for corrupt and fraudulent practices. ADB encourages the borrowing country to introduce, in the bid forms for large contracts, an undertaking by the bidder to observe the country's laws against fraud and corruption in competing for and executing the contract. The World Bank will disqualify a firm indefinitely or for a stated period from contracts for World Bank-financed projects if it finds that the firm has engaged in corrupt practices.

Bidders are also required to furnish information on commissions or gratuities paid to agents relating to the bid and to certify that they have not given or received any gifts, commissions, or payments other than those shown in the bid. It is too early to evaluate the impact of these measures.

Building Capacity for Public Procurement

As Walsh and Leigland point out (in Perry 1996), the skills and professional standards of the procurement officials, while not easy to attain, are the most effective safeguard against irregularities and graft. It is risky, and unwise in the interest of building up long-term skills, to rely fully on external consultants to operate the procurement system. And, as noted earlier, the procurement function should be made a part of the required competencies of senior managers, and efficient discharge of this function should be made a performance requirement of senior management.

Postaward contract administration and monitoring require special skills to ensure that the contracting obligations are met on time and to resolve problems. Legal skills are required to interpret contracts and to pursue complaints before arbitrators and the courts. The central procurement agency should help the departments to maintain current information on technical aspects, contract law, management, and procurement practice, and finance the attendance of civil servants in procurement courses; rotation, promotion programs, and the lateral recruitment of experienced individuals from the corporate sector and universities for managerial positions; and develop procurement internship programs.

Countries need to incorporate modules on procurement management in their civil service training. Donor agencies could promote these efforts and assist in the transfer of training expertise from developed countries.

Government agencies have the additional responsibility of initiating and assisting in the professionalization of small contractors, and building the capacity of voluntary agencies and community organizations at the local level to handle service and small work contracts.

Chambers of commerce and contractors' associations in different countries could also develop networks and transfer good procurement practices and training programs for their members and for government procurement managers.

In highly politicized operating environments, honest and efficient procurement demands that civil servants be protected from political "suggestions" and provided the security of adequate compensation, swift penalties for violators of the rules, and protection for whistle blowers.

KEY POINTS AND DIRECTIONS OF IMPROVEMENT

Key Points

Government procurement of goods, services, and public works accounts for a large proportion of public expenditure in all countries, and is one of the major sources of corruption in many countries. Clearly, the procurement function is very important, and yet it typically does not receive commensurate attention from senior leadership in most governments.

The government and the private sector differ significantly in the way they conduct their purchasing operations. The main criterion for sound procurement in both sectors is *economy*, i.e., the timely acquisition of goods and services of a given quality at lowest cost. In public procurement, however, other criteria also apply: import substitution, fostering competition, and protecting the consumers. In most countries, environmental considerations and additional social criteria, such as affirmative action for small business, minorities, women, and depressed regions are also relevant.

The legal framework for public procurement consists of general contract law, specific procurement regulations, and procedural manuals. The framework has been shaped in recent years by the international trade regime and the advocacy by multilateral donor agencies of guidelines to prevent corruption and fraud.

In managing the public procurement process, centralization is required for setting the standards, monitoring the outcomes, and providing an appeal mechanism. It may also be advisable in the short run to retain central procurement of strategic and critical supplies such as information technology. In most cases, however, actual procurement operations should be decentralized to the ministries and agencies concerned within the framework of central procurement standards, rules, and oversight.

Procurement procedures must be clear, simple, and made available to the public. Procurement decisions should be recorded and communicated in writing, along with the reasons behind them. Accountability agencies should be able to determine after the fact who made the crucial decisions and why. Tender opportunities in large contracts should be widely publicized, to attract an adequate number of qualified

bidders. Shared databases on contractor performance are needed at national and regional levels to limit the likelihood that the wrong contractors will be selected, and to weed out contractors with a record of dishonesty or incompetence.

Competitive bidding is the rule in public procurement. However, there is justification for giving preference or set-aside quotas in local contracts for goods and services to small businesses and informal enterprises, cooperatives, and disadvantaged groups, provided the costs are not excessive and that unsustainable subsidies are not required over time. Also, construction contracts for local works and services lend themselves to direct contracting to community associations, without competitive bidding. Some degree of domestic preference is also legitimate for developing countries, as recognized by international organizations, to boost local businesses and small suppliers' capacity. Governments should avoid, however, cost-plus direct selection, or the captive purchase of the production of ailing public enterprises to enable their survival.

As mentioned, competition is the rule in public procurement. Private sector procurement, instead, relies to a large extent on semipermanent commercial relationships with specific suppliers. The different forms of procurement are international competitive bidding, national competitive bidding, shopping, and direct (or sole source) selection. For large purchases and contracts, competitive bidding is almost always preferable. The stages of competitive bidding include setting of clear specifications; issuing public notice and invitation to bid; bid opening and evaluation; and contract award and conclusion. The process must incorporate safeguards to ensure its integrity and impartiality, and to prevent collusion, corruption, and fraud.

After the contracts are concluded, they must be carefully monitored. Several types of controls and reporting, including audits and citizens' complaints, can be used to deal with contractual problems, but there is no substitute for close government supervision of the execution of a clean contract.

Directions of Improvement

In developing and transitional economies, improving the procurement system to meet standards of economy, competition, accountability, and honesty generally requires moving to

- simplified legal and regulatory framework for procurement;
- clear organizational arrangements, combining centralized procurement policy/oversight with decentralized operations;
- improved public access to information and documentation;
- measures to ensure that only civil servants of competence and integrity are in charge of government procurement, and providing for commensurate rewards through career options and frequent rotation;
- simple and transparent process of procurement, whichever method is chosen;
- more effective mechanisms to curb fraud, abuse, and corruption, with appropriate assistance from international organizations; and
- more attention to contract execution and monitoring.

In many developing countries, efforts to close loopholes for corruption or to achieve social goals have created increasingly detailed regulations and centralized control. The problem is especially acute for the acquisition of technology and other products that change rapidly and have a short product cycle. A major improvement would be to review the value thresholds above which the complex bidding rules apply in their entirety, and to raise these thresholds with inflation. In many developing countries, low-value items make up the bulk of procurement, especially in local government and field offices, and complicated regulations intended to prevent the misappropriation of very small sums generate far greater transaction costs for both the government and the private supplier. Worse, as noted in Chapter 1, they are usually ineffective in preventing large-scale corruption, precisely because of their complexity and the resulting delays, discretion, and lack of transparency. The main direction of improvement is to achieve a better balance between controls and managerial flexibility. Most developing countries need fewer but clearer and more robust rules, together with swift and predictable enforcement.

In developing countries, the uneven documentation and bidding procedures of different government entities compound the problem of excessive controls. Standard bid documents for goods and services, as well as work contracts, are in fact enforced for donor-assisted projects. Major

improvements in economy and integrity would result from extending such standard bidding documents to all government procurement because their use reduces opportunities for undue discretion, collusion, and extortion. Developing countries can also benefit from external assistance to improve the regulatory and organizational framework, and build capacity in their procurement offices, but should not rely mainly on external consultants for actual procurement operations.

Other improvements in procurement in developing countries could be realized by addressing the slowness of the dispute resolution mechanisms. The process is slow partly because of weaknesses in the judicial system and partly because of the complex appeal procedures. The process of recovering money from suppliers in case of bad performance or default is cumbersome and often fruitless because of antiquated foreclosure laws and the manipulation of bankruptcy laws by defaulters. Contractors also face protracted legal battles in recovering disputed sums from government. With the government and the contractors thus forced to take steps to protect themselves from these eventualities, transaction costs increase for both sides, making the purchase of goods and services, and contracting, much more costly in the government than in the private sector. Overall weaknesses in the judicial system are a broader problem, which could be dealt with by establishing a streamlined and fast-track procedure for appealing administrative court decisions on procurement disputes.

Finally, although the process of procuring goods, services, and works is critical for the economical and effective use of public funds, procurement issues have not received much attention from senior public managers and political leaders. In part, senior managers are not interested in the mechanics of procurement; they are also concerned with keeping their distance (and deniability) from potential waste or corruption scandals. Yet, they must realize the great importance of procurement in an efficient, effective, and honest government, and place it at the center of their responsibility rather than shunting it off to lower-level staff. In turn, political leaders must give them their support in the exercise of this delicate responsibility.

Annex V

UNCITRAL MODEL LAW ON PROCUREMENT OF
GOODS, CONSTRUCTION, AND SERVICES¹⁸

WITH
GUIDE TO ENACTMENT

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NOTES

- ¹ This section has drawn mainly on Transparency International (1996); Walsh and Leigland in Perry, ed. (1989); WTO statistics; internal ADB memoranda and country profiles; Kettl, et al. (1991); Dehoog in Cooper and Newland, eds. (1997); and Commonwealth Secretariat (1995a).
- ² The World Bank, for example, has stipulated the use of a separate set of documents for construction contracts.
- ³ Following the adoption of Agenda 21 in the International Conference on Environment and Development in 1992.
- ⁴ This section relies partly on WTO statistics; OECD (1997e, 1999a); Sherman (1987); Dehoog in Cooper and Newland, eds. (1997); and internal ADB memoranda and country profiles.

- ⁵ The commission is a UN agency set up to promote the harmonization of international laws relating to trade. It has formulated other model laws on international commercial arbitration and conciliation, international sale of goods and related transactions, cross-border insolvency, international payments, international transport of goods, electronic commerce, and international construction contracts.
- ⁶ This section has drawn partly on Dehoog in Cooper and Newland, eds. (1997); Perry (1989); WTO statistics; Corrigan et al. (1999); and internal ADB memoranda and country profiles.
- ⁷ This section has drawn from Walsh and Leigland in Perry, ed. (1989); Dehoog in Cooper and Newland, eds. (1997); OECD (1999a); internal ADB memoranda and country profiles; procurement guidelines issued by the World Bank and the Asian Development Bank; and details of national practices available in the statistical data published by the World Trade Organization.
- ⁸ These may include procurement from UN agencies, procurement in loans to financial intermediaries, procurement under build-operate-transfer and similar private sector arrangements, and community procurement.
- ⁹ Prebid action in the case of construction and works also requires the prior assembly of land and site where the work will be performed.
- ¹⁰ Donor organizations normally publish these in both paper and electronic forms, as, for example, the *Asian Development Bank Business Opportunities*.
- ¹¹ The fee charged for the documents should be reasonable and should reflect only the cost of printing and delivery, and not so high as to discourage small bidders. Bid security should also not be set so high as to discourage bidders. The security could be in any acceptable form, such as a certified check, bank draft, letter of credit, or cash.
- ¹² The description is based on the published guidelines and bid documents of the World Bank and the Asian Development Bank.
- ¹³ See Schiavo-Campo and Singer (1970).
- ¹⁴ This section relies mainly on Sherman (1987); Dehoog in Cooper and Newland, eds. (1997); and Rehfuss (1989).
- ¹⁵ This section was drawn in part from Stockholm International Peace Research Institute (1999); Gregory (1989); Brazoska (1999); and Jones (1999).
- ¹⁶ This section was drawn in part from Pope, ed. (1996); Cooper and Newland, eds. (1997); Walsh and Leigland, in Perry, ed. (1989); Tanzania (1996); Mccampbell, et al. (1997); and World Bank (1997).
- ¹⁷ Although even this pales in comparison to the single most efficient and least verifiable form of corruption by far: privileged access to undervalued foreign exchange, which is then sold at a premium on the informal market, for a riskless, costless, and almost instant profit. Procurement is a major source of corruption, but is by no means the only one.
- ¹⁸ For a detailed treatment of the model, the interested reader is referred to (<http://www.uncitral.org/english/texts/procurem/mlprocur.htm>).

Chapter 10

Government Employment and Compensation—Facts and Policies*

Sire: A vast majority of civil servants are ill paid.... The result is that skilled and talented men shun public service and look for more honorable and remunerative means of livelihood.... Intelligent, hardworking, competent, and motivated individuals should direct Your Empire's civil service. If treated as they well deserve, the employment of such persons may well reduce the number of civil servants to one fourth of its current size.

— Ali Pasha 1871¹

The overall objective of government employment and pay policies is to achieve a government workforce of the right size and with the skills, motivation, ethos, and accountability needed for efficient, effective, and responsive administration. Yet, economists as well as international organizations have tended to pay more attention to the fiscal implications of government employment. Issues related to the skills, incentives, performance, and accountability of government employees in developing countries have been examined largely by political scientists and specialists in public administration. It is now clear that successes in reducing government employment and containing the wage bill in the developing world have been few, modest, and short-lived. (See, for example, World Bank 1996.) Nor have these cost reductions been accompanied by improvements in the accessibility and quality of social services. A major reason for this disappointing outcome has been the lack of attention to the longer-term issues. Overemphasis on cost containment as an end in itself

* This chapter relies in part on Schiavo-campo (1996, 1998). Permission to reproduce parts of those articles is appreciated. Special acknowledgement also goes to Giulio de Tommaso and Amitabha Mukherjee, who collaborated on the original survey of government pay and employment (cf. Schiavo-campo, et. al. 1997).

gives civil service reform a bad name, magnifies resistance to change, and ultimately nullifies the savings achieved by controlling costs (Schiavo-Campo 1996).² Moreover, the empirical basis of the quantitative reforms themselves has been of varying reliability and uneven geographic coverage, and has often been outdated.³

This chapter first summarizes the relevance of a good civil service to sound economic management and development. The second major section gives the results of an extensive survey of government employment and levels of compensation around the world. The third and fourth major sections outline the policy issues relevant to government employment and to compensation, and the last section gives the customary summary of the key points and directions for improvement.

THE IMPORTANCE OF A GOOD CIVIL SERVICE

Civil service issues are not a new concern. In ancient times, the People's Republic of China (PRC) and Rome built their empires on efficient and competent civil servants. And the above-quoted advice given over a century ago to Ottoman Sultan Abdul Aziz by his Grand Vizier Ali Pasha is remarkably current and applicable to several countries today. (The Sultan disregarded most of Ali Pasha's policy prescriptions, and it is sobering to note that just about 30 years later the Empire was overturned by the Young Turks, largely because of the continuing degradation of Turkey's public administration apparatus.) A good civil service is very important in five areas—governance, production of public goods and services, economic and social policy, expenditure/revenue and project administration, fiscal sustainability, and institutional development.

Civil Service and Governance

There is strong evidence from all countries that a skilled, motivated, efficient civil service with a professional ethos is one of the key requirements of good governance. Effective accountability, transparency of relevant information, appropriate participation, predictability of public administration based on the rule of law—all require a sound core of public administrators. A good civil service is not, of course, sufficient in itself to produce good governance; other mechanisms must be in place. Experience shows, however, that a very bad civil service is sufficient to produce bad governance, even if the right accountability and other mechanisms are in place. (In turn, there are strong links between governance and development; see chapter 1.)

Civil Service and Public Goods and Services

The production of public goods is a function of economic and social infrastructure, capital, materials, labor (i.e., public employees), and the technology of their production—i.e., the rules of behavior and accountability that condition the quantity and quality of public services. It would be nonsensical for the analysis of *private* production to exclude consideration of labor inputs, skills, and pace of technological change. Similarly, it would make no sense for the analysis of public production to exclude consideration of the size and quality of the public workforce, and of improvements in the institutional rules that guide its behavior. Access to public services and their quantity and quality depend in large measure on the skills and motivation of the public employees who provide the services or oversee their delivery.

Civil Service and Economic Policy Improvements

Economic policy improvements can be subdivided into enabling reforms (e.g., lifting price controls) and affirmative reforms (e.g., improving public expenditure management). The former, often called stroke of the pen reforms, may be difficult politically but do not require much administrative capacity. By contrast, affirmative improvements, sometimes called second-stage reforms, depend crucially for their implementation on competent and motivated government personnel. Unfortunately, in country after country, good policy reform programs have been formulated in every detail but one: *who* will implement them? The problem is well known, but the obvious corollary of an efficient and professional civil service to implement new policy is rarely addressed. It is easier to assume that, somehow, good policies will implement themselves. (Moreover, implementation failures become evident only sometime after the fact, when those responsible have long since moved to other pursuits.)

Civil Service and Public Expenditure/Revenue Management

The execution of current and investment budgets and the administration of the tax system are in principle a subset of the policy implementation issue, but they require separate attention because of the importance of financial resources for the entirety of government and economic activity. (See chapters 7 and 8.) It is hard to disregard the dominant influence exercised by the public employees involved in budgeting or tax administration. Incompetent, dishonest, or unmotivated employees make

it very difficult to formulate a sound budget and next to impossible to execute it properly and to collect revenue efficiently. For this reason, project-specific remedies are often introduced on an ad hoc basis—such as paying bonuses to attract the best people in government to the project, or setting up separate administrative arrangements altogether. These partial remedies, however, are insufficient, risky for the integrity of personnel (who are tempted to cut corners in order to gain entry into the favored projects), and invariably counterproductive for the effectiveness of the overall public administration. Much of the negative impact of technical assistance in this area, discussed in chapter 21, is due to the destructive raiding of the best government employees by donors, to improve the performance of the projects they have financed but at the expense of the administrative system as a whole and of long-term development. Institutional enclaves never work for long, and often damage the overall public administration apparatus.

Civil Service and Fiscal Sustainability

The fiscal burden of the wage bill is considerable in countries with a large government, and efficient downsizing of government calls for intelligent ways to reduce the numbers or the salaries of public employees or both. The alternative to closing one's eyes to unsustainable expenditure levels is invariably far greater costs and reductions in employment later. However, it matters not only how much the wage bill is reduced but how it is reduced. Reductions in force or changes in compensation structure must be designed with an eye to the broader objective of a good and competent government workforce. A judicious combination of measures affecting both number of employees and their salaries can improve the effectiveness of the government apparatus at the same time as it reduces its cost. In any event, as noted earlier, shortsighted concentration on cost saving jeopardizes the effectiveness of government and rarely produces lasting savings to boot.

Civil Service and Institutional Development

As discussed in chapter 1, the interaction of institutions and organizations is key to “institutional development”—i.e., a move to a more efficient set of rules, and hence to lower transaction costs and higher levels of economic activity. It is evident that the effectiveness of organizations and their interaction with the regulatory framework depends fundamentally on the *people* in those organizations. Consequently, a good government workforce is both effect and cause of institutional development. More efficient rules, including those on incentives, can lead to improved

performance by government employees. But conversely, a skilled and motivated civil service is instrumental in institutional development and the implementation of regulatory improvements.

THE QUANTITATIVE DIMENSION OF GOVERNMENT EMPLOYMENT AND PAY

As noted, one reason for the limited success of civil service reform efforts in the past has been weak and unreliable evidence on the numbers and salaries of government employees. The facts by themselves are subject to different interpretations, and can sometimes provide a veneer of false precision to inappropriate policy advice. However, a good empirical basis permits comparisons with similar countries and can serve as a constructive entry point for a dialogue on durable improvements. In the area of government employment and pay, establishing a good empirical basis is not easy. Almost 20 years ago, Heller and Tait (1983, p. 35) noted: “It is surprising and depressing how little information is readily available on public sector employment and pay.” The methodological difficulties they described at the time are still largely with us and explain the paucity of readily available data. They are summarized in the appendix to this chapter, which is recommended reading to understand the special caution needed to interpret the results described below.

These methodological difficulties preclude the inclusion of all countries. However, a large-scale survey conducted in 1997 collected and verified central and local government employment and wage data for 80-100 countries in the early 1990s, including all sizable countries in every region (except for Brazil and Mexico). The detailed country-by-country results are shown in the statistical appendix and summarized in the tables below.⁴

Although the size of the sample for each region is sufficiently large to make it representative of the region as a whole, one should take the regional averages shown below only as pointers for further analysis. For example, the very low compensation of civil servants in the former Soviet Union is, in part, a clue to the many in-kind subsidies and benefits given to public employees in that region. It is the country-by-country data in the statistical appendix that matter more, although even these can be quite misleading in the absence of knowledge of the country and its circumstances.

Also, it is important not to interpret the percentage of the population (or labor force) accounted for by government employees as the best indicator of the size of government. As argued in chapter 1, it is generally more

meaningful to use the percentage of gross domestic product (GDP) accounted for by government expenditure. Thus, while government employment accounts for less than one sixth of total employment worldwide, government expenditure accounts for over one third of total GDP. (The higher percentage is due to the fact that a larger proportion of government expenditure is allocated to goods, services, and equipment than to employee salaries.) However, the two indicators of government size correlate very closely, and the *ranking* of countries by relative government employment is virtually the same as their ranking by relative government expenditure.

Finally, the data on which the survey was based were, at the time of publication of this book, around 5-6 years old. It is possible that changes have occurred since then. However, it is most likely that the global trends and regional averages remain as described below.

The Basic Picture in the 1990s

Employment

Table 10.1 and figure 10.1 show civilian employment in central and local government administration and in teaching and health employment in the various regions—as percentages of the population. The key findings are as follows:

- Worldwide, total government civilian employment averages around 5 percent of the population. Government employment is relatively largest in the developed market economies of the Organisation for Economic Co-operation and Development (OECD); second largest in Eastern Europe, the former Soviet Union, and Central Asia (ECA); and relatively smallest in sub-Saharan Africa and Asia (2.0 percent and 2.6 percent of the population, respectively). Latin America and the Caribbean (LAC) and the Middle East and North Africa (MENA) are in between, with government employment in those regions accounting for about 3.0 percent and 3.9 percent of the population, respectively.
- Relative to total employment, interregional differences are much less marked because developing regions have significantly lower participation rates in the formal labor market and higher unemployment. Worldwide, civilian government employment accounts on the average for about 11 percent of total employment.

MENA and OECD countries have the highest percentage, at about 17 percent; ECA and LAC have 16.0 percent and 8.9 percent, respectively; and Africa and Asia are at the low end, with 6.7 percent and 6.3 percent, respectively.

- The picture changes somewhat if teachers and health personnel are excluded. Because of the large numbers of such personnel in ECA (from longstanding Soviet policy), the large overall public employment in that region is primarily in teaching and health, with a small central administration. However, there is a clear difference between Eastern Europe and the former Soviet Union, where public employment in social sectors is relatively much higher than in Eastern Europe. To some extent, these subregional differences existed before the fall of the Berlin Wall in 1989. But in part the difference is due to the greater efforts in Eastern Europe since 1990 to improve education and health service efficiency and, to that extent, reduce personnel requirements.
- During the 1980s, local government administration grew to almost the same level of employment as central government administration. Clearly, civil service improvement efforts are sadly incomplete if they do not include consideration of local government and of teaching and health personnel.
- The intercountry variability of government employment is the only category for which there is no difference between industrial and developing countries. This suggests that the *range* of choices regarding the role of government neither diminishes nor increases with economic growth.

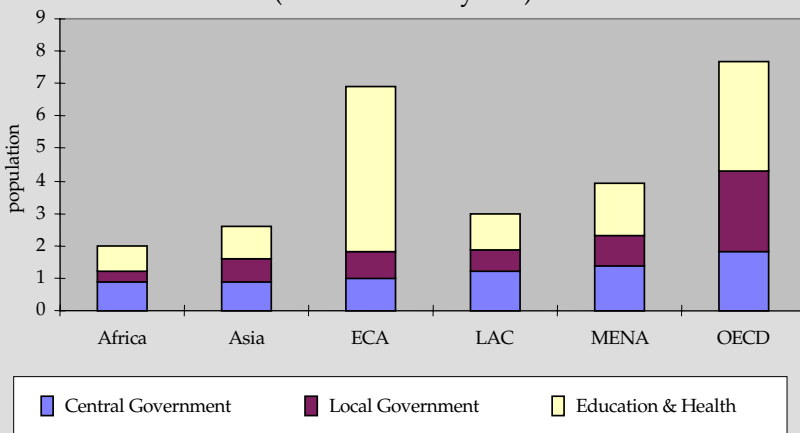
Finally, it is essential to warn again that differences in government employment size, *by themselves*, show broad trends and flag possible concerns but cannot be allowed to form the basis for policy recommendations. In-depth country-specific analysis is needed to justify any recommendation concerning the size of government employment.

Table 10.1
Government Employment in the Early 1990s
 (as percentage of the population)

	No. of Countries	General Government	Government Administration		Teaching and Health
			Central	Local	
Africa	20	2.0	0.9	0.3	0.8
Asia	11	2.6	0.9	0.7	1.0
Eastern Europe and former Soviet Union	17	6.9	1.0	0.8	5.1
Latin America and Caribbean	9	3.0	1.2	0.7	1.1
Middle East and North Africa	8	3.9	1.4	0.9	1.6
OECD	21	7.7	1.8	2.5	3.4
Overall	86	4.7	1.2	1.1	2.4

Source: Statistical Appendix. All averages are unweighted.

Figure 10.1
Government Employment, Early 1990s
 (various recent years)



Wages

Table 10.2 and figure 10.2 show the fiscal weight of the central government wage bill and average wages both as a multiple of per capita GDP and in relation to private wage levels. (But note the difficulties of

international comparisons of relative public wages explained in the appendix. Note also that, while the data for the wage bill ratio and for average wages as multiples of GDP are averages for over 90 countries—and therefore highly representative—the ratios of public- to private-sector wages come from a handful of countries for which evidence can be found.) The reader is advised to treat all of these figures—and especially those in the last column—with a large dose of salt. Every measure of relative wage adequacy is imperfect to some degree, except in the few cases where a private pay comparability survey exists, and such cases cannot be taken as fully representative of other countries. However, all measures produce consistent results, summarized below:

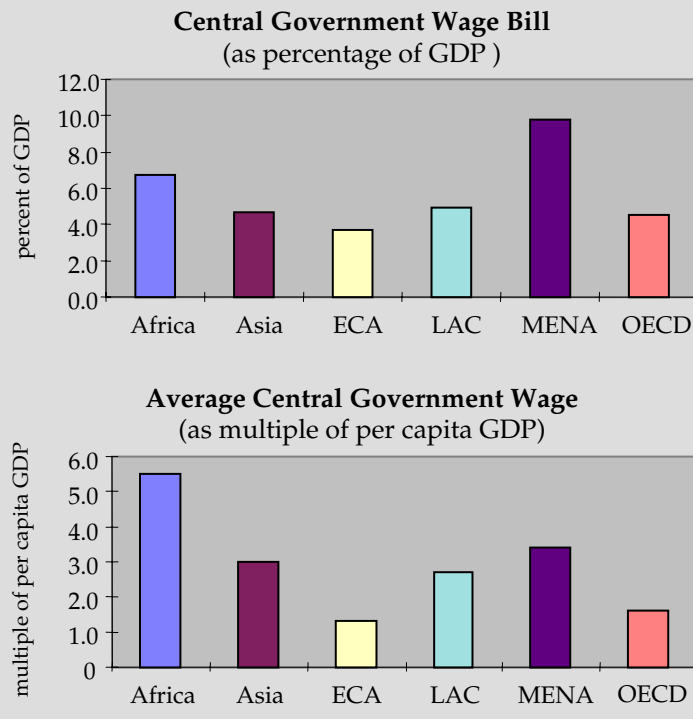
- Globally, the central government wage bill absorbs a little more than 5 percent of GDP. With wage rates for local government roughly estimated at about three fourths of central government wages (and given the employment information shown in table 10.1), *general* civilian government salaries can be estimated to absorb about 8 percent of GDP as a worldwide average.
- The heaviest fiscal weight of the central government wage bill is in the Middle East and North Africa, at almost 10 percent of GDP, followed by Africa at 6.7 percent of GDP. Asia, the OECD countries, and Latin America are all under 5 percent of GDP.
- When measured as a multiple of per capita GDP, relative central government wages appear higher in Africa than in any other region, apparently contrary to widespread evidence of the deterioration of public wages in Africa. This, however, is largely due to the lower participation rate and the greater importance of informal production in African countries. Furthermore, the continental average is influenced by comparatively high salaries in francophone Africa, which are 7-11 times per capita GDP. In most of the rest of Africa, the widespread consensus of severe wage inadequacy is correct.
- Conversely, the relatively low wage multiplier for OECD countries is related to the higher participation rate, the much higher GDP, and the smaller skill differentials between public employees and the rest of the workforce. (The low figure for ECA is *in part* explained by the existence of various in-kind benefits, which are not captured in the available data, but the reality of inadequate government wages in the former Soviet Union is undeniable.)
- The highest government wages are found in the Middle East and North Africa, about one third higher than comparable private compensation.

Table 10.2
Central Government Wages in the Early 1990s

	No. of Countries	Central Government Wages and Salaries as % of GDP	Average Central Government Wage as Multiple of Per Capita GDP	Ratio of Public-to Private-Sector Wages
Africa	21	6.7	5.7	1.0
Asia	14	4.7	3.0	0.8
ECA	21	3.7	1.3	0.7
LAC	12	4.9	2.5	0.9
MENA	8	9.8	3.4	1.3
OECD	16	4.5	1.6	0.9
Overall	92	5.4	3.0	0.8

Source: Statistical Appendix for the first two columns; various reports and World Bank project documents for about 16 countries, for the ratio of public-to private-sector wages.

Figure 10.2
Central Government Wages in the Early 1990s



Changes Over the Past Decade

Table 10.3 and figure 10.3 compare the findings of an earlier survey of about 50 countries (Heller and Tait 1983) with the results of the more recent survey, for the same countries (hence, with different results than the larger sample). Between the early 1980s and the early 1990s:

- A large contraction in both central government employment (relative to population) and the relative wage bill is evident, with the relative size of central government shrinking by about 40 percent when measured by employment and by one third when measured by the wage bill.
- Central government employment decreased (in relative terms) across the board during the 1980s, by about one third for OECD, Africa, and Latin America and a whopping 60 percent for Asia. The reduction was only in part offset by growth in local government. In LAC, the reduction in central personnel is largely explained by a vast shift from central to local government. In Africa, the reduction in central employment was reinforced by a probable shrinkage in local government as well.
- Relative central government wages have fallen by around 15 percent. The decline has been slight in OECD countries, and government salaries have been about steady in Latin America and Asia (excluding India, which after 1986 increased substantially the salaries of its civil servants). Thus, it is the developments in Africa that are largely responsible for the global decline in the relative government wage. Moreover, the decline in African civil service wages relative to GDP occurred in a decade of severe economic contraction, while the rest of the world was experiencing some degree of economic growth and the East Asian economy was booming. Consequently, while the economic welfare of the average civil servant improved slightly worldwide, and significantly in Asia, it declined sharply in Africa.
- Because of the concomitant contraction in central government employment, the central wage bill as a proportion of GDP dropped in Africa on *both* counts. Adding to this the reduction in central government wage bill in both Asia and Latin America (in Latin America because of the move to decentralization), for developing countries as a whole the relative weight of the central government wage bill declined in the 1980s by almost 30 percent.

Table 10.3
Government Employment and Wages, Early 1980s and Early 1990s

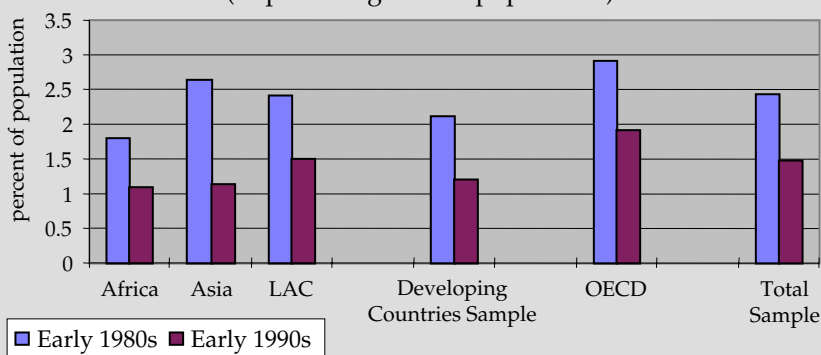
	Central Government Employment as Percentage of population		Central Government Wage Bill as Percentage of GDP		Central Government Average Wages as Multiple of Per Capita GDP			
	N	Early 1980s	Early 1990s	N	Early 1980s	Early 1990s		
Africa	13	1.8	1.1	9	10.0	13	6.1	4.8
Asia	5	2.6	1.1	6	7.5	5	2.9	3.8
Latin America	5	2.4	1.5	7	7.3	4	2.7	2.3
Developing country sample	23	2.2	1.2	22	8.5	22	4.7	4.1
OECD countries	15	2.9	1.9	14	5.5	11	1.7	1.6
Total sample	38	2.5	1.5	36	7.3	33	3.7	3.2

Source: For early 1980s, Heller and Tait (1983); for early 1990s, Statistical Appendix.

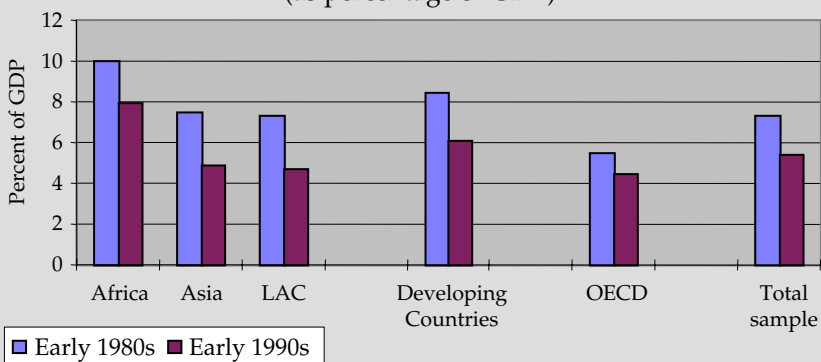
* Note that the data for the early 1990's are limited to the Heller and Tait sample. They therefore differ from those for the larger sample in this study. N represents the number of countries in the sample.

Figure 10.3
Government Employment and Wages, Early 1980s vs. Early 1990s

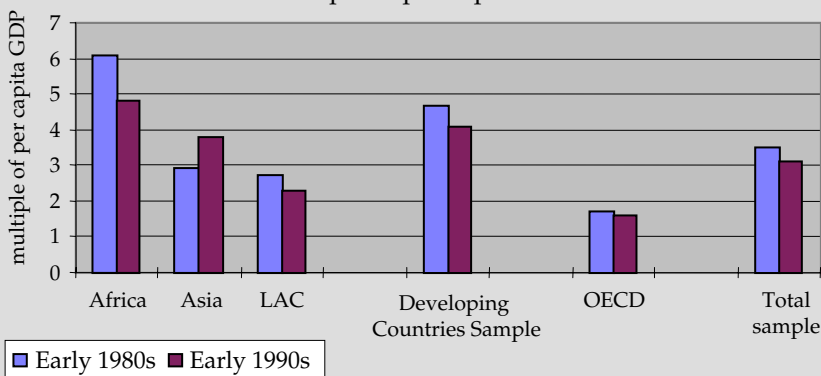
Central Government Employment
 (as percentage of the population)



Central Government Wage Bill
 (as percentage of GDP)



Central Government Average Wages
 (as multiple of per capita GDP)



The Determinants of Government Employment

According to the so-called Wagner's law (see Bird 1971), the public sector tends to expand faster than the economy—in other words, growth is positively correlated with the share of public expenditure in GDP. The standard explanations for this tendency are the need for government to countervail the power of large industries, the costs of regulating an increasingly more complex economy, and the assumption that many public goods are socially superior goods. Organizational theory, moreover, argues for an inherent *tendency* of all large organizations to expand; because of the lower contestability of state activities, this is more likely to translate into the *actual* expansion of state organizations.

There is strong empirical support for this proposition (e.g., Lindauer 1981, Martin 1982, Diamond 1977, and Bird 1971). It is surely not accidental that government employment in OECD countries is twice as high, relative to population, as in the rest of the world (see table 10.1). However, the size of the public sector may be a function of several factors other than levels of development. The evidence suggests the following.⁵

The global picture

The closest association (positive) of government employment is with per capita income. When added to the results of earlier studies (e.g., Lindauer 1981, Heller and Tait 1983, Kraay and Van Rijckeghem 1995), this finding for a much larger sample removes all reasonable doubt about the validity of Wagner's law. However, this is not true in the OECD countries and the transition economies (see below). Also, because the law has very different possible meanings, the actual dynamics of the relationship between growth and government remain unclear.

The next closest association (negative) is between central government employment and relative wages, confirming the standard expectation that higher numbers of employees are associated with lower compensation.

It is interesting that, except in Africa, the fiscal deficit does not appear to be associated with the size of government employment. Generally, whatever influence government employment has on the deficit seems to be largely offset by the concomitant lower wages. Certainly, the availability of budget financing (stressed in Kraay and Van Rijckeghem 1995)

appears to be far more important for government employment than the level of the fiscal deficit per se.

Finally, although the statistical relationship between population and government employment is generally weak, it is very strong for central government in the OECD countries and in Latin America. This suggests the existence of economies of large-scale production in public services, but only for countries beyond a certain size and then only for the more developed central administrations. It is a sensible guess that information technology, with its expensive equipment and vast efficiency gains, is at the root of this phenomenon of lower relative labor requirements in the governments of rich countries.

The regional picture

The global findings are almost entirely due to the influence of Africa and Latin America. In the OECD group of countries, the only significant associations are between central government and population, and between local government employment and the fiscal deficit. The probable meaning of the first association has been noted above. The second association, between a higher central deficit and greater *local* employment, is not obvious. One possible explanation is that in OECD countries decentralization has meant the transfer of revenue to local entities more than in proportion to the expenditure responsibilities devolved. In developing countries, by contrast, a lower central deficit is associated with higher local government employment, suggesting a downloading of fiscal problems from the center to local governments. (See chapter 8 for a discussion of fiscal federalism.)

What is more intriguing is the absence of any association between relative wages and government employment in the OECD group. Among the possible explanations are a much higher elasticity of demand for government employees in advanced countries, or a greater weight of the psychological satisfaction derived from public service—since in countries with high per capita income and high participation rates a salary equal to a low multiple of per capita income permits a two-earner family to live reasonably well. If this is true, the implication would be very important: when public servants are respected and trusted, they are willing to accept lower pay. The opposite is also true: mistrusting and devaluing the contribution of government employees leads in time to the necessity of paying them higher salaries.

The lack of association between government employment and per capita income in the OECD group is also of considerable interest—and contrasts with earlier findings (e.g., Martin 1982). This means either that the Wagner tendency was counteracted by deliberate policies in the 1980s, or that Wagner's law itself becomes inoperative beyond a certain level of development—or both.

Among developing countries, the results are most striking in Africa, where there is conclusive evidence that the proportion of the population employed by central governments is higher where per capita income and the fiscal deficit are higher and wages lower. In Latin America, the correlation between central government and wages is almost as close as in Africa. Also, while there is no association between per capita income and employment in central administration, local government employment is strongly correlated with the country's income level. The richer Latin American countries appear in general to have progressed further on the road to decentralization.

A Concluding Word

Concerning government employment and pay, it is essential to underline once more that intercountry differences in government size or in relative wages, by themselves, cannot be allowed to form the basis for policy recommendations. Indeed, the plain data can be badly misleading if taken in isolation and at face value. Thus, for example, Sweden has the largest government employment and the lowest relative wage of all OECD countries, while Italy is close to the mean in both respects. Could one then conclude from these facts that the Swedish civil service is “bloated,” “underpaid,” and “demotivated” compared with the Italian “model”?

Concerning wages and employment, it would be risky to infer from cross-sectional data a likelihood that wages would rise (or fall) if employment were reduced (or increased) in any particular country. All one can say is the obvious, albeit powerful, statement that retrenchment offers the *possibility* of improving employee compensation, while employment expansion carries a strong *risk* of eroding wages. The unfortunate reality is that the temptation to oversimplify is often irresistible as soon as the facts are presented, regardless of cautions to the contrary. Still, one can only hope that oversimplifications are less damaging the more reliable the facts on which they are based.

EMPLOYMENT POLICY

Government personnel recruitment systems and practices are discussed, along with other aspects of personnel management, in chapter 11. The issues related to employment are discussed here because of their more direct policy roots and implications.

The “Right Size” of Government Employment

Overstaffing is a relative notion. That central government employment is comparatively high in a particular country is a useful “flag” for analysis but proves nothing in and of itself. The role of the government may be larger in that country: the appropriate debate in this case is on the large role of government, not on its corollary of a large workforce. Or, the degree of government centralization may differ: the appropriate debate in this case is on the geographic articulation of state responsibilities, and not on the size of the civil service per se. Among industrial countries, for example, while the French central civil service is among the largest and the British among the smallest, total government employment accounts for about the same percentage of population in both France and the United Kingdom (UK). Thus, even a very small civil service can be “overstaffed” if because of skill mix or weak accountability mechanisms the same level and quality of public services could be provided with fewer employees. Conversely, a relatively large workforce can nevertheless be understaffed if its size and skills are not commensurate with the responsibilities assigned to it by the population.

The civil service regulatory framework is also relevant: in particular, mobility within the civil service permits a smaller workforce without affecting service delivery (or may actually improve services or both). Again, the opposite is true: restrictions on mobility may lead to the necessity to enlarge the workforce or to reduced service delivery. And the impact of the use of information and communication technology on lower labor requirements needs no elaboration (see chapter 19).

Consequently, an assessment of the right size of government employment must be country-specific and must consider, among other things: the functions assigned to the state in that country, the degree of administrative centralization, the skill profile of the civil service, the availability of resources and of information technology, and the personnel regulations and constraints on staff mobility.

Retrenchment: Right and Wrong Ways

When the civil service is overstaffed, retrenchment, if done right, can provide the wherewithal to improve incentives for the remaining employees, or produce net fiscal savings, or both. In addition, retrenchment can actually raise morale (by revaluing public service) and stimulate the performance of the remaining employees. Nothing demoralizes a good performer more than to work next to a less qualified, underperforming, and uncommitted individual with the same rank and nominal responsibilities. Nevertheless, experience shows that retrenchment has typically been overused as a reform measure. Overemphasis on retrenchment (or mechanistic recommendations to reduce the workforce by some arbitrary number, without analytical and empirical justification) gives civil service reform a bad name and heightens resistance to change. Moreover, retrenchment is almost always financially costly in the short term, and the longer-term fiscal savings often do not materialize because new recruitment takes place or consultants are used in larger numbers.

Retrenchment is often politically and socially costly as well, particularly when general unemployment is high and alternative job opportunities are scarce. However, political costs are not inevitable. (As Frederick Malek puts it, sometimes “the best politics is good government.”) There are circumstances when the support of the public at large for reductions in government employment offsets the loss of support from those directly involved—as in many Eastern European and former Soviet Union countries. This is certainly the case when civil servants have lost the trust of the public through inefficient service delivery or corruption. Also, political opposition can be defused if the change is well managed, for good reason and with appropriate explanations and equity of action.

However, when not done right, retrenchment can be very counterproductive:

- The immediate risk is skill reduction—if the program inadvertently encourages the best people to leave. Voluntary severance and early retirement can be especially problematic in this respect. The difficulty is that it is precisely these measures that are administratively easier and more humane, and appeal to the civil servants themselves.
- The near-term risk is the recurrence of overstaffing—if personnel management practices, information, and control systems are not

strengthened before or at the same time as retrenchment occurs. If wages have been raised in the meantime to improve incentives, such an outcome ratchets up the fiscal cost of government employment.

- The broader risks from a retrenchment program that is perceived as arbitrary and opaque are demoralization of employees, lower service quality, and possibly social conflict in societies driven by ethnic, clan, or religious differences.

The general conclusion is not that retrenchment measures should be avoided. In many countries, downsizing is virtually mandated by fiscal needs; in others, it is an important component of necessary structural reform. But retrenchment must be approached as part of an overall improvement in the efficiency and quality of government functions and not as an isolated cost-cutting exercise. The right size of the workforce must be derived from an appropriate vision of the role of the state and functional reviews of the efficient organizational structure of government. Rightsizing of government employment is not an end in itself but a means toward the end of better provision of public services. In any event, whatever the rationale, experience shows that retrenchment programs must be designed with great care, and their implementation must be as transparent as possible and consistent with clear and specific criteria determined in advance. It is difficult to overstate the importance of candid and open communications in this process. Cooperation by the media is therefore important.

Other lessons of actual international experience have been identified as follows (see Rama 1999, Haltiwanger and Singh 1996, and Robbins 1996):

- Earnings losses are not an adequate measure of the economic losses suffered by the retrenched employees, particularly for employees who withdraw from the labor force after being separated from government service.
- The rules of thumb typically used to set compensation packages involve some multiple of the public-sector wage. This may be a grossly misleading criterion, since it ignores individual characteristics related to the welfare loss, such as level of education or the number of dependents.
- Tailoring of severance pay programs is costly and time-consuming. However, the gains from better-tailored severance programs are far greater than the costs of determining which individual workers are actually redundant and the appropriate amount of severance compensation.

- Former civil servants appear to suffer much higher than average levels of unemployment. The risk of unemployment is especially high for younger women and older men.
- Income supports or retraining may be especially important for young women. The provision of start-up capital for self-employment may reduce the unemployment of older males and females. The retraining, however, must match the requirements of the external job market (which is not always the case).
- Younger men with low severance payments are more likely to be employed after separation, and those with high severance payments to use these mainly for self-employment and retirement.
- Targeting retrenchment on the basis of skills and age, and then using a variety of options to reduce employment (as well as a combination of compensation packages), is much less likely to generate unemployment. As in the case of tailored severance, such targeted and multidimensional programs are expensive, but the payoff in terms of productivity gains and lower adjustment costs is larger.
- Seniority-weighted severance packages are likely to lead to the loss of longer-tenure, better-educated, and more able workers.

The upshot of this experience is to take the time and resources needed to prepare carefully a retrenchment program, and to tailor the severance compensation to employee characteristics; to avoid seniority-targeted retrenchment and seniority-weighted severance compensation; and to ensure that measures are put in place to prevent the recurrence of overstaffing.

A possible endpoint is provided by the Japanese way of handling civil service size issues, called the “bonsai” approach by Anne-Marie Leroy (Box 10.1). Although vast differences naturally separate Japan from other countries, and from developing countries in particular, there is much in the “bonsai” approach that is worth considering by developing countries as an eventual outcome of retrenchment programs in the civil service.

Box 10.1

Japan: The “Bonsai” Approach to a Small and Efficient Civil Service

The Japanese approach to the civil service can be likened to “bonsai,” the careful grooming and nurturing of a perfectly proportioned and very small system.

A wide array of factual information appears to link Japan’s civil service with its economic development. In brief, Japanese civil servants consist of the best and brightest, working long and hard. The bureaucracy is very small and has been deliberately kept that way. Petty corruption is comparatively minimal. Retirement comes relatively early and smoothly, leaving top positions open to be filled by individuals in their late 40s and early 50s. Meanwhile, many retiring civil servants relocate to new positions, thereby bringing their skills to the service of the private sector (a phenomenon known as *amakudari*, or “descent from heaven”). Competition among agencies is also extensive; this builds an inventiveness and competition throughout the civil service that is often lacking in public-sector agencies in other countries.

Moreover, the legal structure of public administration insulates from politics the civil service as well as the implementation of laws, and assists in maintaining a corps of professional civil servants. Civil service recruitment and advancement are insulated from political patronage, and the career goals of civil servants are harmonized with broader national goals. The Japanese civil service has played a crucial and proactive role in promoting Japan’s catch-up economic and technological strategy. The good performance of the Japanese civil service was facilitated by cooperation, instead of jostling for supremacy, between the civil service and the private sector. (Stiglitz [1996] has identified the cooperation between the public and private sectors as a key factor in the East Asian “economic miracle.”)

WAGE AND INCENTIVE POLICY

General Considerations

Much civil service reform has typically taken place under conditions of fiscal crisis. (There are very few instances where civil service reforms were introduced in the absence of fiscal pressure, and in order to improve public services and civil service performance.) Government responses to fiscal crisis have understandably tended to avoid the harsh requirement of retrenchment, and have instead eroded real government pay, compressed salary structures, and reduced expenditure on complementary inputs. The

short-term fiscal advantage from wage containment is obvious but must not be allowed to drive wage policy. Certainly, in cases where public wages are too high relative to private wages, cutting them improves resource allocation and equity as well. However, in developing countries today public wages are barely competitive or seriously inadequate. In these cases, further reductions in real wages set in motion a vicious circle of demotivation, underperformance, and hence justification for further wage reductions. (The reverse can be true as well: wage improvements, even if insufficient, can set in motion a positive dynamic.)

The bottom of this spiral is well known: a de-skilled labor force, too poorly paid to resist temptation, utterly cowed when faced with pressures from politicians and influential private interests, and unable to perform in minimally adequate ways. Furthermore, because everyone is aware of the problem of inadequate compensation and petty corruption is widely tolerated, society loses its legitimate claim to honest and efficient performance by its public servants. Beyond the direct deterioration in the provision of public goods and services, the result is a worsening economic climate for the private sector, corruption, and an increase in transaction costs. This is the exact opposite of the outcome from technological progress. The general conclusion is to resist the temptation to fix fiscal problems by distorting incentives.

The nexus between monetary compensation and performance is complex, but the consequences of wage erosion are visible everywhere—increased turnover rates and absenteeism, moonlighting and sunlighting, difficulty in recruitment and retention, rise in petty corruption, etc. An oft-quoted passage on the Ugandan situation in the 1980s runs as follows: “The civil servant had either to survive by lowering his standard of ethics, performance and dutifulness or remain upright and perish. He chose to survive.”⁶ Complicating the matter is the frequent lack of evidence on comparable pay in the private sector and the public enterprises. This leads civil servants to believe they are more underpaid than is in fact the case, while the public at large has the opposite misconception that government employees are overpaid.

The classic problem in civil service compensation is how to value the labor that produces the output of civil servants, given that such output is generally not marketable. The general solution is to make compensation comparable (not equal) to that for equivalent marketable skills, i.e., private-sector pay. This is no easy matter. As with everything else in the public

sector, determining civil service compensation is not a purely technical issue but is influenced by the political climate, legislative enactment, and executive rules and regulations, tempered and interpreted by judicial pronouncements and reviews. In addition, a number of public policies impact on civil service compensation—collective bargaining, minimum wage laws, equal pay and antidiscrimination statutes, public service benchmarking, etc.

The Objectives of Compensation Policy

Although in practice there are severe problems in formulating a compensation policy that meets all of its different objectives, the objectives themselves are intuitive and reasonable, within the overall principle of comparability.

- **Objective 1:** *Equal pay should be given for equal work performed under the same conditions.* Empirical evidence shows that this is not always so. First, strong unions have sometimes succeeded in winning for their members higher pay than similarly skilled persons. Second, divergence from the equal-pay-for-equal-work objective may be due to special conditions, such as relating individual earnings to the quantity or quality of production by the unit and differences in location of work. Third, cross-country data show that female employees tend to be paid less than their male counterparts. Finally, personal and political patronage in countries with governance weaknesses results in, among other problems, endemic violations of this basic objective.
- **Objective 2:** *Differences in pay should be based on differences in work performed, responsibilities assigned, and qualifications required.* Graded classification systems (discussed later) are better able to achieve this objective of internal comparability, particularly since they make pay differences *proportional* to work differences.
- **Objective 3:** *Government pay should be comparable to private pay.* Compensation plan design must take account of this external aspect of comparability, in addition to the internal aspect addressed by classification systems (see Box 10.2). Note that “comparable” does not mean equal. In cases where public service demands higher qualifications and prior education investment, government wages higher than their private equivalent might be justified (e.g., in Singapore). In the more typical cases, the greater job security and (sometimes) greater prestige of public service justifies a somewhat lower

compensation package. (As we have seen earlier, in practice the “discount” on government work is between 20 and 30 percent on the average—see Table 10.2.)

Box 10.2
Civil Service Compensation in the UK

One of the most sophisticated efforts at establishing rates of civil service pay by levels of remuneration outside government has been that conducted by Britain’s Civil Service Pay Research Unit. Using the norm of fair comparison with private salaries, regular pay surveys establish key rates of pay in each main grade in the civil service. (Linked to these main grades are a large number of grades—consequentials—containing smaller numbers of employees, so that over the cycle of pay surveys the rates of all nonindustrial civil servants are automatically adjusted. These exercises have led to large civil service pay increases, at times even overtaking levels in the private sector. Staff associations have played a very important role in these pay research exercises. (Salaries of top civil servants in Britain who do not engage in collective bargaining are set by the Top Salaries Review Body.)

- **Objective 4:** *Government compensation structures should be periodically reviewed and systematically revised to assure their continued validity.* Country experience indicates that this is not always the case. In Jamaica, for instance, while the consumer price index rose by 470 percent from 1972 to 1982, the salaries of the three highest grades of civil servants rose by only 40-90 percent. In contrast, salaries of government-employed casual labor rose by 360 percent over the same period. In Guyana, between 1986 and 1991, real wages in the central government fell by almost 20 percent, with even greater deterioration in the managerial, professional, and technical grades. Real salaries in Uganda similarly declined by 20-33 percent *per year* between 1975 and 1983. Real per capita salaries generally declined in Africa during this period, the decline being particularly marked in Ghana, Nigeria, and Zambia. Naturally, the objective of periodic review of compensation can be met effectively only when the compensation structure and level are appropriate to begin with. In the infrequent cases when compensation is higher than warranted, gradual wage erosion through inflation may be the best way to bring compensation levels back into line. But internal comparability of incentives must be preserved during this process, and a well-informed standard is essential to determine when the erosion in real wages must stop.

Design of a Compensation Plan

There are two main approaches to determining civil service compensation in actual practice. One is *trial and error*—ascertaining what salaries will attract and retain employees with the appropriate skills. By its very nature, this is an ex-post method and therefore effective only at the margin. The second approach, more widely used, is *comparison with the private sector*. These approaches are not mutually exclusive; on the contrary, each can improve the other.

The starting point for designing a compensation plan is usually a *job classification* exercise, in which the positions are described and systematically arranged. As noted, a sound compensation system should provide equal pay for equal work, and equal pay for comparable jobs. This in turn involves acquiring and analyzing large amounts of information, such as the skill and responsibility attached to each job; the specific duties; the degree of supervision needed; and the difficulty, hazards, or other characteristics of the job. On the basis of such information, similar jobs are grouped into *classes* (e.g., roofer); classes involving similar work at different levels of difficulty and responsibility are grouped into *occupations* (e.g., carpenter); and occupations are grouped into major *occupational categories* (e.g., construction worker).

Many kinds of classification plans exist, but the most important distinction is between “graded” and “ungraded” plans. *Graded classification plans* are complex and costly to formulate well, and have the following characteristics:

- A formalized procedure for measuring the level of difficulty, effort, and responsibility of each class of positions. Techniques used to measure the degree of difficulty, effort, and responsibility of each class of jobs include factor ranking, point rating, factor comparison, and hybrid comparisons.
- Identification of grades (also called skill levels), each constituting a specified level of difficulty and responsibility. All classes in each grade are supposed to require essentially the same level of difficulty, effort, and responsibility, regardless of the occupation to which the class belongs.
- A single pay range for all positions in classes assigned to each grade, without duplication: no other grade in the same pay structure uses that pay range (although the maximum salary for one grade is normally higher than the minimum salary for the next higher grade).

Graded classification plans provide equal pay for equal work within each occupation and *among different occupations*. They also have the advantage of being administratively stable, and suitable for large establishments with hundreds of job classes, since pay levels need to be set for only a small number of grades. In contrast, ungraded classifications provide equal pay for equal work *only in the same occupation*. Their principal advantage is simplicity; they are therefore easily designed and installed. Under ungraded classifications, pay changes for individual classes can be made whenever the need arises, without having to change the entire pay schedule.

Both classifications present advantages as well as disadvantages. In general, the trade-off is between the flexibility of ungraded compensation plans versus the equity of graded classification—or, to put it differently, between short-term and long-term efficiency. Also, *graded classifications are superior only when they are correct*. If the exercise instead produces phony or self-serving job classifications (as is sometimes the case in practice, especially when supply-driven by donors or international consultants), the greater cost is not even justified by a better outcome. On balance, developing countries might consider operating on an ungraded system while a graded classification plan is gradually and realistically developed and piloted successfully.

Content of a Compensation Plan

Any compensation plan for public employees should cover, more or less in the following order:

- An identification of the kinds of positions and employees to which it is applicable;
- A statement of the basic pay policy—for example, the relationship to private compensation or the kinds of compensation encompassed (base salary, allowances, and benefits);
- The pay schedule, showing the classes of jobs and the pay range assigned to each;
- Schedules of premium pay rates and rules, covering, for example, overtime pay and holiday and weekend pay;
- Rules for determining pay on promotion, transfer, demotion, etc.;
- Rules of pay under special conditions, e.g., dual jobs in the same jurisdiction, military and jury duty, or weather emergencies;
- Rules regarding special pay rates, e.g., to alleviate recruitment difficulties for a specific class of positions;

- Rules regarding pay on different kinds of leave, e.g. maternity leave; and
- Rules for resolving anomalies and discrepancies and redressing employee grievances regarding pay decisions.

Treatment of Nonwage Benefits

Identifying and quantifying nonsalary benefits is a major problem in comparing private- and public-sector compensation and the erosive impact of inflation on real wages. Nonsalary benefits take such myriad forms as spouse and dependency allowances, pensions, health and liability insurance, free or subsidized housing and social services, free or subsidized meals, transportation allowances, leave with pay, and others too numerous and varied to mention. In the former Soviet Union, for example, employees are often given free housing by the entities for which they work. In rural France, municipalities are still responsible for housing public school teachers. (The salary of rural teachers is considerably lower than that of teachers in large cities.) In India, too, civil servants are given subsidized housing, and some posts, such as superintendent of jails, carry free housing. Free education and health care are widespread means of compensating public employees, both in Eastern Europe and Central Asia (where state-owned enterprises used to provide such services) and elsewhere in the world. Direct or indirect food subsidies, from subsidized food shops and employee restaurants to direct handouts, are also common. In Afghanistan, for example, civil servants are given vegetable oil and wheat flour at no charge, along with a free meal per day, instead of an increase in salary. In former colonies, such benefits are a colonial legacy, having been designed for the colonial administrators but kept after independence.

It should be recalled that fringe benefits are certainly not unknown in the private sector either—from company cars to club memberships, etc.

While some nonwage benefits can have a positive role in a well-designed compensation package, others are inefficient and can weaken work motivation and distort incentives. (A particularly inefficient allowance is the meeting allowance used in some countries, e.g., until recently, Tanzania. Not surprisingly, aside from its cost the allowance results in maximizing the number of administrative meetings and minimizing their substance, which is a perfect way to interfere with administrative efficiency.)

The case for scrutiny of nonwage benefits is stronger the more precipitous the decline in real wages. In-kind benefits tend to proliferate as

the real salary declines, because the short-term cost is usually very small although the fiscal impact balloons later. Greater diligence in probing fringe benefits is, however, no guarantee of success in uncovering them, since they are often specific to the country, region, organization, or service, and lodged in the nooks and crannies of the budget documents. Some, like free housing or transportation, may be off-budget altogether. Indeed, a proliferation of extrabudgetary funds, besides weakening the integrity of the public expenditure management process (Schiavo-Campo and Tommasi 1999), also distorts the civil service compensation system in practice. The fact that such giveaways are rarely subject to outside knowledge or review is convenient for both the granters and the beneficiaries.

Countries such as Botswana, Indonesia, and Liberia have adopted reforms by replacing some in-kind benefits with a compensatory adjustment in pay. Guinea eliminated rice rations, Cameroon reduced housing allowances, and Bolivia abolished special performance premiums in the effort to monetize and rationalize remuneration. However, the impact of these measures appears to be negligible so far. In any case, effective measures must be taken to prevent the reemergence of the very same in-kind benefits that have been monetized and added to basic pay. Frequently, a rationalized compensation system has reverted in time to the earlier complex and opaque system, with higher base wages to boot.

The Gender Gap

Salary inequalities between men and women are persistent. Although these mirror compensation inequities in the larger society, government employment has typically failed to provide the model and the leadership for putting into practice the elementary fairness and efficiency principle of “equal pay for equal work.” It should be a continuing priority for government and external donors alike to plan for increasingly greater convergence in pay equity for men and women in government service—albeit in a manner that is mindful of the social structure and norms of the country. The gender gap is widest in developing countries, but the problem persists even in highly industrialized economies (see Box 10.3).

Box 10.3 The Gender Gap

Although most countries now explicitly prohibit discrimination on the basis of gender, there remains a difference between women's wages and men's wages—referred to as the “gender pay gap”—in many areas of civil service compensation. The gender gap is especially large in developing countries. But even in developed countries, the following points are worth noting:

- Women's jobs have traditionally been undervalued and thus compensated less than men's jobs, leading to situations such as the one in Denver, Colorado, where nurses were paid less than tree trimmers.
- In the US, figures for the period 1960–1990 from the Department of Commerce indicate that median earnings of women have fluctuated between 57 percent and 70 percent of the median earnings of men.
- In Australia, it was not until 1972 that the principle of equal pay for equal work was adopted. Indeed, a landmark judicial decision in a 1912 case justified lower wages for women because, unlike men, they did not generally support a family. The judge began the practice of fixing the female pay rate as a percentage of the basic male wage rate. That rate was officially fixed at 54 percent until 1949, when it was increased to 75 percent. By the end of the 1970s, the base pay for women had risen from 74 percent to 94 percent of that of men.
- New Zealand officially sanctioned different wage rates for men and women in 1903, and legislatively authorized them in 1934 and 1945. Only in 1972 was the Equal Pay Act passed. The hourly earnings of females rose from 71.3 percent of male earnings in 1973 to 78.5 percent in 1977.
- Britain, too, explicitly countenanced gender-based pay discrimination until 1975, when the Equal Pay Act of 1970 came into effect.

Salary Compression

The issue

In addition to erosion in pay, salary compression has been another chronic problem of civil service pay structures in many countries. Internationally, the *compression ratio* (the ratio of the midpoint of the highest salary grade to the midpoint of the lowest) varies widely, from highs of 30:1 or more to lows of 2:1—with a mode of around 6 or 7 to 1. (Note that an

increase in the ratio means decompression of the salary structure.) Wage reduction in practice has entailed larger proportionate cuts at higher levels (or salary caps or both). Although such an approach is understandable from a short-term equity point of view, its longer-term impact has been inimical to both efficiency and equity. In particular, salary compression eventually leads to the loss of the employees with outside options, i.e., the better employees. As a result, particularly in Africa, decompression of the wage structure is an important objective of civil service reform. The compression ratio for selected countries in the late 1970s and early 1990s is shown in Table 10.4.

Table 10.4
Wage Compression Ratios for Selected Countries

Country	Early 1990s	Late 1970s
Central African Republic	9 : 1	9 : 1
Gambia	8 : 1	6 : 1
Ghana	6 : 1	10 : 1
Guinea	9 : 1	5 : 1
Guinea-Bissau	5 : 1	4 : 1
Lao PDR	3 : 1	7 : 1
Malawi	33 : 1	30 : 1
Mauritania	7 : 1	3 : 1
Mozambique	2 : 1	9 : 1
Niger	18 : 1	15 : 1
Nigeria	18 : 1	9 : 1
Senegal	8 : 1	6 : 1
Sudan	13 : 1	9 : 1
Turks and Caicos	7 : 1	4 : 1
Uganda	6 : 1	8 : 1
Zambia	14 : 1	7 : 1

Source: Lindauer and Numberg, eds. (1994).

The decompressions in salary structure seen in the cases of Ghana, Lao People's Democratic Republic (Lao PDR), Mozambique, and Uganda were due to specific decompression objectives forming part of pay reform programs. In the absence of civil service reform programs, the economic difficulties and more stringent fiscal constraints of the 1980s have tended to cause government wages in most developing countries to become more compressed, and incentives to suffer as a result.

Measuring “compression”

It is important when looking into the internal structure of salaries to pay attention to methodological issues. First, changes in the compression ratio of highest to lowest salary midpoints may not indicate changes in the structure as a whole. For example, placing a cap on the highest salary will reduce the index and will indeed weaken incentives at the highest level (as in the case of the United States (US), where it has adversely affected the logic and working of the senior executive service system—see Chapter 11), but has no effect on the remainder of the salary structure. Second, international comparisons based on compression ratios are difficult, because the ratio is necessarily higher where there is a greater number of salary grades, other things being equal, even though the internal relativities may be identical. Thus, a government could easily demonstrate an “improvement” in incentives by simply doubling the number of salary grades without changing the compensation structure at all. Ideally, the best measure of salary “compression” would be the coefficient of variation—the standard deviation of salary grade midpoints divided by the overall mean salary—divided in turn by the number of salary grades. Although this calculation is much too demanding to be practical for large-scale international comparisons, it should be a requirement of any serious effort at reforming the salary structure in a given country. In any case, the imperfections of the usual compression ratio should be kept in mind when interpreting the data. Of course, if the specific issue is one of monetary incentives for one particular grade or occupation, the appropriate measure is the ratio of the salary midpoint for *that* grade to the mean salary for the ministry or sector or civil service as a whole—depending on the purposes of the analysis.

Grade Inflation and Ad Hoc Remedies: The Worst Response to Inadequate Incentives

A public sector manager, confronted with deserving but poorly paid staff, is understandably tempted to promote them to levels for which they are not qualified, or to provide special ad hoc remedies as a way to prevent further deterioration in their real salary. However, in a very short period, grade inflation (or ad hoc remedies) produces all the disadvantages of inadequate incentives and *in addition* destroys the capacity of the government to manage its human resources. Examples abound in the developing world. Thus, in Trinidad and Tobago, disguised pay increases were given by filling upper and middle professional vacancies with underqualified staff in an acting capacity, causing severe imbalances in employment. Guyana, too, suffered from grade inflation

after filling vacancies with unqualified persons in an acting capacity. Furthermore, the payment of special salaries and allowances to staff in some ministries but not in others caused resentment and loss of morale among civil servants, and unapproved recruitment and temporary hiring at higher rates and through contracts produced distortions in structured pay systems. In Yemen, the practice of bringing in unqualified outsiders to fill high-level positions for which they were totally unsuited was widespread, especially after unification in 1990, and was a major factor in the degradation of the civil service since 1992 (see Box 10.4). These ad hoc partial responses to the problem of inadequate base compensation ruined the very system onto which more adequate incentives could be built in the future.

Because it is unreasonable and unrealistic to expect that managers will not behave as normal human beings and try to give favorable treatment to their employees, the adverse outcomes of grade inflation and ad hoc remedies can be averted only by penalizing managers who resort to these devices.

Box 10.4

Yemen: Facing Up to the Administrative Cost of Unification, Civil War, and Patronage

After the unification of North and South Yemen in 1990, the number of civilians employed by the central government in Yemen grew from 65,000 in the North before 1990 to almost half a million, or about 3 percent of the population, compared with an average of 1.4 percent for the Middle East and North Africa region. The initial increase was due to the creation of parallel administrative structures with different traditions and extensive duplication of functions, consequent to the merger with the South. The government also absorbed many former employees of Southern public enterprises, and acted as employer of last resort for new school graduates. Finally, and most damaging of all, the civil service was increasingly used as a source of personal and political patronage. The personnel management system virtually collapsed. An unknown number of persons collect the salaries of deceased persons and in some cases more than one salary under different identities. About half of the government employees reportedly never show up at work or do so for only part of the day. Underqualified people have been hired by the tens of thousands, and ineligible ones have been indiscriminately promoted. Given the fiscal constraints, the bloated government payroll has led to much lower real wage levels and narrowed the difference between the highest and lowest salaries. This erosion of incentives and disregard for qualifications and performance has resulted in general deterioration of employee discipline, morale, and performance. Consequently, the delivery of social services to the population has also been badly affected.

Incentives for What?

Linking incentives with “performance”

In recent years, largely from an understanding of the disadvantages of compressing the wage structure, the question of targeting wage increases to scarce skills or essential functions has moved to the forefront of policy attention.⁷ Similarly, training is now seen more as a focused way to fill selected skill gaps rather than an across-the-board program to lift the general educational level of the workforce (see Chapter 12). This is a valid approach. So is the attempt to create a closer link between employees' performance and their monetary rewards or penalties. In practice, however, such an attempt is fraught with difficulties.

The issues of performance in the public sector are discussed in detail in Chapter 18. A word is in order here because of their direct connection to public wage policy. In some sense, of course, all pay should be for performance. It is therefore intuitively appealing to link monetary incentives to yearly employee achievements in terms of specific quantified measures. Unfortunately, the actual empirical evidence shows that performance pay schemes have been only marginally effective in improving performance (see, for example, Milkovich and Wigdor 1991), especially in the public sector, where outputs remain difficult to quantify or are of limited relevance to the purpose of the activity. Monetary bonuses and similar schemes can also introduce an additional element of political control over the civil service. In developed countries this may or may not be a serious problem; in developing countries it is a central concern. Moreover, in multi-ethnic, multi-religious, or clan-based societies, performance pay schemes can upset the delicate social balance. Even when such schemes are administered fairly and well (which is not likely in such societies) the perception of favoritism is next to impossible to prevent. For example, African-American members of the US Secret Service have alleged that the performance bonus scheme of the Service is implemented in discriminatory fashion. The intent here is not to dismiss performance pay options outright but to interject a strong note of caution.

While performance pay schemes are generally not appropriate in the public sector, meaningful performance *incentives* are a must. First and foremost, the overall salary structure and the recruitment and advancement system must reward good performance and penalize (and improve) underperformance. Nothing demoralizes good public servants and destroys

effectiveness more than favoritism and patronage in recruitment and promotion. In addition, human beings do not live by bread alone: nonmonetary incentives can be very important, especially among the professional ranks. In any case, informed, candid, equitable, and contestable assessment by supervising managers is the cornerstone of any incentive system. Extensive paperwork and detailed performance evaluation forms are far less important than fair and informal judgment.

Promotion policies

An important element in the motivation and morale of employees is the opportunity for promotion to higher levels. Career management involves, among others, assigning the right people to the right jobs and making full use of employee skills. But promotion, with its higher salary and—equally important—enhanced status and responsibility, remains key to motivation and rewards. Both the employees and personnel specialists see two to four promotions in a career as the norm. Promotions should be based on a number of factors including performance, potential, skills, knowledge, and seniority (as a proxy for experience and good judgment). In many countries, promotions are constrained by vacancies in the corresponding grade, and such constraints are normally stricter at higher grades to prevent “grade creep” as a response to inadequate salaries or as a result of weak management, as discussed earlier.

There are differing approaches to the use of seniority and merit as criteria for promotion. Most developed countries and many developing countries use a combination of the two. Some developed countries, e.g., Singapore, consistently promote people entirely according to merit, while most developing countries, e.g., India, give much greater weight to seniority. A seniority-based promotion system tends to produce inefficiency over time and weakens incentives for effort and self-improvement. However, the seniority principle was originally introduced around the end of the 19th century in many developed countries as a necessary *reform*, to professionalize the civil service and insulate it from both the vagaries of politics or the personal connections of individual employees. These risks may have largely disappeared in developed countries but remain a reality in most developing countries, especially in multi-ethnic plural societies or countries with weak governance. On balance, it seems important, therefore, to give a progressively greater role to merit considerations in civil service promotions than is typically the case, but to do so carefully and without discarding the seniority principle. Unlike performance or merit, the number of years of

service is the only criterion that is not subject to interpretation and manipulation by vested interests or personal agendas.

Most countries follow the practice of constituting a committee for promotion within the ministry or agency concerned. This committee prepares the list of persons to be promoted, as vacancies emerge. To be eligible for promotion a candidate often must have served a minimum number of years in the current grade, earned a prescribed performance rating for a number of years, and acquired the qualifications relevant to the higher post. Promotions to higher-level posts and to senior executive services (see Chapter 11) are decided on the basis of in-depth assessments and interviews, which may be undertaken by the public service commission or the central personnel office, in consultation with the ministry concerned. In some countries employees are placed under probation in the higher post for some time before being confirmed in the position. Japan used to assess the eligibility of senior officials for higher posts through a system of peer rating.

Salary increments

Promotion is only one form of reward. Other monetary incentives include salary increases within a grade and “performance” bonuses. Unlike promotion, in-grade salary increases in many countries have traditionally been automatic and have been withheld only as a form of punishment. In other systems, salary increments are expected and standard, but not automatic.

To the extent that monetary incentives are linked with performance, it makes little sense to give a *permanent* increment in the base salary for good performance in a specific year. Bonuses are, in principle, more appropriate, as they reward performance for the relevant period of time without changing the base salary for all future years. One-off bonuses for special achievements are awarded in countries such as the Netherlands and the US. Singapore in 1989 introduced performance bonuses of up to three months’ salary for senior officers, affecting about 1 percent of civil servants. But the bonuses are also tied to the overall performance of the economy: they are not paid in times of poor economic performance. Singapore also gives quality-service awards to staff dealing with the citizens. In the Republic of Korea, incentive bonuses are awarded every three months on the basis of points earned by employees on several parameters. In some countries, cash rewards are given to enforcement staff, e.g., to customs

inspectors and investigators for the seizure of smuggled goods or illicit drugs, as a percentage of the value of the goods. This last is a highly risky practice, as it is most likely to be abused and is vulnerable to collusion.

The few bonus schemes that have had some success in the public sector have provided for performance bonuses for the entire organization, as well as additional bonuses for successful teams. Awards based on *team effort* are naturally applicable mainly in activities that depend on the collective efforts of many persons in a unit—e.g., immunization or literacy programs in rural areas, or the efficiency of municipal transport. Team-based schemes are less likely, too, to engender resentment and suspicions of favoritism. However, it is important to develop clearly the criteria for group effort, the procedures for obtaining feedback from the user groups, and—in order to avoid the free rider problem—the rules for distributing the cash reward among the members. Unfortunately, whether individual- or team-based, bonuses tend over time to become viewed as *de facto* entitlements (as in India) and an element of wage negotiation, and thus lose any positive influence they may have had on incentives.

Although most countries tend to award increments automatically within the maximum of the salary range, the size of such increments is in part based on an assessment of the employee's diligence and efficiency. When the pay structure is such that employees reach the maximum of their pay scale and stagnate there, any incentive value of salary increments obviously disappears and morale is adversely affected. (As noted, the temptation to "solve" the problem by promoting the person to the higher grade should be resisted.) Some countries have therefore moved to a more nuanced system of salary increases. For example, under Malaysia's new remuneration system (Box 10.5), official panels review job performance and decide on one of four possible types of salary movements or increments. The complexities of job remuneration in government employment are illustrated also by the practices in India (Box 10.6) and in South Africa (Box 10.7).

Box 10.5
Malaysia's New Remuneration System

A new performance appraisal system and a new remuneration system (NRS) were established in Malaysia in 1992 to ensure a high-quality personnel management system. Performance appraisal came to be used for the multiple purposes of salary progression, promotion, placement, and training. The following changes, among others, were introduced:

- Recognition of experience and expertise rather than academic qualifications for certain posts;
- Annual salary progression based on individual performance;
- Horizontal, vertical, and diagonal salary increments according to performance evaluation;
- Salary increases for each service sector, differentiated according to the need and importance of the service; and
- Additional allowances and benefits, such as paternity leave or club membership.

Civil servants could opt to join the NRS or not. Ninety-five percent chose the new system over the old.

Source: Commonwealth Secretariat (1997).

Box 10.6
The Assured Career Progression Scheme in India

Popular personnel schemes in India are the assured career progression (ACP) scheme and flexible complementing scheme (Government of India 1997). The flexible complementing scheme assures the professional and scientific staff of merit-based promotion after they complete a prescribed period of service, regardless of whether or not a vacancy exists in the higher grade. In the ACP, every employee can move to a specified higher pay scale after completing a period of residency in the lower pay scale and fulfilling the usual norms of promotion. However, the employee will continue to perform the original duties until actual promotion to the higher grade.

Box 10.7

Performance-Based Compensation Systems in South Africa

The following performance-based compensation systems are used in the South African public service to grant special recognition to personnel who distinguish themselves from their peers through sustained above-average performance. These systems are expected to stimulate the initiative of personnel and to encourage them to be more efficient and effective.

- **Merit award system** for all public servants, involving a cash award equivalent to 18 percent or 19 percent of basic annual salary, depending on the evaluation of results.
- **Special recognition** through cash payments or commendations for suggestions, inventions, improvements, etc.
- **Department-specific award systems** whereby awards, bonuses, or allowances are given to persons of exceptional ability, those with special qualifications utilized for the employer's benefit, and those who have rendered sustained meritorious service over a long period.

Source: *Commonwealth Secretariat* (1996).

Nonmonetary incentives

In many developing countries, cultural factors and the difficulties involved in quantifying performance make nonmonetary recognition and rewards useful tools for promoting performance—so long as they are used judiciously and gimmickry is avoided. Nonmonetary awards build on the natural desire of public servants for recognition of their efforts, and assume a particular role in countries where social sanction and image do matter, e.g., most Asian countries. These rewards have become more important in times of fiscal restraint and insufficient funds for monetary incentive schemes. Nonmonetary incentives may include, among others:

- Agency-based recognition and awards schemes,
- National honors,
- Career development options,
- Postretirement options, and
- Team-based recognition and awards.

Government personnel can be made eligible for different types of national awards, such as the annual Honors List in the UK, the *Légion d'Honneur* in France, and similar forms of official recognition in other

countries. Agency-based schemes can be annual awards for individual performance, in the form of certificates, plaques, or written commendations, sometimes for special categories (such as client service) or for technical achievement. Awards can be given to encourage and recognize significant productivity and quality improvements, and foster a spirit of excellence and innovation. Long service may be recognized through medals, certificates, or valedictory commendations. Scholarships can be instituted in honor of an outstanding official, or lectures arranged in his or her name. In addition to national awards, ministries and agencies should normally be allowed to operate recognition schemes specific to their organizational culture. Decentralized awards can also be developed for field staff in regional programs, and in departments such as internal revenue, customs, and public assistance. It is important to celebrate recognition in any form in open gatherings, and to publicize it in newsletters and the media.

Career development options are also becoming important in an environment of limited promotion prospects, especially in developed countries. Many governments reward good performance with high-profile career development opportunities (as distinct from specific training) in the form of foreign study fellowships, attendance at international conferences, selection for overseas postings, etc. The Japanese *amakudari* (“descent from heaven”) practice of postretirement assignments in the private sector fosters individual competition for excellence in the bureaucracy. Similar incentives are available after retirement to senior civil servants in developing countries. Where governance systems are weak and accountability is loose, however, postretirement incentives are a very dangerous practice—especially in industries that are heavily dependent on government, such as defense production.

Job rotation: An opportunity and a problem

Job rotation and transfers are an important influence on incentives and efficiency, but carry risks when they are abused. On the one hand, fostering the mobility of government personnel within large ministries and between ministries offers a regular opportunity to develop different skills and experiences. From the government’s standpoint, such mobility helps avoid the stagnation and decline resulting from rigid systems, and can alleviate as well the adjustment and personal costs of needed retrenchment. To the employee, mobility can be a welcome source of new challenges and improved prospects for higher positions. On the other hand, frequent job rotation and arbitrary transfers can lead to poor performance in constantly

changing jobs, reduced morale, and disrupted career development and family life (Box 10.8). The ability of political superiors to transfer personnel to other areas at short notice is a powerful form of pressure, and makes a mockery of the legal protections against arbitrary demotion or dismissal that were designed precisely to insulate civil servants from political pressure or personalistic interventions. Like all other public administration practices, job rotation and transfers, too, must be based on clear and transparent criteria, developed in consultation with the employees and other relevant stakeholders, and contain a mechanism for appeal or arbitrary decisions to an independent entity.

Box 10.8
Rotation of Civil Servants in Bangladesh and India

A major weakness of the Bangladesh civil service is the frequent rotation of civil servants. The practice erodes accountability, forfeits the benefit of accumulated experience, and weakens commitment to the immediate task. Glaring cases of frequent rotation in key ministries include the transfer of secretaries soon after major credit agreements with donor agencies are signed; the transfer of secretaries in key ministries after a spell of less than six months; the frequent shifting of chief engineers of major spending departments; and the short tenure of members of the Planning Commission. Secretaries with a reputation for managing crises are periodically shifted between departments, and secretaries who fall out of favor with the political leadership are transferred elsewhere. Rotations also occur for lack of seasoned civil servants to fill top positions.

A conference of chief ministers in India noted similar problems of political interference in the transfer of senior officials, and the effect of unstable tenure on the morale and efficiency of field and secretariat officials. In some provinces, massive transfers were ordered with every change of government. In times of short-lived governments, offices could be shuffled every six months or less. With political middlemen entering the fray, transfers are said to have become a productive industry.

Source: World Bank (1996b).

SOME CIVIL SERVICE ISSUES OF LOCAL GOVERNMENTS

Decentralization, discussed in Chapters 5 and 8, calls, among other things, for a better workforce for local governments. Local governments typically face a number of personnel problems in addition to those discussed in earlier sections.⁸

Employment

Local governments face the following specific employment issues, among others:

- The need for specialized personnel, which is partly related to the size of the territory covered by the entity. Below a certain level, it is not cost-effective for similar units to each have technical specialists. This matter is particularly relevant to developing economies, where technically qualified personnel are usually in short supply.
- The extent of recruitment to be done by local entities, a central organization, or intermediate mechanisms.
- Transparency in appointments and recruitment, and uniformity in the classification of posts and qualifications.
- Equality of treatment, and the absence of discrimination, for all persons in similar circumstances in public employment, particularly in areas where race, religion, language, or ethnicity is an issue.
- Special arrangements for personnel management and training, and to ensure accountability of employees and protect them from political and other forms of harassment.

Compensation

Within the wage policy principles discussed above, the compensation issues specific to local governments have to do with such questions as the following:

- Will each local entity have autonomy in designing its compensation package? If so, what action by the national government will be needed to rationalize the resulting differences between local entities?

- Is there to be relativity in compensation between the different tiers of government? If so, what are the best means for arriving at such relativity?
- How will the compensation package address the constraints on career progression deriving from the small size of the entity?
- Will the limited spatial reach of some entities preclude them from paying compensation comparable to that in the local private sector? If so, what offsetting measures can be devised?

Local Accountability

The issue of accountability in local government resolves itself into such concerns as the following:

- Defining, as closely as possible, the frontiers of political and bureaucratic accountability for each tier of decentralization. This is perhaps more important at the lower tiers, where institutions are likely to be undeveloped, policy making and executive roles often unclear, and checks and balances absent.
- Providing quick and inexpensive methods for redressing citizens' grievances against civil servants, as well as similar steps to protect civil servants from undue political and other forms of harassment. Again, this is especially necessary at lower levels of government, since that is where the citizens' interface with government is most direct, and local issues tend to generate controversy and passion.
- Ensuring adequate monitoring and evaluation.
- Improving relations between the local government and the community.
- Strengthening local audit, not necessarily through local institutions, but preferably with the assistance and intervention of the provincial or national government.

Local Capacity Building

Local-government initiatives aimed at improving the civil service are not only complex and of long duration, but also fraught with special uncertainty. This is so not only because of the difficulties inherent in attempting reforms in so many local bodies, but also because organizations tend to be weaker and more undeveloped the lower one goes down the ladder of decentralization. Four main issues can be singled out in this regard:

- Training of civil servants and political executives of local governments can improve performance and lead each side to a better understanding of the other's role. (Joint retreats to discuss gender, environmental, governance, and other issues have been organized to good effect in India.)
- Because the importance of regular, free, and fair elections to local bodies cannot be overstated, a politically neutral and professional civil service is indispensable for the objectivity of the electoral process.
- Legal institutions, too, have a prominent role to play. With specific reference to local government employment, it is worth considering separate tribunals with exclusive jurisdiction over service matters, to prevent a few disgruntled employees from holding the reform process up for ransom through legal obstructionism, as well as to give them legal protection against arbitrary action or political interference.

KEY POINTS AND DIRECTIONS OF IMPROVEMENT

Key Points

The goal of government employment and wage policy is neither to minimize employment nor to compress wages but to achieve a workforce with the size, motivation, professional ethos, and accountability needed to provide quality public services; reduce transaction costs for the private sector; design and implement economic policy; execute budgets and investment projects; and preserve the key assets of society. A skilled, motivated, efficient civil service with a professional ethos is one of the key requirements for good government. While such a civil service is not sufficient to produce good governance, experience shows that a very bad civil service is sufficient to produce bad governance.

Worldwide, general government civilian employment averages around 5 percent of the population. Government employment is relatively largest in industrial countries, and relatively smallest in sub-Saharan Africa and East Asia. During the last two decades, not including teachers and health personnel, local government employment has grown to almost the same size as central government administration (not including education and health workers).

Generally, the size of government employment is positively correlated with per capita income—confirming the so-called Wagner’s Law—and negatively correlated with average wages.

Concerning wages, the central government wage bill absorbs about 5 percent of GDP, and general government about 8 percent of GDP. The heaviest fiscal weight of government wages is in the Middle East and North Africa, which have the highest average public wages. Worldwide, public sector wages are about 70–80 percent of comparable wages in the private sector. This is broadly justified by the greater security of employment. However, vast differences in wage adequacy exist between regions, with Asian government employees at the higher end and civil servants in anglophone African countries at the lowest end of the spectrum.

In the last two decades major changes in employment and wages have occurred:

- Central government employment has contracted by about 40 percent. This reduction was partly offset by growth in local government, primarily in Latin America, but general government employment declined overall.
- A smaller but significant relative decline has occurred in government wages as well.
- Consequently, the weight of the government wage bill has declined on both counts in most countries.

Concerning employment policy, an assessment of the “right size” of government employment must be country-specific and consider the functions assigned to the state, the organizational structure of government, the degree of administrative centralization, the availability of resources and information technology, and the constraints on staff mobility. There is no hard and fast rule on the right size of government, and any staff retrenchment should normally be a part of a comprehensive civil service reform program. When the civil service is badly overstaffed, or the wage bill is unsustainable, retrenchment by itself may be inevitable. Even so, it is essential to design it correctly, to avoid de-skilling the government, demoralizing employees, and risking social conflict. Experience shows that it is cost-effective to take the time and resources needed to tailor severance compensation to employee characteristics, avoid seniority-targeted retrenchment and seniority-weighted compensation, and put in place strong measures to prevent the recurrence of overstaffing.

Concerning wage policy, the key objectives are:

- Equal pay for equal work,
- Differences in pay should be related to differences in responsibilities and qualifications,
- Comparability (not equality) of government pay and private pay, and
- Periodic revision of the government compensation structure.

Identifying nonwage benefits is a major problem, particularly because they tend to proliferate during times of fiscal stringency. Salary inequalities between men and women are also persisting, and are widest in developing countries. Salary compression has been another chronic problem of civil service compensation. Because wage reduction has entailed in practice larger cuts at higher levels, incentives have been eroded, and decompressing the wage structure is a normal component of civil service reform programs. In any event, the worse response to inadequate salaries is grade inflation and ad hoc remedies.

In recent years “performance pay” has been introduced in some countries. The evidence shows that performance pay schemes have been, at best, marginally effective and, at worst, have reintroduced political control over the civil service and heightened ethnic tensions in plural societies. Nevertheless, greater merit orientation in the compensation system is a must, including nonmonetary incentives such as public recognition, national honors, and career development options.

Directions of Improvement

Civil service improvement is often identified with the cost-containment measures of personnel retrenchment and real-wage reduction for fiscal reasons. (This explains much of the suspicion attached to civil service reform in developing countries.) However, while the cost-containment dimension is important in many countries, civil service improvement is a much broader challenge, and should be seen within the general context of public administration and governance practices. The goal of government employment and wage policy is neither to minimize employment nor to compress wages, but to achieve a workforce with the size, skill mix, motivation, professional ethos, and accountability needed to provide quality public services; reduce transaction costs for the private sector; design and implement economic policy; execute budgets and investment projects; preserve key assets of society; and facilitate institutional development throughout the economy.

Unlike firing people and cutting salaries, these structural reforms carry potential social and political gains, in addition to the economic ones. Of course, they are also far more complex and of long gestation, partly from the need to develop a professional ethos, which is as important as technical competence. In this complex task, as in all public administration, improvements must rest on a bedrock of greater accountability. Inefficiency and corruption in the civil service do usually call for measures in both employment and better incentives. However, without improvements in effective accountability, retrenchment and more adequate incentives will simply result in a smaller and well-paid, but still inefficient and corrupt civil service.

As discussed in Chapter 1, accountability (like wage adequacy and overstaffing) is a relative notion. Strengthening civil servants' internal accountability to their administrative superiors may be necessary. But strengthening internal administrative accountability is rarely sufficient to produce an improvement in government efficiency and quality of services to the public because internal controls are often ineffective—especially when the social ethos tolerates collusion between supervisors and subordinates. Stronger outward accountability, therefore, is essential for greater responsiveness to the needs of the public and thus to improved service quality—whether it is the individual civil servant who is directly accountable, or the service unit, or the ministerial department as a whole. Outward accountability can be increased in a variety of ways—user surveys, individual name tags, investigative journalism, media access (e.g., radio talk programs), whistleblower laws, public opinion polling, etc. (see Chapters 13 and 16.)

In trying to move away from an underperforming and underpaid civil service, without massive fiscal implications or immediate wholesale reform, the following transitional measures emerge from recent international practice. It is essential that such measures be a transition to *something*, and hence that they be formulated as part of a coherent and concrete vision of reform and implemented as a step in the sequence leading to that reform. If taken in isolation, such transitional measures would produce little but the institutional enclaves that so richly failed throughout the developing world. To mention a few:

- In the acquisition of new blood for the civil service, it is possible to create a two-tier system (as in Poland) whereby new staff are recruited at the new salary scale and are expected to meet higher standards of qualification. Over time, the new system will expand as the old one

contracts, eventually leading to a unified system with better-qualified, better-paid staff. Like dual exchange-rate systems, this approach will work only if it is transitory.

- Even at the present inadequate salaries, young and better-trained people can be induced to join government service for limited periods if given challenging responsibilities and solid training (as in Estonia). When they leave, others can be recruited. The training requirements within the government sector are semipermanent, but the capacity of the economy as a whole is enhanced; the general understanding of the work of government is improved; the average performance of government employees rises; and positive models are offered to permanent employees for their own betterment.
- Special transitional arrangements for contract employees (higher-skilled, paid above the existing scale) can be workable (as in Lebanon), provided that the allocation of such contractual posts to government bodies is decided at high levels; that each appointment is cleared individually and personally by high authority; and that these arrangements are part of a genuine transition to an overall salary reform.
- Individual negotiations between new staff and ministries (as in Guyana) should never be permitted, as they result in glaring distortions and inequities, and compromise prospects for sustainable improvement.
- Capacity constraints in developing and transitional countries suggest the desirability of unified, classification and pay systems (such as those in France, Japan, the Netherlands, etc.), rather than differentiated classifications for different entities of government.
- All possible encouragement should be given to mobility within government, and obstacles and artificial constraints removed. In particular, the fragmentation of the civil service into a variety of separate professional cadres hampers mobility and fosters rigidity and lack of communications within the civil service. Mobility, transfer provisions, etc., should be formulated transparently and after appropriate consultation with stakeholders.
- Upward feedback, that is, confidential surveys to obtain the views of subordinates, is essential for the evaluation of managers' performance.

Finally, while a coherent vision of the endpoint of civil service reform is essential, it is also necessary to provide guidelines for the transition from “here” to “there.”

Immediate measures could include

- A freeze on recruitment;
- The sequestering of future vacancies arising out of retirement, termination, death, or resignation;
- A temporary halt in promotions except in individual cases expressly approved by high authority; and
- A halt on the absorption of contractual and temporary employees into permanent positions.

Short-term measures would involve

- A simple but complete census of all types of employees;
- The removal of ghost workers and other irregularities from the payroll;
- An improved personnel management information system;
- The completion of studies on job classification, personnel procedures, and salary structure; and

Medium-term measures would include

- The implementation of the recommendations reached in the previous phase;
- The streamlining of personnel regulations;
- A review of the functions, organization, and operational effectiveness of government, starting with the key ministries;
- A mechanism for re-certifying government employees in order to screen out those without adequate qualifications; and
- Implementation of a program for redeploying other employees.

As part of the *long-term measures*, each ministry could be required to submit a concrete restructuring plan consisting of a statement of objectives, strategies for achieving these objectives, a staffing program, a timetable, simple indices of administrative performance, training needs, and financial requirements. Once the plan is approved at the highest level, and irreversible initial steps have been taken, the ministry in question can freely recruit from other ministries; resume normal wage increases and promotions; have its reasonable financial needs met; and move up to the new salary scale

established in the meantime. Such a process would create incentives for all government entities to improve their organization and operations in order to be allowed to move up to the new flexible structure, and for individual employees to move to the more dynamic government entities. In time, all government entities would operate in accordance with the new system, and the coherent vision formulated to begin the process would be fulfilled. (This process, naturally, is an ideal, and carries heavy requirements in terms of consistency, persistence, and political determination and continuity.)

Annex VI

METHODOLOGICAL PROBLEMS IN THE ESTIMATION OF INTERNATIONAL DATA ON GOVERNMENT EMPLOYMENT AND COMPENSATION

However tedious, a summary of the main methodological difficulties is essential to a realistic understanding and use of the results discussed in the text.

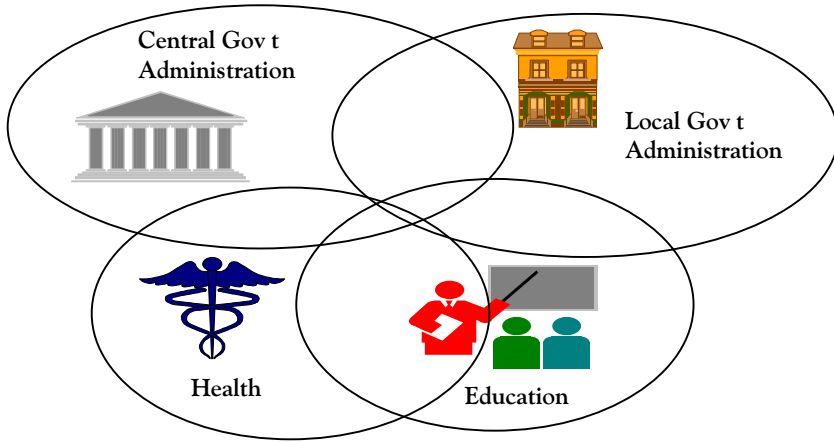
In the first place, statistics of any reliability simply do not exist in many countries. When reasonable data are available, employment comparisons are complicated by the following:

- Some countries include teachers or health workers in the civil service while others don't.
- Some countries include contractual and seasonal (sometimes even daily) workers in government employment while others don't.
- Local government employment may or may not include employees paid out of the central government budget—and accordingly, large numbers of persons may be paid out of the central budget but are not listed among central personnel.
- Paramilitary personnel (gendarmes, etc.) may be included among civilian personnel because of their public order functions, or in the armed forces because of their military status.
- Employees of legislative bodies are sometimes included among government personnel, etc.

And, because the basic social services—education and health—raise policy and practical issues different from those of public administration, it is useful to try to separate out government employment in these sectors.

The overlapping nature of the main components of government employment and the resulting gray definitional areas are shown in the illustration below. The methodological difficulties arise in part because the various components intersect differently in different countries, and the very classification of certain personnel in one or another category has an inevitable arbitrary or country-specific element. In the survey, we have taken care to use clear and uniform definitional criteria, country by country, and to avoid any overlap between the four components. Consequently, the figures in Table 10.1 on central government, local government, education, and health are additive and without duplication.

The Main Components of Civilian Government Employment



International comparisons are even more problematic for government wages than they are for employment. To begin with, the existence of different in-kind benefits in different countries makes it impossible to be sure that differences in monetary compensation adequately reflect differences in total compensation. Moreover, even when comparisons are limited to monetary compensation, serious problems remain. If wage rates are derived from independent surveys or from official information on pay scales, it is impossible to treat nonwage monetary allowances uniformly because certain sources include them in the wage package while others show only the base salary. Fortunately, budgetary figures on the overall wage bill paid through the central government budget are generally reliable because monetary allowances are usually captured in the budget and properly classified under the wages and salaries chapter. For this reason, measuring the relative weight of the government wage bill by defining it as a fraction of GDP or of total expenditure is both reasonable and generally reliable.

Compensation *rates* are a different matter: dividing the central government wage bill by the number of employees listed as working for the central government will always tend to inflate average compensation because, as noted, significant numbers of employees are paid out of the central budget but work for, and are shown as part of, local government entities. It is therefore necessary, country by country and by recourse to different sources of information, to adjust the figures on personnel paid from the central government in order to obtain a good approximation of average monetary compensation.

Assessing wage “adequacy,” or even only ranking countries by relative levels of government wages, presents additional difficulties. Exchange-rate problems make reliable conversion into a single numeraire difficult. Relating public wages in local currency to other meaningful variables, also in local currency, obviates the exchange-rate problem but raises the obvious issue of the appropriate denominator. The only reliable measure of the adequacy of government wages is through a statistically representative survey of public and private salaries—for comparable skills, in a given country and at a given time. Because such surveys are not common (only a few among the World Bank’s private-sector assessment studies contain such information), this is an impossible standard when large-scale international comparisons are at issue. Accordingly, we have used in this survey three measures of relative government wages: average central government wages relative to wages in manufacturing (the only statistic available, from the International Labor Organization (ILO), for a large number of countries on a uniform basis); average wages as a multiple of per capita GDP; and secondary sources that do exist concerning the ratio of government to private wages for a few countries in each region.

Another indicator of relative public wages exists as well: the ratio of public wages to average wages in manufacturing. This indicator permits much broader country coverage because manufacturing wage data are collected and published by the ILO for a large number of countries on a regular basis. However, it gives a statistically misleading comparison, as public wages are generally for white-collar skills, while wages in manufacturing are generally for lower-paid blue-collar jobs. The comparison (which was carried out and is included in Schiavo-Campo, de Tommaso, and Mukherjee 1997) is also misleading from a policy viewpoint—because it produces the false impression of a relatively well-off civil service.

NOTES

- ¹ Quoted in Andic Fuat and Suphan Andic. 1996. *The Last of the Ottoman Grandees: The Life and Political Testament of Ali Pasha*. Istanbul: Isis Press.
- ² Throughout this chapter, the term “civil service” is used interchangeably with “government employment” and “government workforce,” although in many countries certain government employees technically belong to a special regime as “civil servants.” While the distinction is important for personnel management and will be elaborated on in chapter 11, it is not essential for the discussion of the aggregate issues of government employment and pay in this chapter.
- ³ See, for example, Adamolekun (1983) for Africa; Reuveny (1974) and Siedentopf, ed. (1983) for Asia; Hyung-Ki Kim (1994) for Japan; Yoong-Yang Kim (1985) for Korea; Junquera (1986) for European countries; and Ingraham and Rosenbloom, eds. (1992) for the US.
- ⁴ See Schiavo-Campo, et. al. (1997a, b) and Schiavo-Campo (1998). Note that the tables in the statistical appendix list all countries, whether or not reliable and complete data could be found, whereas the regional averages shown in the text tables are based only on countries for which reliable data could be found or estimated for *all* of the following: employees in central government administration, employees in local government administration, teachers, and health personnel.
- ⁵ Schiavo-Campo, et. al. (1997a, b).
- ⁶ Report of the Public Commission of Uganda (1982), cited in Lindauer and Nunberg, eds. (1994), p. 27.
- ⁷ This section has drawn partly on Commonwealth Secretariat (1996); Armstrong (1996); Milkovich, ed. (1997); Lovrich in Perry, ed. (1989); Klingner and Nalbandian (1998); Riley (1993); Corrigan et al. (1999); Pearce and Rich, in Perry, ed. (1989).
- ⁸ We are especially indebted to Amitabha Mukherjee for the substance of this section.

Chapter 11

Managing Government Personnel

Every man is good at something; it is the task of the Chief to find it.
—Malay proverb

INTRODUCTION¹

Government personnel management consists of four fundamental functions: planning, acquisition, development, and sanction (Klingner et al. 1998). Planning refers to the definition of personnel requirements, jobs, and pay and benefits. Acquisition is the recruitment and selection of personnel. Development is the task of orienting, training, motivating, and evaluating employees. Sanction is the establishment and maintenance of expectations and obligations.

Different social values have led to different personnel systems in different countries. A system where political responsiveness and personal rule are prevalent tends to be characterized by political appointments. Where social equity is important, affirmative action and minority protection are introduced. Where the focus is on efficiency, the personnel system stresses disciplinary action against nonperforming employees and rewards for strong performance. In general, the evolution of government personnel systems has shown a transition from political patronage and personalism to a system based on merit, political neutrality, continuity, integrity, and professionalism. However, many developing countries still show an uneasy coexistence of informal rules and personal considerations with formal merit-based personnel management.

The public's view of government employees has typically mirrored public views about government in general. High status attaches to

government employees in countries where the role of the government is viewed positively, and civil servants enjoy little public trust in countries where government is viewed as part of the problem. This has been true since the 1980s in North America, the United Kingdom (UK), and other countries in the Anglo-Saxon administration tradition, such as Australia and New Zealand. But the picture is not uniform. In France, for example, surveys by the Ecole Nationale d'Administration (ENA) have shown that over 80 percent of ENA graduates are still in the civil service, and that the citizen is keen to retain them by offering adequate salaries. In many developing countries, especially in Asia—People's Republic of China, Japan, Republic of Korea, Nepal, and Sri Lanka—there is high respect for civil servants (in the case of Nepal, because they are appointed by the monarch), and government personnel have high social status.

The civil service often refers to a subset of overall government employment—the group of employees who perform core or higher-skill tasks. However, there is no common definition for this core group, making comparisons difficult. It is safer, therefore, to use the term civil servants as synonymous with regular government employees, i.e., civil employees of government whose remuneration is paid wholly and directly out of monies voted by the legislature. The reader should remember, however, that in many countries—especially those in the Anglo-Saxon tradition—the civil service applies only to the core group.

Government personnel are also distinguished on the basis of the status of their employment: permanent, temporary, contractual, or casual. Casual workers and employees engaged on fixed-term contracts or paid from contingency funds are normally not included in the definition of the government civil service. However, the proportion of casual workers in government employment is significant in many developing countries, often as high as one sixth. Also, in some developed countries, the distinction between permanent and contractual employees is being eroded by moves to place more and more employees on renewable fixed-term contracts.

Most countries have legal provisions in their constitution that define the structure and rights of the civil service. In addition, some countries have passed laws on specific aspects of personnel management, such as position classification, merit protection, ethics, and the workplace. But whether embodied in law or not, choices about organizational structures for government personnel management, and the assignment of responsibilities for key personnel functions, are critically important.

In many countries, authority over personnel at the national level is typically shared among a number of entities: a policy agency, an oversight agency to ensure fair and meritorious practices, and a financial control and monitoring unit (usually in the Treasury) (Box 11.1). Central public service commissions owe their origin to colonial administrations in many countries. They have played a major role in establishing merit-based recruitment and in protecting civil servants against political interference or retaliation. However, the line ministries have assumed in recent years increasing responsibility for many personnel functions, even in developing countries. Centralized personnel management systems are more common than decentralized systems. Successful centralized systems display a high degree of control over most personnel functions, and professional standardization; unsuccessful centralized systems turn control into micromanagement and professional standards into immobility.

Box 11.1

Central Personnel Management in Asian Countries

In Asian countries core institutions typically consist of the prime minister's or president's office with an oversight role, the department of finance or equivalent body with responsibility for budgeting, and an executive body responsible for the civil service. In many cases, a nonexecutive body, such as a public service commission, is also present to ensure that personnel decisions are based on objective criteria and arm's-length procedures. In these cases, such a body retains control over recruitment and the management of higher-level personnel and may also be responsible for ensuring that disciplinary actions follow prescribed procedures, and acts as an appellate body for employee grievances.

In Singapore, the Ministry of Finance has two divisions that deal with personnel matters: the Budget Division handles manpower control; the Public Service Division develops policy, coordinates implementation, and is responsible for pay and grading, training, and productivity improvement; and the Public Service Commission approves high-level appointments and disciplinary action. In Malaysia, all core personnel management functions are concentrated in the Public Service Department. The Government determines the allocation of the three central responsibilities among management agencies—budget control, human resource management and planning, and ensuring compliance with civil service laws and regulations. Clear channels of communication and regular top-level meetings help in this regard. In Japan, the three functions are exercised separately by the Management Coordination Agency (reporting to the Prime Minister), the National Personnel Authority, and the Ministry of Finance.

continued on next page

Box 11.1 (cont'd.)

In the Philippines, there is a need for better coordination between the two key central personal agencies, namely, the Department of Budget and Management, and the Civil Service Commission. Both have legal responsibility for setting pay scales and salary grades. The overlapping legal mandates of the two agencies create problems for the line agencies in getting permission to create a new position and to recruit externally, and leads to delays in filling positions. There is also a conflict between the raising of qualifications by the commission and the grading of positions by the Department of Budget and Management.

Source: Steedman and Howes (1996), and internal ADB memoranda and country reports.

DEFINING GOVERNMENT PERSONNEL REQUIREMENTS²

Human Resource Planning and Information Systems

Government personnel planning and information systems, as a subset of manpower planning for the country as a whole, provide the means for creating a government workforce of appropriate size and quality to deliver the government's policies and programs cost-effectively. The overall responsibility must rest with a central agency, such as a ministry of public service or the ministry of finance.

The objectives of personnel planning are:

- to monitor and control the growth of government employment according to fiscal targets;
- to ensure that existing staff are utilized and effectively deployed in response to government policy and development priorities; and
- to enable the government to achieve its strategies for staff acquisition, retention, development, and exit.

A human resource planning and information system for government provides the mechanism for reconciling three different elements: the forecast of demand for government personnel, the likely supply, and position (establishment) controls. Thus, a fully developed system typically contains the following elements: (i) workforce inventory, (ii) overall framework for position control, (iii) demand forecasting, and (iv) supply forecasting.

Adequate personnel records are a prerequisite for government personnel planning. The information required can be grouped into three categories:

- *Information about people* - the numbers and characteristics of employees (age, gender, qualifications, skills, and experience); their location (ministries, departments, subordinate and field offices); and data on their acquisition, promotion, exit, transfer, and dismissal.
- *Information about posts* - job types and levels; numbers, locations, types, and levels of established posts, posts filled, and vacancies; and grade, pay, and other employment conditions.
- *Related financial data* - current pay and allowances, personnel expenditure trends, termination benefits, pension forecasts, etc.

Problems and Opportunities for Developing Countries

Developing and transition countries generally lack systems for the systematic planning and forecasting of personnel needs. In a number of countries, the exercise entails a mixture of ceilings on staffing levels imposed by a central agency (normally, the Treasury) and forecasts of annual recruitment needs, within the ceiling on expenditure and staff for individual departments based on attrition and new activities. Such an exercise is hampered by the lack of systems for classifying government personnel or of reliable central records on permanent and temporary posts. Even when a government personnel census has been conducted, without an institutional capacity to use the available census data and keep them up to date, the quality of the information is rapidly eroded. Results quickly become outdated, as employees leave and new recruits join the civil service, openly or otherwise.

JOB EVALUATION AND CLASSIFICATION³

Concepts and Definitions

Jobs and grades

Positions are grouped and ranked in a *classification system*. Grades are essential for the efficient administration of personnel in all large organizations, including the government service. The structure of jobs in a civil service typically consists of a hierarchy of grades. In each grade are placed all jobs with features that are judged to be similar. Each grade has a salary scale (or a single salary) associated with it. The grade system provides

the reference point for enacting rules and regulations for government personnel.

Rank-in-person and rank-in-post

There are two basic approaches to the grading of government personnel and jobs: *rank-in-person* and *rank-in-post* (or *-job*). Under the *rank-in-person* approach, an individual is recruited not for a particular post but to join a group of employees, usually termed a *service* or *cadre* or *corps*. A service has its own structure of ranks or grades, with rules for recruitment and promotion to the higher ranks, and is distinguished by the type of work performed, e.g., engineering service, accounting service, etc. There is often also a generalist administrative service, whose duties include setting general policies and managing departments.

In the *rank-in-person* system, the employee rank identifies his status and is independent of specific duties or organizational location. For example, a military general remains a general, whether in the field or at headquarters. Similarly, a permanent secretary in government retains that rank even when he is moved to another ministry or job. The major drawback of the *rank-in-person* system is that it tends to become top-heavy and to give undue weight to seniority, and may suffer from inbreeding.

Under the *rank-in-post* approach, rank is assigned to positions, and recruitment is for a specific position. The job, not the person, is rated, and salary is determined by the position description and the requirements for it, rather than the qualifications of the person, as such. The *rank-in-post* system permits recruitment through lateral entry, and enables more efficient younger employees to leapfrog over more senior employees. This system, too, has certain drawbacks. First, the job classification may become outdated. Second, agencies are tempted to create too many higher-level positions or to shift professional specialists to administrative positions to improve their chances of retaining or recruiting highly qualified professionals. Third, the system does not individually reward people who expand the scope of their jobs to perform more duties than was envisaged. Fourth, the system hampers the mobility of personnel and keeps them from gaining new experience.

Job Classification

Job analysis involves determining the duties and responsibilities of the job, its relationship to the organizational hierarchy, its supervisory content, and the qualifications and skills it requires. Without accurate job analysis, good recruitment is difficult.

Job evaluation is the next step after job analysis. The personnel specialist looks at all the jobs in the government or a particular agency, and assesses their relative contributions to the organization and the relative difficulty of the jobs themselves. The jobs are then grouped into categories, and ranks are assigned to the resulting categories. The techniques of job evaluation include market-based evaluation, whole-job ranking, point rating and factor comparison, and position classification. Some of these techniques are more useful than others, and all can be used to rationalize management decisions already taken informally. For example, point rating and factor comparison identify specific job factors, which are assigned point values. The jobs are then grouped on the basis of point totals, and the various job categories are accordingly ordered by rank. The element of potential subjectivity can be considerable.

Job classification is the oldest and most common system. The system requires that the duties of every position be described by the incumbent, his or her supervisor, and finally by a classification specialist in a central personnel office. All positions are grouped into classes or categories, according to occupation (clerk-typist, civil engineer) and level of qualifications and responsibility. This allows the determination of grades (also called skill levels), each constituting a specified level of difficulty and responsibility, and a single pay range for all positions in all classes assigned to a particular grade.

Job classifications can be graded or ungraded. Graded classifications provide equal pay for equal work within each occupation and among different occupations (Schiavo-Campo et al. 1997). By contrast, ungraded classifications provide equal pay for equal work only in the same occupation. No clear recommendation can be made regarding the choice between graded and ungraded classifications, as both have advantages and disadvantages. In general, graded classifications are more complex, and ungraded classifications simpler. Thus, the trade-off is between flexibility and equity, or between short-term and long-term efficiency.

Experiences with Job Classification

The systems in practice

All job classification is time-consuming and expensive. If the exercise produces phony or self-serving job classifications (as is often the case in practice when data are unreliable or the information provided is not carefully verified), its greater cost is not even justified by a better outcome. Fesler and Kettl point out that organizational distortions and wrong assignment of staff members accounted for about one third of the increase in the overall average grade in the United States (US) Federal Government between 1950 and 1983.

Developed countries display a varying picture with respect to the end-results of job classification. The French system is unique in following a highly structured internal organization based on the civil service corps concept, with each corps corresponding to an occupational specialization. The number of corps (over 1,700) is larger in France than in almost all other countries. Each corps falls into one of three major hierarchical classes—A, B, or C. In the systems structured in the British tradition, except Canada and Australia, government personnel is generally grouped into four classes: administrative, executive, clerical, and messenger.

Country experiences show that the contrast between rank-in-person and rank-in-job systems is not as stark as it may appear, and that the systems are not mutually exclusive. Elements of rank-in-person systems are found in predominantly rank-in-job systems, and vice versa. The most significant example is the creation of a senior executive service (discussed later) in countries that practice the rank-in-post system in order to bring some of the advantages of the rank-in-person system into the senior echelons of the civil service. Many countries are modifying their traditional classification systems to reflect more accurately the actual differences between jobs and employees. Flexibility is increased by broad banding, i.e., the widening of salary ranges to allow rewards for performance without grade changes or transfers.

Prospects for developing countries

Developing countries in the British tradition of administration constituted generalist services similar to the elite services in France and Japan, alongside functional services for different specializations like health, engineering, accounts, and audit. The rank-in-person system blended well

with the traditional stratification of these societies, and has continued substantially in the same form in many countries (e.g., India). By contrast, Bangladesh and Pakistan replaced the four classes with a common grade structure and occupational groups.

The appropriate number of grades for a civil service is a matter of judgment and depends on the conditions in a particular country. (For example, both India and the Philippines have about 30 salary grades.) Too few or too many grades create problems. With too many grades, the distinction between work levels becomes too fine, jobs become more difficult to classify, and disputes arise in the grading of specific posts and the establishment of horizontal links between posts (Indian Fifth Pay Commission 1997). Too few grades, on the other hand, dilute the strong motivation provided by promotion and a higher title.

For developing countries, more critical than the number of grades is the poor quality and quantity of information on jobs, leading to incorrect grading. The opaque grading systems are complicated by excessive wage brackets, which are often unrelated to either job descriptions or performance (World Bank 1999d). Moreover, the staff responsible for grading jobs are often not adequately trained in job evaluation and lack technical skills, and the systems are too easily influenced by political considerations and vulnerable to manipulation. These problems, and the actual experience of many developing countries, call for caution in adopting the position classification systems of developed countries.

PERSONNEL RECRUITMENT AND SELECTION

Recruitment Principles and Organization⁴

The recruitment process entails: identifying the post to be filled; completing the job description; attracting suitable candidates for the post; and assessing and selecting the most suitable candidates.

Recruitment in the public service should be based on the principles of merit and nondiscrimination. Building a motivated and capable civil service requires merit-based recruitment (although for high-level appointments merit may well include an element of personal commitment to the political leadership and its agenda). There has been a steady move in the 20th century away from political patronage and the spoils system, and toward recruitment based on merit and open competition. In the early part

of the 20th century, government recruitment in most countries, including the developed countries, was based on political and personal connections, rather than merit. However, in many developing countries and especially ethnically plural societies, recruitment is still ascriptive and based not on merit but on the ethnicity of the applicant. Also, the continued practice of political appointments remains widespread.

Countries in transition face peculiar problems in retaining the civil service of the old regime and deciding whether to retrench or to reorient its members to serve the new functions of the state. While some staff may be too old or set in their ways, it is a serious mistake, and ethically wrong, to write off the old guard automatically without giving the individuals an opportunity to adapt and access to training.

Merit-based recruitment signals the absence of political favoritism and extraneous influences, and is designed to make the civil service attractive to talented individuals. The objective is to reach all qualified candidates within the appropriate labor market. This was the goal of most countries in setting up politically neutral public service commissions and introducing constitutional provisions and civil service laws to embody the merit criterion.

Discrimination in recruitment is unfair and obviously contrary to the principle of merit and efficiency, and legislation has been passed in most countries to address employment inequities suffered by minorities and women. Uprooting discrimination in practice is still very difficult, however. For example, typically only one out of six civil service positions in Bangladesh is filled by a woman, despite the existence of equal-opportunity legislation (World Bank 1996). Also, in many countries (e.g., India or South Africa), social peace, or correcting the effects of past discrimination, or promoting diversity and a more inclusive society justify provisions for affirmative action in recruitment (sometimes extending to actual job quotas). Again, however, affirmative action laws by themselves cannot change deep-rooted attitudes. A social consensus needs to be developed, including on the modalities and end-point of the affirmative action provisions.

Recruitment Systems⁵

Closed and open systems

Merit-based recruitment systems are of two broad, but not mutually, exclusive types: *closed or mandarin systems*, and *open recruitment systems*. Mandarin systems used to refer to upper tiers of service in East Asian countries, but they now encompass broader corps-career systems. These closed systems, in countries like France, India, Japan, and Republic of Korea, as well as other developing countries, are characterized by closed entry, group training, rigid hierarchy, and very limited interclass mobility.

In contrast to the mandarin systems, some countries like the Australia, New Zealand, UK, and US favor an open model of civil service recruitment, corresponding to the rank-in-job system, and stress flexible recruitment based on delegated authority to departments or agencies. The system permits horizontal entry without age restrictions and allows considerable interclass mobility. There are profession-specific examinations, and managers have greater discretion to hire persons on a noncompetitive basis.

Public service commissions

Public service commissions (PSCs) can play a major role in ensuring competitive and merit-based recruitment and career advancement policies and practices. In many countries, such commissions enjoy constitutional status. Ideally, their members are men and women of integrity and merit, appointed by an apolitical process. Legal provisions for security of tenure and unchangeable conditions of service safeguard the status and independence of the members of the commission. Realities may differ, however.

The mandate of a PSC includes administering competitive examinations and selecting the successful candidates according to transparent and objective criteria. The central PSC in some countries also enforces the merit principle in promotions, senior appointments, and lateral entry; assists the government in recruiting and managing a senior executive service; regulates disciplinary procedure; hears appeals from employees; and is consulted before major penalties for misconduct are assessed. Depending on the size of the country and its personnel management system, there could be other commissions, working under the guidance of the principal PSC, for specific categories of civil service, such as police and teachers, or at the regional level.

Despite an impressive structure on paper, developing countries face problems in timely and effective recruitment. While some public service commissions have a creditable record, delays in completing examinations, announcing the successful candidates, and authorizing recruitment are all too common. Ministries, often frustrated by delays or inefficiencies on the part of the central commission, are forced to take short cuts to fill posts. In some countries, moreover, there have been instances of malpractice in examinations, political interference in selection, and the induction of unqualified political appointees into the PSC. These real difficulties have led many to push for the elimination of central bodies charged with monitoring government recruitment procedures and personnel practices. Such bodies are, however, necessary to insulate government personnel from political manipulation and to protect against discrimination and corrupt patronage. The solution lies in improving their functioning, not in eliminating them.

Delegation and decentralization

Delegation involves reallocating personnel responsibilities *within* the central government, from the central public service commission to other commissions, and from the central personnel office to the line ministries and agencies. Delegation to line ministries should, of course, be part of a more general devolution of functions. Many developed countries have retained the centralized system for the higher-level civil service but use a delegated system for other personnel. The varieties of delegation practiced in different countries are shown in Box 11.2.

Below the national level, in some countries the provinces have set up their own public service commissions to recruit personnel for provincial administration. Some countries have set up service commissions to recruit personnel for local governments as well. The elected local governments and different types of local authorities are often authorized to recruit directly all or most of their employees, in accordance with national or provincial guidelines (especially regarding merit and affirmative action). A number of local authorities engage in collective recruitment for certain common posts, to save transaction costs and attract better candidates, or rely on specialized recruitment agencies for help in selecting candidates for senior posts such as city manager and heads of departments.

Box 11.2 Delegation of Recruitment

In India, major departments like Railways have been allowed to set up their own recruitment boards for lower-class personnel. Similarly, a separate staff commission has been established to recruit staff for clerical and stenographic pools. Department heads have limited powers to appoint staff to class IV and contract posts. Service commissions also operate at the provincial level to recruit staff for provincial and local government agencies. In Malaysia, four commissions with functions similar to those of the Public Service Commission recruit people for police, education, railways, and judicial and legal services.

In Singapore, it was felt that greater empowerment of ministries in the recruitment of civil service personnel would lead to greater ownership of personnel management. Initially, two separate services commissions were set up for education and for police and defense. The recruitment, promotion, and transfer of most civil servants were devolved in 1995 from the three public service commissions to a system of personnel boards. The boards, composed of permanent secretaries and senior officers, enable line managers to recruit and promote deserving officers on the basis of merit, fair and consistent exercise of authority, rigorous selection, and opportunity for appeal. The Public Service Commission continues to be in charge of recruitment for the administrative service, promotion of all senior officers, disciplinary cases, and appeals.

In the United Kingdom, the line ministries are allowed to recruit persons for most positions, except for the fast-stream administrative trainee program. In New Zealand, department heads are responsible for hiring all staff, on fixed contracts, and agencies are allowed to devise their own procedures in conformity with broad national guidelines.

Source: Commonwealth Secretariat (1995).

Recruitment and Appointment Procedures

Recruitment

General civil service regulations normally lay down the recruitment criteria and procedures. The line ministries are usually also allowed to prescribe recruitment criteria for posts other than the central and elite services, in consultation with the central personnel agency and the service commission, and in conformity with national guidelines. A recruitment checklist can be useful (Box 11.3).

Box 11.3
Bangladesh: Recruitment Checklist

- Is it necessary to fill the vacancy at all, or at this level?
- If so, what is the nature of the job, now and in the future?
- What qualifications, qualities, skills, experience, and achievement record will a future job holder require?
- What are the requirements of the team into which the individual needs to fit?
- Are there enough candidates within the department, or is it necessary to extend the search to the wider civil service or to full open competition in order to get a strong field?
- Are there wider reasons in the departmental interest, or the corporate interest of the civil service as a whole, to provide the opportunity for new blood to be brought into the department or into the civil service through this vacancy?

Source: World Bank (1996b).

To assure fair and open competition, the public service commission or the line agencies are required to publicize the vacancies, allow for a reasonable period of application, and provide prospective applicants with the needed information such as job qualifications and educational and other eligibility criteria.

In countries that use examinations, practices vary widely. Examinations are usually coupled with other selection mechanisms, such as interviews and sometimes psychometric tests. For recruitment to middle or higher ranks, examinations are unusual and candidates are selected on the basis of experience, qualifications, and interviews.

Open competition based on clear criteria and transparent procedure is the best way to assure merit-based recruitment and good outcomes. Often, however, the preferred candidate has already been informally selected, and the competitive procedure is only a formalistic smokescreen. Where this practice is widespread and hard to stop altogether, it is preferable to give greater space for direct candidate selection, with clear rules and for specified situations, while at the same time enforcing strictly the competitive selection process in the majority of cases.

Appointment

The selected applicants are submitted to the line agency concerned. The terms and conditions of their appointment are usually indicated in a formal letter. Typically, the appointment is made permanent, or the individual is confirmed in the post, after conditions are met, such as the satisfactory completion of a probationary period of service or the passing of a departmental exam or police verification.

The vast majority of public service employees are appointed on permanent and full-time terms, referred to as indefinite-duration contracts. Also important, however, are fixed-term and part-time contracts, which enable ministries to use their budget effectively, respond more readily to changes in needs and in the supply of labor, and meet demands from employees for flexible arrangements suited to their family and other needs. Usually, limits are set on the percentage of posts that can be filled up on contract, but these may not apply to part-time working arrangements.

In many developed countries, there has been a move in the last decade away from the traditional tenured permanent employment and toward fixed-term contracts, especially for senior and professional staff. In New Zealand, this is now a uniform practice for all senior staff. The objectives are to provide greater flexibility to the Government and to establish a stronger link between employees' performance and employment (Chapter 18 for a full discussion of performance issues). Rolling contracts are also fixed-term but are rolled annually for two or three years, thus offering longer-term security for the employee. But whether the contract is permanent or fixed-term, the person in question is a government employee, with the responsibilities attached to this status. When a service or activities are contracted out to an outside entity, however, the persons undertaking such services do not become public service employees.

The extent of *part-time work* in government service has grown in many developed countries. Part-time employment, i.e., any employment that entails less than the stipulated working hours for the grade, may be permanent or temporary, and may apply to the person or to the post. A variant of part-time employment is job sharing, i.e., sharing the responsibilities of a full-time job between two or more people. Some observers foresee a considerable expansion in job sharing in the years to come, especially with the expansion of information technology (Chapter 19).

Casual appointment combines elements of fixed-term and part-time work. This is a temporary appointment to meet short-term needs, such as an unexpected increase in workload, and to help in redeploying staff after the closure of an agency or office.

Where the power of appointment is delegated to ministries and agencies, the very flexibility of the recruitment and contracting process can lead to abuses and patronage-based appointments in developing countries. Central government freezes on the filling of permanent posts are often circumvented by casual or contractual appointments, and the employees concerned are later accommodated on a permanent basis under political pressure. Generally, recruitment freezes do have a role in civil service reform, but are rarely, if ever, effective over a long period of time (Chapter 10).

Prospects for Developing Countries

As discussed in Chapter 10, many developing countries have reduced their government work force, normally in the interest of fiscal stabilization. At the same time, they are required to slowly build up new cadres, and to make their recruitment systems more rigorous and merit-based. While decentralized recruitment models in developed countries are attractive, decentralized recruitment requires a strong tradition of public service and a robust personnel system to start with. Also, there is no hard evidence of the benefits of agency-based recruitment, and the risks in terms of inequity and corruption are significant. Thus, developing countries will be well advised to develop well-functioning and accountable centralized recruitment systems before they even think of giving their line ministries total discretion in recruitment.

GROOMING AND MANAGEMENT OF SENIOR CADRES⁶

Rationale for a Senior Executive Service

A senior executive service (SES) is a category of senior staff who provide policy advice, have higher managerial and professional responsibilities, and may be deployed wherever they are needed to promote the efficiency of the government. They have special conditions of employment, typically, higher salaries and correspondingly less job security.

SESs have been introduced in many developed countries, as a response to a series of problems:

- Increasingly inadequate compensation for highly skilled senior staff, in comparison with the private sector; and difficulty in attracting highly

qualified professionals from the private sector to government employment;

- Perceived lack of responsiveness of regular senior staff to the priorities of the political leadership; and
- Absence of a public-spirited, interagency, service-wide elite cadre.

In many developing countries in the British tradition, the senior cadres (such as the Singapore Civil Service, the India Administrative Service, or the Ceylon Civil Service) had a historic role as inheritor of the mantle of civil service set up during colonial times. The pluralistic character of society in many of these countries justified the continuation of the tradition of an elite, professionalized, service-wide corps, even after independence. The challenge was to convert this unique instrument, so effective as an agent of colonialism, into an agent of development and public service, sensitive to the needs of the population and the demands of democracy. (Thus, for example, Indian Prime Minister Jawaharlal Nehru was highly critical of the colonial civil service, but nevertheless followed a similar model for the post-independence Indian Administrative Service.)

SES Structure

There are many types of SES in both developed and developing countries. As noted earlier, the SES in the mandarin countries is a closed-entry system, hierarchical, small, and highly selective in recruitment.

Recruitment in the mandarin systems, as in Japan, is competitive and merit-based, usually through a centralized agency such as a public service commission. Applicants are usually young, screened by means of both general and specialized examinations, followed by intensive interviews of short-listed candidates and other forms of individual and group assessment. The successful applicants enter directly a particular class of service, usually on a fast track with the opportunity for advancement to senior positions within a few years. Such SES system is a rank-in-person system, where one is hired not for a specific job but as a fungible individual suited to a variety of senior jobs. In many Commonwealth countries, the candidates are recruited into a national generalist elite service or a number of central functional services, such as accounts, revenue, and communications, and are liable to be rotated from one job to another within the service or between ministries.

Successful candidates usually enter a prestigious national training institution, e.g., the ENA in France, for professional internship and academic training (Box 11.4). Throughout the recruitment and training, and subsequently, the candidates undergo intense socialization to internalize core public service values. Thereafter, the civil servants follow different streams in different countries. In some countries (e.g., India), they are recruited directly into individual ministries, where they tend to remain throughout their careers, but undergo job rotation within the ministry. In other countries, they are systematically rotated between ministries. Similar systems are in place in Asia—in Japan, India, and elsewhere.

Box 11.4 Civil Service Academies

A civil service academy provides induction training and long-term pre-entry training for new recruits into major administrative cadres of government, and in-service training mostly for middle and senior personnel. The civil service colleges in India, Singapore, and the United Kingdom typify this model. The academy's programs cover general and functional administration. Often, there are separate academies for different senior cadres, where the technical and specialist orientation is greater. Dedicated academies are also set up in many countries for occupational groups like health, education, railways, engineers, and communications. The academies are sometimes located within the Cabinet Office, e.g., the British civil service college, which was recently incorporated in the Cabinet Office as the Centre for Management and Policy Studies.

The typical program at the Ecole Nationale d' Administration (ENA) in France is of the pre-entry type, combining course instruction with internships. The school admits about 100 French students every year, on the basis of competitive examinations, and 40 foreign students. They receive a year of administrative training, in subjects like public management, international issues, economics, budgeting and finance, and administration. The training starts with two six-month internships, one with a prefect in a French province, and the other with a French ambassador or with a company abroad. Graduates are ranked according to their performance and assigned accordingly to a number of elite services, with the highest ranking going to the most prestigious bodies, such as the General Inspectorate of Finance, the Council of State, and the Court of Accounts. ENA's offerings are complemented by those of similar schools for the senior cadres in health, revenue, and the judiciary. France and several other countries have special academies for personnel of provincial and local governments.

Source: Commonwealth Secretariat (1995a); ENA (1998).

In contrast to the centralized systems, some countries favor an open model of recruitment into the SES, stressing flexible, decentralized, and market-oriented practices. In the US, the SES includes both career public servants and externally recruited persons. The system permits horizontal entry into the service without age restrictions, and allows considerable mobility between jobs (though interagency mobility is rare). Each government agency sets qualification standards for its SES positions and may choose both career and noncareer employees. Improved remuneration packages, linked to performance criteria, are the trade-off for foregoing the security of a civil service status. The key weakness of the system is the salary cap imposed by the legislature, as in the US, which nullifies some of the logic of the system.

Some countries provide scholarship bonds to woo top graduates to the SES for an agreed period of service; others, like Burkina Faso, bond officials who were trained at state expense for a period of 10 years, and offer generous allowances as a motivating factor. In India and other countries, training schools coach candidates from socially disadvantaged groups to help them pass the competitive examinations.

In contrast, in many developing countries, particularly in Africa, there is a need to indigenize their civil service so that it reflects the country's ethnic or geographic diversity. In South Africa, for example, whites made up 61 percent of all public employees in 1991 and held most senior positions in government, while most of the black employees were in lower-level jobs. Changing the ethnic composition of the civil service is probably the most difficult challenge of personnel management in postcolonial plural societies in Africa and elsewhere. A delicate balance must be achieved between short-term efficiency, which calls for continued reliance on skilled expatriates, and long-term efficiency, which requires building strong local capacity. In addition, there is the imperative to preserve social peace and equity while assuring good public service. This balancing act is not helped by easy assumptions of transferability of personnel management practices followed in homogenous states, or by resigned acceptance of ethnic and patronage fragmentation. The challenge is to gradually expand the space for universal criteria of merit and nondiscrimination while accommodating local, ethnic, and social realities.

Equal-opportunity and nondiscrimination goals must be incorporated into the SES system through country-specific measures, whether laws, as in the US, or enforcement by independent commissions, as in the UK.

Concerns have been voiced over the low representation of women in the SES in many countries because of barriers to entry, stereotyped executive roles, and problems in the workplace.

Traditionally, senior government employees remained in one particular ministry to build sectoral knowledge and inspire loyalty to the objectives of the ministry. The downside of this practice was sectionalism among the ministries and the lack of a common public service ethos throughout the government. The advantages of interagency mobility have been realized in recent years in most countries. In some countries, promotion to senior levels requires prior service in several ministries.

Many countries with an SES system are making efforts to broaden the experience and vision of SES employees through increased interdepartmental mobility, rotation between agencies, and access to specialized training. Canada has tried to develop a new interdepartmental corporate identity for senior managers and to increase their mobility throughout the Government. All senior managers were consolidated into a six-tier management hierarchy, and executive development programs (e.g., *La Relève* in Canada) were introduced to strengthen policy analysis and cross-sector impact. (Training is discussed in the next chapter.)

The opportunity to be selected for challenging assignments sustain competition among senior civil servants. Senior Japanese bureaucrats, for instance, have wide opportunity for lucrative postretirement assignments in the corporate sector, the so-called *amakudari* (descent from heaven).

Prospects for Developing Countries

An SES system has advantages, but also risks, such as the greater dependence on politicians' personal agendas, vulnerability to political and sectarian alignments, and lack of sensitivity to the citizens' needs. In Asian SES systems, problems have arisen from politicization, weak incentive and penalty systems, and the lack of recognition and rewards for initiative and integrity. Hostility among the various senior services and the uneven opportunities for job enrichment and career mobility hamper the strengthening of a common service ethos. Faulty posting policies often result in the lopsided distribution of scarce expertise in government, leading to strong enclaves of skills in high-profile ministries such as finance and industry, and relatively weak representation in ministries like education and health. In some countries where civil servants are apparently insulated from political

pressure (e.g., India), a variety of practices (especially transfers at short notice to other locations and the lure of plum postings) keep civil servants vulnerable to politicians' whims and vested interests.

PERFORMANCE MANAGEMENT⁷

Performance management in any organization is an integral part of effective people management. Effective performance management must not be confused with a mechanical evaluation exercise or with purely monetary rewards. On the contrary, a well-designed system must rest on a realistic assessment of the complex motivations of human beings, as well as the need to generate and preserve cohesion within the organization while avoiding unproductive conflicts. The special characteristics of public service should also be recognized.

According to Riley (1993, p. 213), the main sources of personal motivation are as follows: general social motivators and the work ethic of the society; the goals or mission of the organization; the content of the job; working conditions; and money. Informal rewards and penalties, such as peer recognition or colleagues' esteem, also have an important role. Ethical values and the drive for achievement often motivate individuals more than material incentives. This is at least as true of government employees as it is of private-sector workers. The issues related to measurement of performance in the public sector are discussed in Chapter 18. Here we discuss the methods, advantages, and limitations of the performance appraisal of government personnel.

Performance Appraisal

A general view

The question is not whether employee performance should be systematically evaluated—of course it must be—but how to do so fairly, reliably, and without generating unnecessary conflict. Yet, if country or organizational circumstances raise serious doubts as to the capacity to rate well, the question of whether or not to have a *formal* performance appraisal system comes back to the fore. A bad performance appraisal system is much worse than none at all. That said, this section discusses the requirements for a good appraisal system. We will tackle later the empirical issue of whether these requirements are likely to be met in practice in poor developing countries—particularly multi-ethnic countries.

Performance appraisal is a system by which individual employees are guided toward making an effective contribution to the work of the organization while meeting their own goals. Because of the impact on salary and career prospects, performance appraisal has important consequences for the motivation of employees, and thus for efficient and improved performance. Performance appraisal can also serve as a strategic tool for raising overall standards in government service and for increasing accountability to citizens. In principle, performance appraisal and feedback should be a continuous process, but periodic formal appraisal is dictated by the practical need to review performance over a defined period of time and on a uniform basis for all individuals in a work unit. The starting premise must be that *any* appraisal of individual performance is inherently subjective and entails an element of qualitative judgment. The goal of a sound appraisal system should therefore not be the elimination of subjective judgment, but to minimize arbitrariness and undue discretion without either becoming trapped into a mechanistic exercise or, worse, providing a smokescreen for arbitrary personnel decisions unrelated to job performance.

Ideally, performance appraisal should be job-specific and job-related, and cover only observable behavior; participatory, and appraiser and appraisee should agree on performance standards and outcomes and consult each other at periodic intervals; tied to long-range employee objectives such as promotion and career planning; and make good use of the employee's desire for self-improvement. The appraisal reports should be clear and supported with corroborating evidence, avoid personal characterization, and, of course, be nondiscriminatory and unbiased. Above all, a good performance appraisal system should promote a climate of open discussion in which performance, achievements, and difficulties can be discussed openly and supportively. Generally, in performance appraisal, simpler is better.

Performance appraisal techniques

Even though an employee's behavior is influenced by feedback from a variety of sources, performance appraisal has traditionally been associated with communication from a supervisor to an employee. This tradition is consistent with the view of organizations as hierarchies of command and control. Formal appraisal, undertaken annually, is nested in routine administrative procedures and documented in forms and reports. The demand for procedural and substantive fairness requires formal appraisal systems as well as specific criteria and procedures for rewards or penalties. Because equity considerations are more weighty in government than in the

private sector, appraisal procedures are typically more complex and time-consuming in public organizations.

The question then is: what factors should be evaluated, and how? Two appraisal methods, person-related and performance-related, are used; some appraisal systems use a mixture of both types. Person-related rating systems compare the employee against other employees, while performance-related systems assess employees' norms against previously established behaviors and standards. Person-related systems are easy to design and interpret, but have low validity and low reliability, and are of dubious value in improving performance or assuring equity. Organizational and environmental characteristics, more than personal traits, influence the nature of a given position and the kinds of skills needed for good performance. Furthermore, an ineffective or underachieving employee in a group of even less effective individuals will be rated higher than a good employee in an outstanding work unit. Realistically, however, any performance appraisal will contain an element of comparison with other staff in the same work unit.

For these reasons, most specialists advocate the use of performance-related systems, which communicate managerial objectives clearly and are relevant to job performance. The participation of the employees themselves in the formulation of the evaluation criteria makes the criteria more valid. Performance-related appraisals enable raters and employees alike to determine if the objective standards have been met. Personnel decisions can be better explained to employees, and changes in salary, promotions, or dismissals can be better justified and accepted. Finally, such an approach permits the identification of areas where performance can be improved, as a basis for counseling, job assignment, and training. Again, however, note that phony objectivity is much worse than honest subjectivity—which permits holding the manager accountable.

Employee evaluation methods are of seven kinds: graphic rating scales, ranking, forced choice, essay, objective, critical incident or work sampling, and behaviorally anchored rating scales (Klingner and Nalbandian 1998). *Graphic rating scales* are the most easily developed, administered, and scored. These are lists of desirable and undesirable traits (quality of work, work output, work habits, safety, personal relations, supervisory ability, etc.), with a box or scale beside each one for the rater's ratings (outstanding, above average, below average, etc.). *Ranking* is similar, but the rater ranks the employee on each of the listed traits. In *forced-choice* techniques, statements of positive traits for a given position, based on an analysis of the position, are couched in multiple-

choice questions, and the rater chooses the statement that corresponds most closely with the employee's performance. This method helps to reduce supervisory bias and simplifies comparisons.

The *essay*, with the supervisor making narrative comments about the employee, is among the oldest forms of appraisal and the one that best permits the supervisor to capture the complexity of a person's performance. However, this method is time-consuming and depends largely on the supervisor's writing ability. Besides, comparisons of performance between employees doing different work are unfair and cannot be used as sole basis for decisions affecting their careers. Likewise, different supervisors may have different ideas of what a good job is. To one, it may mean excellent work; to another, it may mean work that is merely acceptable. Therefore, the essay is often used in conjunction with the rating method. The *objective method* measures work performance against previously established standards, using workload indicators. The *critical incident* technique records representative examples of good or bad performance, in relation to agreed work objectives. The *behaviorally anchored rating scale* employs objective performance criteria in a standard appraisal format; it is time-consuming to develop and administer, deceptively precise, and ultimately unsatisfactory.

Table 11.1 (adapted from Klingner and Nalbandian 1998) summarizes the relationships between the purpose, criteria, and methods of appraisal. Clearly, no single method applies to all occupations or situations, and all methods have some degree of validity in most cases. Therefore, evaluative narrative and objective rating methods may often have to be combined.

Various people may rate the performance of employees. Immediate supervisors normally assess the performance of their subordinates, presumably because they are best placed to do so and possess more relevant information than other sources. However, complementary measures of evaluation can and should be used. Self-rating has been employed with some success to promote an honest discussion between superior and subordinate about the latter's performance; a smart employee, however, may use his self-rating as a negotiating tool. Though less frequently used, peer ratings or group ratings provide additional valuable information, including observations on the employee's teamwork and collegiality. The most comprehensive (and obviously the most time-consuming) method is the 360-degree appraisal, by which superiors, subordinates, peers, and clients are all asked for their views of the individual's performance. (This system has recently been introduced in the People's Republic of China.)

Table 11.1
Performance Appraisal Methods - Purposes and Criteria

Purpose	Criteria	Method
Communicate objectives	Performance-related	Critical incident, objective measures
Allocate rewards	Person- or performance-related	Graphic rating, ranking, forced-choice
Improve performance	Performance-related	Critical incident, objective measures
Research on personnel	Performance-related	Essay, critical incident, objective measures

Psychometric analysis has attempted over the years to fine-tune the performance appraisal process. Although valuable for some occupations where personal temperament is critical to good performance (e.g., police, submarine crews), in general these methods give a false sense of accuracy, and demoralize employees by implicitly treating them as experimental subjects. In any event, psychometric tools are too expensive and sophisticated for most government organizations (especially in developing countries), and are not worth the effort and resources invested.

Different governments use different approaches. The annual confidential report persists in several Asian countries (e.g., India). An employee may be rated differently on different factors, but learns only about the adverse remarks. The report provides the basic input for a variety of personnel decisions. Yet its secretive nature and the mechanical grading dilute its usefulness. Such reports tend to be poorly regarded by both employees and supervisors, and are being gradually replaced by more open and substantive appraisal methods.

In the UK, a truly participatory, objectives-based, system has been in use for several years. The results of annual job appraisal interviews with all civil servants are contained in an annual staff report, which supervisors use to identify the career development prospects of their subordinates and the training they need to perform better. In Singapore, the appraisal covers

both the past performance and the leadership potential of the employee—the so-called helicopter capacity—to identify executive talent in the civil service.

Managing Poor Performers

The handling of unsatisfactory performance is the most difficult aspect of performance management, especially in government organizations, partly because it may be related to factors outside the employee's control. Among the external factors contributing to unsatisfactory performance are:

- poor job design;
- poor work environment;
- inadequate budgetary planning and unrealistic deadlines;
- ineffective recruitment and mismatching of people and jobs;
- unclearly defined responsibilities and expectations;
- insufficient skills or experience for the expected role;
- lack of required equipment and supporting staff;
- disruptive personality clashes;
- gender and racial bias;
- personal or family problems; and
- communication difficulties.

Naturally, unsatisfactory performance is more often due to lack of effort by the employee. In any case, whatever its causes, unsatisfactory performance becomes ingrained and self-reinforcing in an organization that is reluctant to impose demonstrative sanctions against incompetent or erring employees, or that inhibits robust action by supervisors through informal rules and extra-legal constraints. A reluctance to apply the rules not only permits poor performance to continue but also demoralizes good performers and, in time, erodes the entire organization. Among other things, therefore, supervisors should themselves be assessed for the consistency, fairness, and candor of their evaluation of subordinates.

There are four aspects to managing unsatisfactory performance: early intervention and informal counseling; formal counseling with the help of a performance improvement plan; follow-up; and sanctions (Lovrich in Perry 1989). As noted, one should be aware of informal rules and environment-related factors affecting individual performance, especially in developing countries. The supervisor must first try to separate the factors within the employees' control from those external to them.

Early intervention addresses the problem directly, as part of daily supervision. Formal counseling is called for when unsatisfactory performance persists despite informal counseling sessions, or is identified at the feedback point in the annual performance appraisal cycle. The supervisor will agree with the employee on a performance improvement plan, and follow up on its implementation at the end of an agreed period. The performance improvement plan may include training or the acquisition of required skills, as well as the removal of constraints external to the employee. If the employee still does not improve, appropriate sanctions, from minor penalties up to dismissal (subject to specified appeal procedures), should be imposed. The Philippines follows an interesting practice of recognizing outstanding performers and sanctioning very poor performers by publishing a Hall of Fame that lists the former and a Hall of Shame that lists the latter.

Risks and Opportunities for Developing Countries

Cultural factors and social values in a country often influence the nature of the performance appraisal, the manner of imposing sanctions and granting rewards, and the relative emphasis on group versus individual assessment. Rule-based compliance and group cohesion are stressed in many Asian countries, whereas Western countries tend to emphasize values of individual achievement and risk taking. In many developing countries, including those in Asian societies, propitiating the superior with gifts and giving in to personal considerations in career advancement are not seen as violating public ethics. The practical question, then, is how to adapt good management principles to the reality of informal systems and cultural values. In particular, the comparative merits of individual versus group appraisal need to be carefully assessed.

The biggest problem everywhere, independent of cultural differences, is the lack of transparency in performance appraisal, and the tendency to use formal systems to ratify and rationalize an entirely subjective and discretionary judgment. Appraisal thus becomes a mechanical exercise, rather than a tool for performance management and motivation, and ceases to be taken seriously. The critical factors in any form of assessment are the reactions of the appraised persons to the assessment, and the links between performance and rewards or sanctions. Most governments (e.g., the Philippines) require the termination of an employee with two successive unsatisfactory reports, but supervisory reluctance to give candid ratings and weak supervisory accountability in this respect often derail this rule. This reluctance and lack of accountability have been a major reason for the

deterioration of government services, and the ensuing public dissatisfaction, in many developing countries.

The central personnel office should address these issues, and coordinate initiatives for improvements and behavioral changes, in consultation with employee associations and supervisors. Performance appraisal should be simple, effective, and well-enforced. In ministries and agencies that provide direct services to the public, citizens' feedback can be an invaluable adjunct of performance appraisal for civil servants.

ENSURING EMPLOYEE RIGHTS AND OBLIGATIONS⁸

Nature and Limitations of Government Employee Rights

Government employees, whether as employees or as citizens, have five basic rights:

- some protection for the job itself and the right not to be downgraded, disciplined, or dismissed without due process;
- nondiscrimination on the basis of race, religion, or gender;
- freedom of speech and religion, subject to reasonable restrictions;
- respect for individual privacy, also under reasonable restrictions; and
- right of association, including the right to form unions.

These rights, especially those relating to job protection and due process, are usually embodied in the civil service regulations of most countries. (Some transition economies are in the process of enacting laws to guarantee some or all of these rights.) The specific nature of government employee rights are spelled out in the terms of the contract and are often legally enforceable. Generally, the courts in many countries insist on the observance of procedural laws even in the case of temporary or casual employees. (One reason for this insistence is to get rid of the temptation to revert to temporary or casual employment as a way of sidestepping the legal protection of government employee rights.) Employees are also supposed to be protected from the use of political patronage in hiring, firing, and promotion decisions, and violations can be challenged. (Of course, this provision does not apply to political appointments outside the career government service.) Although formal legal procedural rights are no guarantee against arbitrary actions and dismissals, in countries with an effective judicial system they go a long way in making such actions unlikely.

The right to free speech varies across countries, but it is generally weaker for government employees than for other citizens, owing to the public nature of the job. However, government employees also have the right to be protected (at government cost in some countries) against slander and unsubstantiated allegations made by individuals and the media. Similarly, reasonable restrictions on the right to privacy could cover the employee's consumption of alcohol and drugs, and generally other lifestyle features that might embarrass the government or bring disrepute to the civil service.

Most countries restrict the right of political activity of government employees. While government employees retain full rights under the electoral laws, they are generally not permitted to campaign actively for political parties, stand for elected office, or publish articles of a political nature or critical of government policies. These restrictions are required by the principle of political neutrality for career civil servants, and are also intended to ensure that government employees are free from political pressure. By contrast, in some countries (e.g., the People's Republic of China), civil servants are required to subscribe to the political ideology of the government. Conversely, in France, civil servants may hold union office or local political office, and have broader rights to national political office than in most other Organisation of Economic Co-operation and Development countries.

Freedom of association is of two kinds: the right to unionize, and the right to join different associations, including political parties. Generally, governments favor employee membership in professional associations to enhance their knowledge and experience, and even support such associations. Governments also permit membership in cultural clubs and associations. But such membership should not create a conflict of interest or lead to public perception of partiality and bias. Employees' right to unionize and engage in collective bargaining for their pay and service conditions has been recognized in most countries. In many developing countries, there are informal restrictions. Also, countries take different legal positions on the right to strike and take job actions that paralyze government activity, but most countries limit the right to strike by employees in essential public services, e.g., police and firefighting. The potentially useful role of employee unions in good governance has been described in some case studies of Latin America (Tendler 1997).

Machinery for Enforcement of Employee Rights

Grievance redress procedures

Most countries have internal grievance redress procedures and a machinery for attending to employees' complaints about violations of their rights and to their representations about salary, service conditions, and the work environment. Most developed countries and many developing countries enforce these provisions vigorously. In other countries, they have no effect in practice. (Once again, it is important to remember that the rule of law requires not only well-designed laws but strong and uniform enforcement.) The grievance redress system is normally institutionalized through a unit or division in the central personnel agency, linked to grievance officers designated by each ministry or agency. Standing ministerial committees coordinated by the grievance officers and attended by employee representatives can also exist.

The central personnel agency can also conduct employee surveys, secure feedback on available redress systems, and analyze recurring causes of complaints, in order to initiate action at the central and ministerial level to address the generic cause of the complaints. It should also keep track of court decisions in order to update its own regulations. In some countries, the ombudsman (Chapter 17) can mediate in complaints of maladministration by the staff, and prevent the matter from going to legal arbitration.

Problems of women and minority groups

Many countries have devised special procedures and a machinery to deal with complaints of discrimination and sexual harassment in the workplace. *Sexual harassment* is defined as unwelcome sexual advances and other verbal or physical conduct of a sexual nature to which an individual is required to submit as a condition of employment (Saltzstein 1989). As in all other personnel procedures, it is not enough to draft a policy on sexual harassment; effective and credible enforcement, accessibility of employees, and swift implementation must also be ensured.

Equal employment opportunity and nondiscrimination policies and practices are part of personnel systems in all developed countries and many developing countries. Despite this, however, discrimination still persists in all countries in varying degrees. Gender discrimination is comparatively

stronger in ethnically homogenous societies, and, conversely, racial discrimination prevails in multi-ethnic societies. All such discrimination manifests itself in job segregation, differences in status between support jobs and professional jobs, disparity in earnings, and disproportionate representation of one group in supervisory and senior executive jobs. Employment discrimination is part of the larger problem of social attitudes, and calls for greater political and social awareness. Although equality is a long-range goal, legal provisions could meanwhile be strengthened to remove the barriers to career opportunities and open the door to gradual improvements on the ground.

The judiciary in many countries has intervened in a number of cases to enforce the merit principle and to oblige the executive to enforce the rights of employees. They have laid down nondiscrimination practices, proceeded against employers for sexual harassment, and prescribed procedures to avoid bias against ethnic groups or women and minorities in recruitment and advancement. Where internal mechanisms and procedures fail to resolve individual complaints about pay, promotion, or placement, and other perceived violations of service entitlements, employees in many countries may seek redress from the courts. Countries like India have set up quasi-judicial authorities, called administrative tribunals, to provide a dedicated judicial forum to dispense speedy and inexpensive justice to employees in service disputes.

Risks and Opportunities for Developing Countries

In societies with a heritage of discrimination, affirmative actions (including quotas in recruitment and promotion) are considered necessary to remedy the effects of past discrimination and equalize opportunities for everyone. The balance between the necessary redress of past discrimination and the risk of new unfair practices vis-à-vis individual employees is a difficult one, and must be achieved in different ways in different societies. In several former colonies (e.g., Malaysia, Sri Lanka, Uganda), the majority of the people were discriminated against, in favor of a smaller ethnic group serving as intermediary between them and the colonial power. In these cases, affirmative action in favor of the ethnic majority was justified after independence. In all cases, however, the problem and the specific measures must be conceived in a *positive* way. The objective must be to uplift the conditions and capacity of the previously disadvantaged group, not to put down or exclude individuals of any other group, and never should the sins of the fathers be visited upon their sons. Regrettably, this has not always been the case.

Government employees in developing countries face varying handicaps in enforcing their rights. The situation is complicated by widespread political interference in matters affecting recruitment, promotions, transfers, rewards, and career development. The perception of dissimilar treatment for similarly situated employees, on account of political connections or the support of a superior officer, undermines the basic principle of equity and demoralizes the civil service as a whole. Complaint redress systems are inadequate and often inaccessible. While access to the judiciary is theoretically possible, it is often costly and time-consuming and sometimes rigged against the plaintiff. On the other hand, employee associations do not always exert enough effort to make government employees behave as they must do, with professionalism, honesty, and propriety in and outside the workplace, and toward other employees.

LABOR RELATIONS AND UNIONIZATION⁹

Nature of Public-Sector Labor Relations

By their very nature, labor-management relations are conflict-prone, and therefore need to be governed by regulations to manage and resolve conflicts. Within the overall framework of labor laws common to public and private employment, sector-specific laws regulate labor relations in individual public entities such as railways and postal services, while local laws regulate labor relations at the subnational level. Disputes arise over wages and the terms and conditions of employment, but can also arise over representational issues such as unionization of public employees and the role of collective bargaining in government employment. In most developed countries and many developing countries, government employees have the right to unionize and engage in collective bargaining.

As previously noted, one specific feature of labor relations in government is the restriction placed on the right to strike, because of the unacceptable consequences that a stoppage of vital services, like fire protection, communication, and law enforcement, would have on the government and the people.

Government also differs from the private sector in the way it is organized for decision making on employment. A senior official designated to negotiate with government employee unions lacks the authority to commit the political executive to accept specific changes in pay and service conditions. Also, such changes may affect the overall fiscal situation and

prospects in ways that are incompatible with fundamental policy objectives of stabilization, economic growth, or equity. Thus, labor relations in the public sector have an inevitable political dimension absent from private-sector labor relations.

Nature of Unionization

The nature of unionization varies in centralized and decentralized personnel systems. Unions in centralized systems rarely attempt to change the system of initial recruitment and appointment by merit. Also, they support the government personnel agencies in opposing political patronage of any kind, as it undermines job security, which unions value highly. However, committed as they are to protecting the interest of their members, unions typically resist executive attempts to discipline or dismiss employees for performing poorly on the job. In decentralized systems, the relations between the employer and the employees in the decentralized ministries and agencies are more similar to those in the private sector, and are regulated by the same contractual legislation that applies to employment in the private sector. (This is also true of the senior executive service in many countries.)

Unions in centralized systems may include various types of professional associations, such as those comprising teachers, engineers, public health workers, construction workers, railway employees, etc. These professional unions may either federate at the central or provincial level, or form a loose coalition of occupational groups to deal with common problems. It is often left to individual ministries to grant recognition to employee unions in the ministry, on the basis of centrally prescribed criteria, while the central personnel office decides recognition to national unions. In some countries, such as France, unions are represented on government civil service boards.

Collective Bargaining

In collective bargaining, the recognized union negotiates on behalf of all employees, who are then bound by the agreements reached. (Often, however, the agreements negotiated are submitted to a referendum by the entire union membership before becoming final. Similarly, the positions accepted by government representatives normally require approval by their political superiors.)

Employee consultation in British Commonwealth countries began with the so-called Whitley councils, set up in the individual ministries and at the

national level to discuss common issues, as well as to provide a way of communicating government personnel policies to employee representatives. The transition to negotiated determination of the employment relationship has required government officials in Commonwealth countries to devise formal policies to regulate collective bargaining, and informal procedures to organize the conduct of departmental managers in the bargaining process. In some countries, wage bargaining is prohibited, and pay and allowances are determined by an expert body such as a pay commission. In some countries (such as Singapore), decisions on wages for both the government and the private sector are made together in independent national wage councils, with representation from the government, private employers, employees, and technical experts.

Labor issues pertaining to specific ministries are preferably negotiated, and agreements on nonwage issues reached, at the ministry level (consistent with national norms and benchmarks, and criteria for permissible variations). The central government personnel agency may then define the issues to be discussed at the national level. The Ministry of Finance will normally need to approve all wage settlements.

Collective bargaining should generally be broad in scope. Otherwise, contradictions with other human resource management policies may arise (Delaney and Horton, in Perry 1989). Also, a wider scope of bargaining may allow negotiators from both sides to trade higher wages for changes in conditions of work, or agreements on workforce size for improved productivity and more effective service delivery to the people.

The responsibility for collective bargaining should rest on the political executive, even though the actual negotiations may be conducted by professional negotiators. Good management calls for avoiding fragmentation in the bargaining process, especially in view of the complex and unresponsive nature of governmental structures in many developing countries. It may be useful therefore to start with a pre-bargaining stage, where negotiators, budget and personnel officials, line managers, and senior ministers agree on management goals or on threshold responses to employee union demands. Resolving beforehand any conflicts among the government stakeholders themselves and reaching political agreement on the negotiating approach will strengthen the hand of the executive, while also assuring the unions that agreements negotiated will be respected by all government stakeholders and supported by the political leaders. The collective bargaining process ends with the written agreement, whose terms should be made known to

all the employees and line managers and which, like any other contract, must be drafted in clear language to prevent future disputes over its implementation.

Strikes and Arbitration

If collective bargaining does not lead to an agreement, there are three alternatives: conciliation, arbitration, and strike, usually in that order. There is a legal ban on strikes by government employees in a number of countries in Asia and Africa, and a number of states in the US. In Canada, the law authorizes the Government to prohibit strikes during the period of general elections. Even in France, where the right to strike is included in the civil service code, several laws prohibit strikes in the police, armed forces, judiciary, and prisons, and set a minimum period of notice for strikes in safety areas such as air traffic control. Most countries have passed special laws to protect essential services. However, with or without a legal right to strike, government employees in many countries have resorted to sick outs, work to rule, or other disruptive procedures to press their claims after failing to do so through collective bargaining or when collective bargaining is not available.¹⁰

Mechanisms should be institutionalized at the central and ministerial levels to communicate policies and procedures, consult employees, and receive and consider suggestions. Such mechanisms should be accompanied by transparent and effective systems to redress grievances and respond promptly to employees' complaints of injustice or regulatory violations by their managers. Aside from the right to unionize, governments should encourage the formation of professional groups and their networking with similar associations in civil society, in order to improve the knowledge and capability of civil servants.

CONDUCT AND DISCIPLINE¹¹

As Lord Nolan stated in the context of the UK civil service, changes that have occurred over the years in the roles and working environment of politicians and other public servants have led to confusion over what is and what is not acceptable behavior. Codes of conduct for civil servants have therefore come into increasing use in recent years. These are discussed in detail in Chapter 17. It is important, however, to anticipate here the essential point that codes of conduct are useless if they are not founded on strong civil service ethics and clear public service values. Such a foundation takes

time to form, and also needs a deliberate and proactive program. The example of Singapore (Box 11.5) is worth highlighting here.

Box 11.5
Civil Service Values in Singapore

The Singapore civil service is governed on the basis of the following principles:

- work for reward;
- test for results, not political correctness; and
- leadership is key.

The characteristics of the public service are:

- fairness and impartiality in serving the public, but not neutrality in executing government policy;
- instinctive grasp of national concerns and interests, and a good understanding of national imperatives;
- commitment to the value of meritocracy and freedom from corruption and nepotism;
- notion that effectiveness is best judged by results achieved with pragmatism and a sense of urgency; and
- continuous drive for efficiency in execution in a way that is responsive and economic.

Source: Commonwealth Secretariat (1998a).

Disciplinary Regulations

Rules of conduct and discipline are framed in the wider context of employment and common law and have to pay regard to it, not least because civil servants have the same legal remedies as other citizens in matters such as unfair dismissal. Disciplinary rules carry no greater penalty than dismissal. Therefore, those who have already left government service are beyond reach, although they could forfeit their pensions if they violate postretirement provisions. Where the misconduct is criminal, however, as in fraud or corruption, the employee is liable to prosecution like any other citizen, even after retirement. Naturally, different disciplinary regulations apply to civilian and military employees.

Most governments have legislated disciplinary measures, but these are not always clear and easily enforceable. Punishments could be minor (e.g., a warning or small fine) or progressively heavier, depending on the gravity of the violation. For poor performance or misconduct that stretches over an extended period of service, the disciplinary action proceeds in stages—from oral and written reprimand at the outset to more serious action, such as the denial of salary raises, suspension, or demotion.

The disciplinary regulations usually deal with many or all of the following areas, which should be covered in appropriate detail in a manual drafted by legal experts to ensure clarity and due process, including full opportunity for the employee to present his case:

- types of misconduct, and breaches of regulations and codes;
- types of punishments, major and minor;
- proceedings for minor and major punishments;
- report prepared by the supervisor, detailing the circumstances and substance of the misconduct, the steps taken, if any, the documentary evidence and witnesses, and the type of punishment proposed;
- action taken by the competent authority on the report, including authorization to frame charges;
- inquiry and investigation proceedings (for major punishments), including the appointment of an investigating officer;
- action taken by the competent authority to accept, reject, or modify the recommendations of the inquiry officer, and the issuance of a notice informing the employee of the punishment;
- consultation with the service commission, where required; and
- final decision on the punishment.

Disciplinary Proceedings

A qualified panel of current or retired civil servants should be appointed to plead the case for the government. All efforts should be made to complete the inquiry within a reasonable period (usually not more than six months). The competent authority, in turn, should process the inquiry report and decide the case quickly on the basis of the facts and the law. All consultations should be time-bound. There should be a single-stage appeal to a competent authority (normally the central or state personnel agency, or a public service commission), which should itself decide within a stipulated time. The rules should allow no scope for outside interference at any stage of the disciplinary proceedings.

In many developing countries, disciplinary proceedings are dilatory and badly conducted, and do not achieve the purpose of deterring employees from misconduct. The inquiry often takes a number of years to complete, and the final decision takes more time still. While the innocent employee thus suffers the trauma of inquiry, uncertainty, and the injustice of being denied promotion and other rewards, the guilty person is able to prolong the ultimate decision and carry on undisturbed as before.

In most countries, it is widely felt that laws protecting job security in government employment and the dilatory procedures for dismissal make it nearly impossible to remove incompetents or malfeasants. The answer to this real problem is not to dilute government job security but to improve implementation of the procedures and install measures for better management and greater accountability. Managers should be held responsible for inattention to bad performance or weak disciplinary action, and penalized when “solving” the problem by transferring the nonperformers to another post.

There should be greater recourse to summary proceedings for imposing minor punishments quickly in order to create a deterrent effect. The central personnel agency should make a conscious effort to build a cadre of experienced and knowledgeable inquiry officers from serving and retired staff. As noted, time limits should be laid down for each stage of the inquiry, and the performance of the staff in charge of disciplinary cases should be monitored closely. The central personnel office should step in to put a stop to instances of outside influence in the conduct of the case or deliberate victimization. Throughout, it is important to note again that, as experience has shown, the swiftness and certainty of the consequences are more effective in deterring misconduct than the severity of the penalty, particularly where its probability is low and its timing far off into the future.

KEY POINTS AND DIRECTIONS OF IMPROVEMENT

Key Points

The management of government personnel is influenced by the circumstances and social values of a country. (An emphasis on social equity, for example, would lead to special measures to protect minorities.) Moreover, countries vary widely in their personnel management practices. But all government personnel systems, regardless of the country, must fulfill four functions: personnel planning, recruitment, development, and sanction/discipline.

Personnel planning is needed to: to monitor the growth of government employment; ensure the effective use of staff; and implement the staff recruitment and development strategies of the government. Planning starts with the identification of the personnel requirements of the government.

Jobs can be classified according to the rank-in-person criterion, by which the employee's rank is independent of his specific duties, or the rank-in-post criterion, which assigns a specific rank to each position. Each system has its advantages and disadvantages. Rank-in-person systems tend to become inbred and top-heavy, while rank-in-post systems hamper mobility and reward for individual performance. However, all job classification exercises are time-consuming and costly. If data are weak or the process is subject to manipulation, personnel requirements may be better defined through simple demand and supply forecasting. In any event, it is critical to establish a simple but reliable personnel database and keep it up to date.

Recruitment in the public service should be based on the principles of merit and nondiscrimination, modified as appropriate by social goals such as redressing past discrimination or assuring regional equity or including minorities and women. Recruitment procedures can be somewhat different in different countries. However, the best way to assure merit and nondiscrimination in recruitment is through open competition based on clear criteria and transparent procedures. Advancement, too, requires nondiscrimination and the recognition of merit through performance appraisal. Merit and performance assessments, however, can be manipulated (Chapter 18). Accordingly, in countries with governance weaknesses, seniority must retain a major role in advancement decisions to insulate government employees from political interference and avoid a perception of favoritism and discrimination. The issue is not whether to evaluate employees' performance, but how to do so fairly, reliably, and without compromising the effectiveness of the work group. When country and agency circumstances do permit a fair and reliable evaluation, formal performance appraisal should cover only observable behavior, entail a dialogue between manager and staff, and rest on frequent informal feedback rather than an isolated annual exercise. Generally, the more complex performance appraisal techniques do not produce benefits commensurate to their cost and the disruption they create. In performance appraisal, simpler is better—provided that the system always include confidential feedback from the individual's co-workers and subordinates.

Merit-based personnel systems can include an elite cadre, usually called the senior executive service (SES), whose members have higher managerial or professional responsibilities, enjoy better pay but less job security, and can be deployed wherever they are needed. Elite cadres are common in Asian countries, especially those in the British administrative tradition, but are also present in the French civil service and have been introduced more recently in other developed countries such as the US. In an SES of the closed or mandarin type (as in France, India, and Japan), the members are recruited at a relatively young age through a centralized agency; are groomed, trained, and socialized as a group; and become eligible for eventual leadership positions in a variety of government agencies. In an SES of the open type (as in Canada and the US), recruitment is flexible, decentralized, and market-oriented. Each government agency sets its qualification standards, and applicants from both within and outside the career civil service can enter horizontally into the SES at any age. In both open and closed elite systems, the greater mobility of the senior staff permits developing broad policymaking skills and spreads the available expertise.

The personnel system should be neither fully centralized nor fully decentralized. Good personnel management must not only conform to the overall strategies of the government but also meet the needs of individual ministries and agencies. Generally, the individual agency defines its own personnel needs; has the major role in individual recruitment decisions; and is responsible for managing the employees, once they are recruited. The central personnel unit sets personnel procedures for recruitment, promotion, and discipline and monitors their application; assists the government agencies in recruitment, normally by administering central examinations; provides a means for redress of grievances; and maintains the government personnel database.

Accordingly, in many countries public service commissions (or similar bodies) play the central role in protecting merit and nondiscrimination in all aspects of government personnel management, while respecting other legitimate concerns, and responding to the personnel needs of the individual government agencies. Too often, unfortunately, such bodies have become a source of red tape, unnecessary rigidities, and bureaucratic delays, which lead government agencies to take short cuts in recruitment and reduce the transparency of the entire system. In those cases, the solution is not to move to a wholly decentralized personnel system but to improve the functioning of the public service commission.

The rights of government personnel are constrained by obligations stemming from the nature of public service, such as neutrality, impartiality, and equal treatment of all citizens and sectors. Subject to reasonable restrictions related to those obligations, employee rights are mainly:

- job protection and due process (normally spelled out in the contract, but subject to overall civil service regulations);
- equal opportunity and nondiscrimination (modified, as noted, by other social goals such as gender or minority protection);
- freedom of speech (albeit usually with restrictions on political activity arising from the principle of political neutrality of civil servants);
- privacy; and
- right of association (including the right to unionize, except in essential services such as police or firefighting).

Most countries protect these rights through special procedures for grievance redress, but enforcement is often weak. An inefficient administrative apparatus for grievance redress coupled with weaknesses in the judicial system may deprive civil servants of an effective recourse against arbitrary treatment. In other countries, in contrast, civil service unions are such a strong political force that taking disciplinary action can be very complicated even when fully warranted, and necessary reforms in government employment and compensation can become difficult to implement.

Directions of Improvement

In many developing countries and transition economies, government personnel management systems are in a state of disrepair—politicized, riddled with patronage, lacking relevant information, and neither rewarding good performance nor disciplining underperformance or misbehavior. Often, weak personnel management is associated with inefficient policies for government employment and compensation. In these cases, it is difficult to change personnel management substantially, but some improvements are nevertheless possible. In countries where personnel management practices are unsound but personnel policies are broadly adequate, major improvements are both possible and of great benefit to the effectiveness of the public administration. In both types of countries, the role of the principles of merit, nondiscrimination, and openness in government personnel recruitment and promotion should be strengthened at every opportunity.

Concerning personnel planning, staff levels in many developing countries are based both on ceilings imposed by the ministry of finance and on the annual estimates of recruitment needs that are prepared by the various ministries for budgetary negotiations. Better planning of staff requirements, based on well-defined functions and priorities, and the maintenance of a simple personnel database would permit a gradual move away from this mechanical practice.

The lack of reliable data also affects the grading of different government jobs, and allows the system to be manipulated. In many countries, the opaque nature of job grading is often complicated by an excessive number of wage brackets. Efforts at improvement should concentrate on remedying these basic problems, by reducing the number of brackets and conducting a basic survey of who works where and on what—rather than going through complex job classification exercises and adopting the graded classification systems of developed countries.

On the question of central versus decentralized personnel management, most developing countries face the difficult challenge of reducing the overall size of the government workforce while still providing for priority recruitment needs and making their recruitment process more equitable and merit-based at the same time. This complex challenge requires building a strong and accountable centralized recruitment system, rather than imitating the decentralized recruitment practices of a few developed countries, which presuppose a robust personnel system and have inequity and corruption risks that are particularly high in developing countries.

An SES system could risk fostering greater dependence on politicians' personal agendas and develop an elite mentality, which runs counter to the principle of government responsiveness to the citizen. In addition, Asian SES systems have often been hampered in their functioning by hostility among the various senior services and by politically motivated transfers at short notice. In other countries, e.g., the US, the logic of an SES system has been negated by legislated salary caps. Nevertheless, when circumstances permit, developing countries could explore the possibility of establishing a small SES—merit-based, apolitical, and accountable, with compensation commensurate to responsibilities and comparable to salaries in the private sector. Countries where such a system already exists should review its functioning and take steps to reduce the internal or external constraints on its effectiveness, such as arbitrary transfers at short notice.

A robust and agile public service commission of unquestioned integrity and independence is a must for improving government personnel management in developing countries. Countries that do not have such a commission or equivalent body should consider establishing one. Countries that do have such a commission could usefully review its capacity and functioning, to make sure that it has not only the requisite independence and resources but also the flexibility to command respect for national personnel goals and procedures without becoming a bottleneck in recruitment, promotion, and discipline.

Concerning performance and discipline, cultural factors and social values influence performance appraisal as well as the setting of sanctions and the granting of rewards. While Western cultures emphasize individual achievement and risk taking, many Asian systems stress rule-based compliance and group cohesion, in some Latin American countries regional ties are important, and African countries put a premium on ethnic loyalty. Propitiating superiors with gifts and introducing personal factors into advancement decisions are often not seen as violating public ethics in many non-Western countries. Therefore, in improving personnel evaluation the practical challenge is how to adapt good management principles to the reality of informal practices and cultural influences. In particular, the comparative merits of group versus individual appraisal need careful consideration, as the individual's performance may be stimulated more by sanctions or rewards affecting his group than by the probability of short-term personal gain or loss. However, the evaluation system should identify nonperformers individually and handle them as such, rather than relying entirely on the group to discipline its own members. Finally, it is useful to explore practical ways to expose the front-line staff to clients and public expectations.

NOTES

- ¹ This section was drawn from Commonwealth Secretariat (1996), Chew (1992), Klingner and Nalbandian (1998), Starling (1998), Riley (1993), Nunberg (1995), and OECD country profiles.
- ² This section was drawn mainly from Commonwealth Secretariat (1996), Armstrong (1996), Grindle and Marshall (1977), Riley (1993), and Patten (1971).
- ³ This section has drawn on Riley (1993), Chew (1992), Nunberg (1995), Fesler and Kettl (1991), Schiavo-Campo et al. (1997a, b), Starling (1998), and Klingner and Nalbandian (1998).
- ⁴ This section has drawn partly on Commonwealth Secretariat (1995a), country profiles of Commonwealth countries, internal ADB memoranda and country reports, Klingner and Nalbandian (1998), and Nunberg (1995).
- ⁵ This and subsequent subsections have drawn on Nunberg (1995), Commonwealth Secretariat (1996), country profiles of Commonwealth and the OECD, Klingner and Nalbandian (1998), Starling (1998), Local Government Center (1996), and Saltzstein in Perry, ed. (1989).
- ⁶ This section draws largely on Commonwealth Secretariat (1995a, 1996), OECD (1997a), Nunberg (1995), Fesler and Kettl (1991), and Klingner and Nalbandian (1998).
- ⁷ This section has drawn on Commonwealth Secretariat (1996), Armstrong (1996), Milkovich (1997), Lovrich in Perry, ed. (1989), Klingner and Nalbandian (1998), Riley (1993), Corrigan et al. (1999), Pearce in Perry, ed. (1989), and Rich in Perry, ed. (1989).
- ⁸ This section has drawn mainly on Fesler and Kettl (1991), Riley (1993), Klingner and Nalbandian (1998), Cooper and Newland, eds. (1997), and Saltzstein in Perry, ed. (1989).
- ⁹ This section draws on Riley (1993), Commonwealth country profiles, Delaney and Horton, in Perry, ed. (1989), Coleman (1990), and Riccucci, in Cooper and Newland, eds. (1997).
- ¹⁰ "Work to rule" is the deliberate slowdown of activity through strict and literal adherence to every single provision in the regulations. While such slowdowns are theoretically possible only when the rules are cumbersome or inefficient, even the best-designed regulations can be abused when they are followed to the very letter in a systematic attempt to disrupt the activity.
- ¹¹ This section has drawn on Commonwealth Secretariat (1996), internal ADB memoranda and country reports, and Klingner and Nalbandian (1998).

Chapter 12

Investing in Government Personnel

Acquire new things while reflecting over the old.
—Confucius

INTRODUCTION

Role and Limits of Training¹

Governments rely on the knowledge, skills, and abilities of its employees to produce goods and services efficiently, effectively, and responsively. As governments modify their responsibilities in an increasingly integrated world, and face increasing competition from other service providers, they must renew their human resources. Training is increasingly important to subnational and local government entities that must cope with new responsibilities and rising expectations following the decentralization of recent years (Chapter 5). Training can also have a key role in improving employee performance, retaining government employees, and increasing employees' commitment to their agency. Training of government personnel is therefore undergoing major changes in orientation, as illustrated in Box 12.1.

At the same time, training is still frequently used as a device to avoid unpleasant but necessary personnel decisions, and as a refuge for nonperformers. Even when well run, government training programs are often unrelated to employees' actual or prospective tasks, giving them new skills that quickly atrophy from lack of use. Moreover, in the absence of efficient procedures or adequate incentives, training only generates frustration among employees. Indeed, training programs have been one of the single largest sources of wasted assistance to developing countries.

Box 12.1

The Changing Face of the Civil Service Training System

Many countries are overhauling their training systems for government personnel. Among the changes is the new commercial orientation of training institutes. At the same time, managers are being held accountable for their decisions on training resource allocations, and training costs and effectiveness are being more explicitly considered than in previous years.

United Kingdom — Major changes were initiated in the 1980s and early 1990s in the UK Civil Service College, which now more closely resembles a business school. It has, for instance, adopted the language and methods of business and offers courses organized in seven market business groups. Performance is measured against targets, and rewarded accordingly. The aim is to change the old image of the college as a remedial institution for failing civil servants. Today, the best and the brightest sign up for courses, which typically cost £1,000 a week, charged to their departmental budget. It is not surprising, therefore, that the Civil Service College makes a profit, £133,000 on a turnover of £14.7 million in 1992.

India — Training for the Indian Administrative Service (IAS) is also undergoing a sea change. The training programs in the National Academy of Administration are being redesigned to attune IAS officers to the new market requirements. Refresher courses for civil servants are now being held in premier academic institutions like the four Indian Institutes of Management. In addition to classroom instruction, the civil servants are taken on field visits to the stock exchanges, industries, and chambers of commerce. Probably the most significant effect of these changes has been in the attitude of civil servants, which has become more positive and open.

Source: World Bank (1996).

Because training is only one of the four key components of institutional capacity building (the others being improvements in regulations and incentives, in technology, and in organizational structures), rarely can training alone make an institution more capable. Normally, training is effective only when there are accompanying changes in rules and incentives, in the organization, or in technology (especially in information and communication technology)—or a combination of all these elements of capacity building. Thus, some scholars (Franks 1999) distinguish between capability and capacity. Capability is determined by the skills and abilities of the individual. Capacity, to be effective, is determined also by the institutional and resource context.

Thus, training will never fix a dysfunctional system. If employees are illequipped to discharge their tasks, they may have to be reassigned to tasks that are better suited to their skills. If they perform poorly because they are unaware of the performance standards, these standards should be clarified and enforced. If weak performance is linked to the failure to reward good work and dispense sanctions for bad work, the solution is a good performance appraisal and incentives system (Chapter 11). None of these situations call for training per se, except as a bureaucratic alibi for avoiding the real issues. Training is warranted if employees have inadequate skills for the jobs where they are best placed, and if the new skills will actually be used right after the training, or if specific skills are needed for career advancement or for the educational upgrading of a workgroup.

Therefore, the effectiveness of training depends on the training policies and institutions, the education system, the existing stock of educated manpower, the personnel policies and systems, and the administrative culture (Paul 1984). The first three factors relate to the amount and quality of training. The last two factors create more demand for training, as employers look forward to improved performance and employees to career advancement. For the individual employee, training may help to improve capability, but cannot do much to improve motivation, which depends on many other factors. Training is thus only one of the determinants of performance, and if attention is not paid to the contextual factors, training may not necessarily be effective.

With the above qualifications, well-designed training can achieve some or all of the following objectives:

- improve efficiency (reduce unit cost);
- help make labor more mobile, and government personnel more flexible and adaptable;
- motivate staff;
- lead to better and more responsive public service;
- equip government agencies with the skills and expertise they need to achieve their strategic objectives; and
- achieve specific personnel management objectives, such as employment equity, as well as build capacity in specific sectors.

Types of Training

Activity-related training

Activity-related training comprises skill formation, task-specific training, and executive development. Much of the training for government personnel is focused on skill formation.

Career-related training

Training may also be classified in terms of the different stages in a person's career. Most traditional training consists of four categories: pre-entry training, in-service training, project-related training, and personal effectiveness (Box 12.2). As the term implies, preentry or induction training is offered for employees before entry into public service. In some cases, this training may follow immediately after recruitment, but before placement in the first job. Countries like France attach considerable importance to this training, which includes internships. In-service training after induction into service includes specialized short-term programs within or outside the country. Project-related training focuses on the skills needed by project or program personnel. Personal effectiveness training establishes a better basis for career advancement or simply better work relations.

Formal and informal training

Formal training comprises structured courses, classes, and formal development programs. Informal training takes place in everyday work. Training policies should recognize that most learning takes place informally and on the job, rather than through formal education. Much can be achieved by creating a favorable climate for informal teaching and learning. While this costs little money, it has a potentially large payoff in improved performance and employee satisfaction. Informal learning strategies include job rotation and mobility, special assignments, opportunities to reflect on relevant work experiences, and generally any means of exposing individuals to the views, knowledge, and perspective of their professional colleagues. The expanded use of the Internet and e-mail offers unprecedented opportunities in this direction (Chapter 19), although "face time" remains an invaluable source of professional interaction and renewal.

Box 12.2
**Training Framework for a Newly Appointed Supervisor
 in Singapore**

Level of Training	Type of Training
Induction	General Civil Service Orientation
Basic	On-the-Job <ul style="list-style-type: none"> • Unstructured (e.g., being coached by the supervisor) • Structured (e.g., learning the basic job requirements)
	Off-the-Job (formal classroom training), e.g., managing people, communicating, getting commitment from employees, etc.
	Training in Functional Areas (e.g., a new supervisor whose duties include budgeting will need basic training in budget management)
Advanced	Off-the-Job, e.g., leadership courses, conflict management, etc.
	Training in Functional Areas
Extended	Job enlargement training, e.g., aspects of colleagues' jobs that the officer has not handled, new projects
	Higher-Level Jobs, e.g., learning, senior officer's job, development of others
	Off-the-Job Training, e.g., coaching and developing staff.
Continuing	Off-the-Job, e.g., updating supervisory skills, formal diploma in relevant areas, etc.

Source: Asian Productivity Organization (1998).

TRAINING POLICIES AND ADMINISTRATION

Importance of a National Training Policy

As stressed earlier, training delivered with no attention to the preconditions for its effectiveness will inevitably lead to inefficient use of resources and duplicated efforts. A sound training policy is therefore essential. An integrated national training policy should set the guidelines for planning, directing, and monitoring training; specify the complementary measures for training effectiveness; estimate and limit the financial resources available; and formulate training objectives for different sectors and for subnational governments.

The government should circulate a draft of the training policy among the ministries and their employees, the legislature, and different sectors of public opinion to elicit reactions and comments. The final version, approved by the highest political authority, endorsed by the legislature, and widely disseminated, should provide public managers at different levels with a concrete framework for planning and implementing their own training programs.

Training policy should be, but often is not, linked with the relevant aspects of the personnel policies of government, such as career development, promotion, and performance incentives. Without this link, neither a ministry nor its employees will be eager to participate. However, the existence of a link to career advancement is itself useless or counterproductive if the training in question is irrelevant, incompetent, or insubstantial. Before attempting to enforce a link between training and promotion, it is essential therefore to make sure that the training is appropriate and valued *by those for whom it is meant*.

This consideration implies that training should as much as possible be demand-driven. Too often in government the training specialists formulate programs without reference to the needs and wishes of the prospective beneficiaries and their managers. Sometimes, training programs are developed to provide continuous employment for those who design and implement the training. It is important, especially in developing countries, that training itself be subjected to clear performance criteria. The first of these must be the relevance of the training to the needs of employees and their managers, as defined and evaluated by them as clients, and not by the training providers or by experts hired by them.

Elements of Training Policies in Different Countries

A number of countries oblige civil servants to undergo pre entry training as a condition for substantive appointment, and in-service training as a condition for promotion to supervisory posts. The US has passed laws for the training of federal and state government employees. French law obliges the government to put in place an in-service training policy, and recognizes the right of government employees to in-service training. This same right is also contained in collective bargaining agreements with government employee unions in countries such as Italy and Spain. Countries in the British tradition, instead, generally regulate pre entry and in-service training through executive instructions.

Several Asian countries, such as the People's Republic of China (PRC) and Singapore, prescribe a minimum number of weeks of formal training for government personnel. There are prescribed training cycles for employees in functional cadres that require increasing levels of specialization, such as tax administration, labor law, or engineering. Employees may also have to undergo training before assuming higher responsibilities.

However, mandatory rules for training often do not take into account the capability of training institutions, budget limitations, or the ability of departments to spare employees for long spells of training. Often, the mandatory training before promotion is in fact taken long after promotion, defeating the purpose of the requirement. The problem of inadequate training facilities is sometimes addressed by ad hoc training programs for individual development, but this could lead to inequitable outcomes among employees.

To assure the relevance and good quality of the training, departments should develop a training road map for every employee, showing clearly the type of training he needs at different points in his or her career. This plan should be discussed and agreed upon between the supervisor and the employee, and reviewed at the end of every year. In practice, this does not often happen. At a minimum, however, training requests and requirements should be among the topics discussed during the periodic personnel evaluation.

TRAINING NEEDS, PROVISION, AND EVALUATION²

Assessing Training Needs

The starting point of all training is the question: *When is training appropriate?* As repeatedly noted, training does not solve all performance problems, and should not be resorted to simply because it is easier to undertake, is nonconfrontational, and involves no difficult management choices. Training needs must be identified at three interrelated levels: national, organizational, and individual. A broad assessment of skill availability, new skill requirements, and therefore skill gaps and training needs should be undertaken at regular intervals, so that a menu of training options may be developed, and the training institutions have the information essential for their curriculum and staffing plans.

Types of assessment

Consistent with the national training policy, training needs should be assessed by each ministry or agency, and the central unit should integrate these training assessments within the overall training policy framework, and relate them to the supply of competent training from institutions and individuals within and outside government. Training needs can also be assessed by the institutions to which the government entrusts the delivery of training programs, but mindful of the temptation to define needs as a function of the institution's preferences and capabilities rather than the government's requirements.

Training needs assessment includes general treatment needs, needs based on observed discrepancies in performance, and training to fill anticipated skill gaps. The government may require general training for all the employees in common areas such as relations with the public or the use of computers. But even for general treatment, the specific needs of the employees must be assessed in relation to their work context. The second type of assessment, based on observed performance discrepancies, generally shapes most training programs. The third type of assessment is becoming increasingly common. It is related not to present performance discrepancies but to future skill needs anticipated from technological advances or changes in strategic goals, e.g., computerization, or the new skills required by decentralization. Evidently, the more rapid the pace of technical change and the deeper the reorientation of the role of government, the more important future-oriented training needs assessment becomes. At the same time, the risk of wasting resources is inevitably greater.

Methodology

The appropriateness of the methods varies, depending on the sector and the unit of administration, as well as the content of the training and the target group. However, in any assessment, the analyst must have a clear picture of what a job entails, the major duties and responsibilities of the person holding the job, and the competencies that person must have to do the job well. The shortfalls will be identified with reference to the desired knowledge, skills, and attitudes (KSA). In tangible terms, shortfalls may also be indicated by unmet standards of performance, frequent accidents, low ratings by clients, persistent delays, etc. The usefulness of the training needs assessment is critically related to consultations with employees, supervisors, and external clients within and outside government.

The budgetary and other limitations of agencies in developing countries dictate that training needs assessment should never aim at extensive data collection, or require substantial human or financial resources from the ministry or agency concerned. This is one of the many areas of public administration where the “best is the enemy of the good.” The assessment should focus on a few, important, and easily observable areas.

In view of the new demands on decentralized units, and greater expectations of citizens, training needs assessment should also include less measurable attributes: customer care, quality, sensitivity to the needs of disadvantaged groups, fairness, the use of simple and quick procedures, service costing, and relations with different levels of government, business, and civil society.

The final product

As noted, a good training needs assessment must rely largely on the views of all major stakeholders in the exercise, including the public managers and the potential trainees. Also, the statement of needs must be relevant and quantifiable, rather than assemble vague or subjective opinions. The training report should be agreed upon with the ministry or agency concerned and would normally include

- assessment of employees’ skills and the work environment;
- assessment of skills required for the functions of the organization;
- identified skill gaps;
- identified types of training and target participants among the different groups of employees;

- domestic and foreign institutions that can provide the training, and the problems related to such provision; and
- estimated training costs, constraints on the release of staff for training, and other practical issues.

Provision of Training

Design

Once the skill gaps, the training needs, and costs are identified, a training plan should be prepared. The plan should define the following in the light of the available budget

- learning objectives,
- prospective participants,
- program content,
- staffing and support,
- appropriate training methods, and
- evaluation.

The government agencies concerned should always be involved in deciding the content of the training courses, selecting participants, and making available relevant course material from work experience. Consultation with the ministries and agency managers is particularly critical when training is expected to induce behavioral changes.

In-house or outside delivery?

The question of who will do the training and how will depend on the target group of participants, the content of the training, and the relative capacities of in-house and outside training organizations in the public or private sector. Different countries follow different mixes of delivery, although in recent years there has been an increasing tendency to contract training to outside entities, and to move away from permanent government training institutions (especially in transitional economies).

Generally, in-house units have the advantage of knowing the policies, programs, and culture of the government agency concerned. Also, the government organization concerned will have greater control of the training program. The outside provider, on the other hand, is more flexible and able to cater to a variety of training needs. In-house and outside training

alternatives are not mutually exclusive, however, and some national training organizations (e.g., those in Malaysia) are able to capture the advantages of both.

On-the-job or off-the-job?

On-the-job training is done informally at all levels in the organization, but more often for new employees, and for training in new jobs, policies, and procedures. Apprenticeships and internships, such as those followed in craft organizations and for senior executive services, are examples of this type of training. Remedial training for underperformers can also be done on the job. As noted earlier, informal on-the-job training can be provided by the supervisor or a skilled coworker. Since feedback is immediate and the new skills are put to active use, this form of training can be highly motivating and successful (e.g., when teaching a new computer program). It is most effective, of course, if the person doing the training is skilled in working with people.

On-the-job training is often overlooked because it is done differently in different agencies and is informal. In addition, on-the-job training is rarely seen as a responsibility of supervisors, who get no credit for performing this function. However, as in the case of expatriate technical assistance, training of subordinates or of counterparts should be considered an integral part of job responsibility and rewarded as such (or penalized when it is not provided). Similarly, the importance of informal coaching and counseling should not be underestimated, although counseling and coaching need particular skills and attitudes, for which the supervisors themselves may need training. Finally, job rotation can give employees a broader perspective on the working of the ministry where they are employed or of several ministries, and new skills through exposure to different tasks as well as revitalize their interest.

Traditional training, consisting of classroom lectures, discussions, and case studies, is usually delivered by external institutions. It is indispensable when seeking to acquire a coherent set of new skills, or to reach higher educational levels. No generalization about the effectiveness of traditional training is possible. In developing countries, practical problems are frequent, however. There is rarely an effort to identify the skill and level of preparation of participants, or to consult with the client agencies beforehand. Unlike college and university students, who can be assumed to meet certain common standards, government employees are generally an heterogeneous

audience. It is therefore more difficult to define program content, and to pitch lectures at the right level. Also, when training is provided by international experts, there is often a problem of language, as many local trainees are not well equipped to follow instruction in English or other international language. However, fashionable new training methods—e.g., interactive video, role playing, etc.—cannot substitute for sound, subject-competent training, and should not be used as an avoidance mechanism. Competence in the subject matter is always far more important in a trainer than teaching techniques.

Training Evaluation

As noted, training that is badly designed or not accompanied by needed institutional changes is a waste of resources. The cost-effectiveness of the training investment must therefore be assessed. Training evaluation, like all other evaluations, compares the *results* with the *objectives*. Pre- and posttraining job performance can also be compared in the rare cases when performance can be reliably quantified. Formal training can be evaluated at five levels: reaction, learning, behavior, results, and cost-effectiveness (Sims 1993). The first two relate to the trainee, while the other three relate more to the organization's goals and incentive framework.

Besides evaluation of immediate results of training compared with objectives, governments should also develop outcome indicators to evaluate the overall effectiveness of training, using information from trainees, peer groups, supervisors, the personnel unit, the client agencies, and where relevant the citizens. Performance measurement is a complex and tricky area, however, and must be approached with care and common sense as discussed in detail in Chapter 18.

Implications for Developing Countries

Most developing countries have weak or nonexistent institutional structures for training. Training needs assessment is typically lacking, such that training programs do not meet the needs of either the employees or the government agencies and are a waste of resources. Furthermore, the usefulness of training is diluted by lack of reinforcement from supervisors after the trainee returns. In large part, these problems arise because most training activities are supply-driven, and there is little involvement or interest among line ministries and their employees in the design of training programs. Often pushed and executed by external donors, training programs

have weak local ownership and are therefore hobbled by a lack of incentive to devote efforts and local resources to the programs. At the same time, the scarcity of local resources and the limited capacity of local training institutions constrain the developing countries from themselves addressing the training needs of government employees. Accordingly, training evaluation is typically mechanical and not linked to the outcomes or to actual utility of the training program.

An encouraging trend, however, is the cost-effective training for technical cadres, frontline employees, and occupational groups like teachers and health workers, done by several developing countries (especially in Asia) through training in the workplace.

Decentralization requires training to address the skill needs of political and administrative cadres in local government. This must be largely a national effort because of the uneven resource base among local governments. The national government should also encourage and support in practical ways joint and cooperative training activities by local governments that cannot provide this training singlehandedly.

Linking Government Training to Civil Society

In building capacity in civil society for closer partnership and active participation in governance, governments should consider extending traditional training to cover the needs of voluntary agencies, elected representatives, and citizen groups. This could be a part of sector training programs in health, family planning, primary education, women's development, etc.

Especially designed orientation programs for elected local government representatives have been undertaken in many countries in Asia, Africa, and Latin America. Such programs are critical for countries moving toward political decentralization. Training is needed at both regional and local levels, and the main skills to be provided cover, among others, basic legal issues, financial management, project management and monitoring, and communication skills. The dissemination of good practices from elsewhere in the country or abroad is an important ingredient of local capacity building, and donor agencies have a useful role to play in this effort.

TRAINING INSTITUTIONS³

Organizational Framework

Much of the training for government employees cuts across ministries and agencies, and is an important element of government personnel management. Most countries have therefore entrusted training policy development and monitoring to the central ministry in charge of public administration or personnel, or to a public service commission charged with career development that can thus relate training results to career advancement and promotion. These entities work closely with the central agency responsible for initiating administrative reforms, as in Malaysia and the UK.

In many countries, training is inadequately funded or the available budget is often badly utilized. Funds earmarked for training or donor programs will not help without well-conceived administrative arrangements. When training funds are centralized, they are often allocated to the training division in the central personnel agency. This agency pays the designated training institutions, meets the cost of ministry and agency training programs, and provides grants and loans to employees for educational leave and self-development programs. When training funds are decentralized, each ministry or agency manages the funds, pays the training institutions, and meets the self-education needs of employees. Central funding could be supplemented by donor-provided fellowships for training and study tours abroad, equipment, and foreign consultants.

There is no a priori preference for centralized and decentralized administration. Both arrangements require monitoring and control to ensure that training objectives are met, prevent overlaps and interdepartmental inequities, and optimize the training efforts and expenditure. In centralized administration, where the central unit meets all the costs of training and the training is free for the government agency concerned, the agency obviously tends to ask for more training than what is needed, or for training unrelated to the jobs. However, the central unit cannot and should not attempt to take over the selection of employees for training. Many countries follow therefore a mixed funding arrangement. The central unit is provided with funds for the centralized training of senior cadres, and for training to address important skill gaps. It also allocates training funds to the ministries and agencies on the basis of their own training plans, and mobilizes support from public training institutions (as well as technical assistance from donors).

In such an arrangement, the ministries and agencies have flexibility and discretion in the use of the training funds, consistent with the plans submitted, and may of course also finance specialized training themselves. (The creation of training and research institutes for specific ministries, however—which was the norm in the former Soviet Union and eastern Europe—is inefficient and should not be encouraged.) Naturally, whenever the training needs are common to the ministries and agencies, and the desired skills are transferable between ministries, centralized training economizes on scarce trainers and funds.

In countries where training is centralized, the central training unit usually assesses the training needs of the government as a whole and of individual sectors and ministries based on consultation with the ministries, training institutions, and stakeholders outside government. (As noted earlier, it is useful to consult the employee unions as well.) Subject to the approval of the political authority, the training unit is responsible for all aspects of the design and funding of government training, including the cost estimates, adequate funding, the identification of training providers in the public and private sectors, interaction with the client ministries and agencies, and the training plan. Advisory councils, composed of representatives of public and private training institutions and user groups, are set up in many countries to assist the central training unit.

The US provides an example of how the training function is integrated into the central personnel agency. The Office of Personnel and Management has a training and development division grouped around clusters of states to assist federal agencies in designing training courses and devising training solutions.

On the basis of the training needs assessment, the central training unit draws up long-term and annual training plans for the government, including indicative financial provisions, the role of training institutions, the assignment of responsibilities, and monitoring and evaluation provisions. The final mix of training programs at the national and sector levels should be arrived at through iterative interactions with the treasury and the client organizations. The training plan should also interface with the career development and personnel management functions.

In countries with decentralized training, overall training objectives and policies remain the responsibility of a central agency, but the actual management of training, including the administration of sector policies, is

entrusted to the line ministry and agency concerned. This devolution often accompanies the establishment of executive agencies (Chapter 6) and the devolution of authority to chief executives for personnel management. In all cases, such devolution must be based on the willingness and capacity of line ministries and agencies to discharge the function, and requires as well strong central capacity for effective monitoring of outcomes. In the case of Malaysia, the central training unit requires the ministries and agencies to submit annual training proposals, which the unit evaluates before allocating funds for a well-designed training program.

Assuring both good line-ministry capacity and strong central monitoring, decentralized training allows diverse training needs to be met through cost-effective combinations of formal and informal training. An effective incentive in some countries is to allow budgetary savings by individual ministries to be used for their own training and to encourage competition for excellence in training (e.g., the Investing in People program in the UK).

As noted, in any organizational arrangement the central unit retains a number of functions. In addition to its responsibility for national training policy and training plans, the unit is generally responsible for training senior executives and elite generalist cadres. In South Asian countries the central agency also coordinates the training of subordinate administrative cadres, in addition to ensuring the integration of training with administrative reform and with personnel management policies such as performance evaluation and career development. For economies of scale and convenience, the central training unit normally also serves as a clearinghouse of information on all matters related to training institutions and experts, training practices, needs assessment, and evaluation. (In a number of countries this information is increasingly made available in electronic form.)

The vast changes in government training in transitional economies deserve a separate word. Before 1990, in the Soviet Union and eastern Europe each ministry typically had its own research and training institute, consistent with the logic of central planning. Changes in training arrangements in the former Soviet Union and eastern Europe in the 1990s have been more in the nature of experiments than of systematic efforts. The ministry-based training institutions atrophied from lack of resources and clientele, and are almost all gone but a variety of problems prevented their replacement with a comprehensive new policy and organization.

The enormous legal, organizational, and procedural changes accompanying the post-Soviet transformation gave rise to a need for suitably qualified public servants. Although government employees were highly qualified technically, they needed different skills (and attitudes) suited to the new role of the state. The search for coherence in public sector training led, in most cases, to the creation of a governance focal point, in the form of a coordinating ministry (mostly internal affairs) or a state office specifically created for this purpose. However, a critical step still to be taken by many transitional economies is the institutionalization of public sector training in the form of a school for administrative studies. Such schools would not only offer relevant programs in a market-oriented context but also make for better coordination of assistance from foreign donors, as well as help the governmental focal point to assess training needs far more thoroughly than most transitional economies now do.

Types of Training Institutions

Training institutions for government personnel can include

- government-owned and government-managed institutions (primarily providing nondegree programs);
- autonomous institutions training both government and private sector personnel;
- university-affiliated institutes, which offer educational programs leading to a degree or diploma; and
- business schools, originally set up to provide training in private management but which have diversified into also training personnel in the public sector.

Some of these institutions operate in several areas. Organizations owned or substantially funded and controlled by government have been set up in most countries for preentry and in-service training of government personnel. Governments that function along the British model have civil service training academies (Box 12.3). For governments that follow the French tradition, the dominant training institution is similar to the French *Ecole Nationale d'Administration* (ENA) (Box 12.4). Many governments have set up national training organizations directly under the control of the public service or personnel ministry. The government meets the entire expenditure, but allows the organization to supplement its resources through fee-based courses for public sector personnel or for donor-assisted projects.

Some countries have set up sector-level management institutes and training centers, and specialized training organizations for local government employees often supported by donor agencies. Generally, these developments have been wasteful. Training relevance to the sector can be ensured at lower cost through effective participation in the design and conduct of training programs by a single central institution. Also, fragmentation of training among sectors leads to the creation of specific vested interests, which tend to perpetuate themselves and feed the supply-driven nature of many training programs.

Box 12.3
Civil Service Academies

A civil service academy is engaged heavily in induction training and long-term preentry training for new recruits into major administrative cadres of government, and in-service training mostly for middle and senior personnel. The civil service colleges in the India, Singapore and UK typify this model. The academy's programs cover general and functional administration. Often there are separate academies for different senior cadres, with greater technical and specialist orientation. Many countries also have dedicated academies for secretarial staff and for health, education, railways, engineering, communications, and other occupational groups. The academies are sometimes located in the cabinet office, as is the case with the British civil service college, which was recently incorporated in the Cabinet Office as the Centre for Management and Policy Studies.

Source: Alain Billon, Deputy Director of ENA, personal communication (2000).

Box 12.4
Ecole Nationale d'Administration

The typical program of the ENA in France is of the long term pre-entry type, combining course instruction and internships. The school admits about 100 students every year on the basis of competitive examinations. They start with a six-month internship with a prefecture in France and six months abroad with a French embassy or one of the leading French companies. This is followed by a year of administrative training in ENA, in subjects like international law, economics, budgeting and finance, and administration. After graduation, the students are ranked according to their performance and assigned to elite services. ENA training nowadays focuses on subjects like ethical values, globalization, the demands of the European Union, cross-sector skills, communication, negotiation, and legal frameworks. ENA also offers specialized short-term programs. Similar schools provide complementary training for the senior cadres in local government, health, revenue, and judicial service. France and other countries have special academies for personnel recruited for subnational and local government levels.

Source: Alain Billon, Deputy Director of ENA, personal communication (2000).

Concerning the university-affiliated institutes, the primary task of university departments of public administration is to prepare young graduates for a career in government through preentry education and training. However, some of these departments (as in the Philippines and Singapore) are also active in in-service training on behalf of the client ministry or government agency, offer part-time or full-time courses for personnel sponsored by the government, and support sabbatical studies by individual government employees.

The autonomous institutes of public administration are generally larger than a university department, but smaller than the civil service academies. They tend to specialize in research and consulting, but also offer in-service training on a part-time or full-time basis. At the urging of government, many of these institutes have moved into specialized areas such as project planning and management, and budgeting. The administrative "staff college" is a hybrid organization (found in countries such as India and the Philippines) that organizes joint programs on management and policy problems for public and private sector managers, besides doing research and consulting work.

Business schools were originally set up to meet the training needs of managers in the private sector. However, as the role of government has shifted in many countries, these institutes now also cater to the training needs of government personnel. Smaller countries, for which it would not be practical to set up specialized management schools, depend on excellent regional facilities such as the Asian Institute of Technology in Thailand, the Korean Development Institute, or the Asian Institute of Management in Manila.

Finally, voluntary organizations, too, are often brought in to help train health workers and teachers, as well as train the members of community organizations to carry out social development programs.

Problems in Developing Countries

Training in developing countries is beset by problems related to the supply-driven orientation of most training for government personnel, the low priority given to such training, its fragmented approach, and deficiencies in the staffing and organization of training centers (Box 12.5). The training infrastructure is fragmented and poorly utilized. The content of training is often irrelevant to the current needs of government and the employees. The training staff is inhibited by civil service regulations and practices, lacks material incentives or career prospects, and its subject competence is sometimes weak. The poor quality of training in most training institutions and the concentration of expertise in a few national institutions are serious problems. Many public training institutions in developing countries are unfamiliar with good training practices in the private sector.

To be effective, training centers in all countries must have excellence and continuity of leadership, and an environment that fosters innovation, experimentation, and a collegial atmosphere. In developing countries, the organizational features common to successful national training institutions (Paul 1983) are

- autonomous organization, with a competent management and an expert advisory council;
- continuity of committed and quality leadership;
- assured access to resources;
- focus on the multiple, but related, tasks of research, training, and consulting;
- multidisciplinary academic base;

Box 12.5 Training Infrastructure in Bangladesh

The system of public administration training in Bangladesh has several major problems. First, it is not responsive to the real needs of the trainees. Training is based on needs as perceived by the training institutions and not on a systematic and objective assessment. Little consideration is given to planning the training in relation to the career development path of the trainees. Second, training for civil servants in various ministries and other public agencies is provided by more than 300 institutions, most of low quality and whose programs are poorly coordinated. Third, these institutions rarely offer programs of the appropriate relevance, quantity, and quality. Their curriculums, training materials, and training methodologies require significant improvement.

In addition, there is a huge backlog of pre entry training for new civil servants. Many new civil servants take up their positions without any orientation or training, and receive induction training only after several years, by which time the induction programs are irrelevant. In-service training programs are a requirement for promotion, but their relevance and quality are questionable as well.

Source: Asian Development Bank (1997b).

- strong links with client organizations and other training institutions;
- critical mass of faculty;
- collegiate environment and participative decision making; and
- performance incentives and career development opportunities for trainers.

Training of Executive Personnel⁴

The grooming of senior cadres for higher management and policy advisory responsibilities calls for a careful analysis of the required competencies and of the existing skill gaps. Competence, in the context of training for executive development, includes not only job-related skills of a high order, but also people-related and leadership skills. An executive training program should therefore be based on the following, among other things:

- involvement of top management;
- a professional training division under a high-level executive;
- early identification of managerial talent and career paths;
- job mobility as a development tool; and
- encouragement of self-improvement activities.

In both centralized and decentralized training systems, the central personnel unit must be responsible for the development of executive personnel. The training would be imparted to both those who show promise of rising to executive ranks, as well as those who would profit from improved executive skills. The latter type of training is particularly important for persons entering laterally from functional services or from outside the government. For this purpose, the US has set up the Federal Executive Institute, which certifies candidates for entry into the Senior Executive Service (SES). (The federal government also operates executive seminar centers for personnel below the SES level.) The ENA in France and the Civil Service College of the UK have been performing this role for their senior cadres, and in Asia Singapore has one of the best-organized executive training programs (Box 12.6). Executive training should be complemented by appropriate career incentives, such as the opportunity to leapfrog over more senior colleagues. In Canada, senior executives are trained through the Canadian Center for Management Development. The Canadian federal government's program "La Relève" identifies executives for leading positions through a prequalification process and facilitates their advancement through the Accelerated Executive Development Program.

Box 12.6
Executive Personnel Training in Singapore

The government amalgamated several schemes of service into a single senior officer scheme in 1996. The scheme covers five functional areas: line operations, human resource management, finance and corporate services, public affairs management, research, and information support. Also, training beyond induction training is provided at five career levels. The staff thus attends different courses at different stages in their career, and at least 100 hours of training a year. The training centers are well equipped to handle these demands.

Each ministry is expected to organize its own specialized functional training, while the Civil Service College handles training in core functions and policy areas. The college groups courses into four areas: managing service excellence, managing change, managing people, and managing self. Also known as the life skill series, the courses in self-development enhance the staff's personal effectiveness and confidence in his personal life and work. They include such topics as balancing work and home responsibilities, managing one's health, and planning for retirement.

Source: Commonwealth Secretariat (1998a).

Efforts to build the capacity of senior personnel in different agencies at the local level are increasingly undertaken by national governments, with the support of international agencies and training institutions. (In countries like Indonesia such programs sustain their national municipal infrastructure programs.) However, attention to training for executive development at subnational government levels is still insufficient in most countries, although some successful examples of executive training at the provincial and local government levels do exist in developed countries (Box 12.7).

Box 12.7

Executive Development at Subnational Levels in the US and Canada

In the US, there is a national certified public manager consortium, which conducts accredited programs for state executives based on six job-related, competence-testing management courses. These courses parallel the executive continuum, from supervisory to senior levels, and are delivered in association with state university systems or with a government institute. The New York public service training program includes two practical, skill-based curricula—one on supervision and individual performance, and the other on administration and organizational performance (Flanders, in Perry 1989). The funding for the program is highly unusual, in that it is provided for in the agreement between the state and the bargaining unit for professional and scientific employees.

In Ontario, Canada, the provincial government has developed a human resource plan for senior management, incorporating a framework of core competencies. The training program combines just-in-time learning opportunities with a long-term education and training strategy. All new appointees are required to attend a foundation learning program. Within 24 months of appointment, they are expected to take at least one corporate program, the leadership program, and one foundation program relating to transforming government, mastering business issues, and managing relationships. Individuals can also take advantage of a menu of supplementary programs, depending on their interest and needs, and pursue university-accredited courses in information technology in a unique partnership between the government institute and three universities.

Source: Fesler and Kettl (1991); Borins (1999).

Systematic executive development is being attempted by a few developing countries (Box 12.8). However, some studies show that the benefits are not commensurate with investments in training because of the poor link to career development and the lack of performance incentives. Executive personnel do not attend these training courses regularly, or attend them mechanically and without enthusiasm (Mutahba 1986). This may indicate either lack of incentives, as noted, or of course poor quality of the training itself. Either way, reliable and systematic feedback surveys are essential to either improve the training or halt the drain in resources.

Box 12.8

Executive Personnel Training in Some Developing Countries

A number of countries have set up special institutions to provide pre-entry and in-service training for executive personnel. Courses on diverse themes of development, as well as ethical values and communication, are commissioned by the Department of Personnel and Training at over 100 accredited institutes in the public and private sector. The National Academy of Administration in India, for example, organizes, on behalf of the Department of Personnel and Training, two types of training courses for officers in the elite administrative service. One is a series of orientation courses on various topics, where staff of different seniority are grouped together. The second is a series of one-week and three-week courses throughout the year, tailored to staff of different ranges of seniority, to build relevant skills. Some of these courses involve the collaboration of overseas institutes such as ENA and National Institute of Public Administration (INTAN) in Malaysia. Staff are given opportunities to spend short periods in the academy on case studies or research and teaching. Although training is mandatory for all senior staff, except those in the top two grades, there is a weak link between training and career development, and no conscious effort to prepare staff for higher positions.

Argentina has created a permanent training subsystem, whereby executive personnel must obtain a certain number of credits in training, either to remain in their posts or to be promoted. Similarly, the People's Republic of China organizes training for senior executives through the National School of Administration, and has made it mandatory for all persons in "leading positions" to attend a minimum period of training.

THE INTERNATIONAL DIMENSION OF TRAINING

Training Institutions

There are a variety of intergovernmental training institutes. Some have been established under the auspices of the United Nations. These include the Asian and Pacific Development Administration Center in Kuala Lumpur, the African Training and Research Center in Administration and Development in Tangiers, and the Latin American Center for Development Administration in Caracas. The World Bank offers training programs in Washington DC, and in developing countries through the World Bank Institute (formerly the Economic Development Institute). The International Monetary Fund has been providing training in financial and macroeconomic programming for officials of member countries through the IMF Institute. The Asian Development Bank established in 1998 the ADB Institute, and other regional development banks have done the same. All of these institutes have outstanding staff, with country experience and expertise in different subjects, and substantial resources.

There are also a variety of regional training centers, such as the East and South African Management Institute in Tanzania; the Pan-African Institute for Development, with four centers in different parts of Africa; the Central American Institute for Public Administration in Costa Rica; and the Caribbean Center of Development Administration in Barbados. Other regional institutions, although autonomous, are supported by multilateral agencies; an example is the Asian Institute of Technology in Bangkok. Areas of technical cooperation and exchange under various forms of regional cooperation, such as the associations in Southeast Asia and Latin America, include training in public administration and in the strengthening of national training institutions.

Apart from the institutes supported by multilateral organizations, training institutes in developed countries offer degree programs and short-term programs for officials from developing countries. As noted earlier, for example, ENA in France runs a regular international course in French for officials from developing countries, similar to its course for domestic candidates, as well as short-term specialized courses. Similar programs for international participants are organized by the British Civil Service College, INTAN of Malaysia, and the National University of Singapore. Evidently, scarcity of good training opportunities is not a constraint on the effectiveness of training for government personnel of developing countries—at least at

the senior levels. Training effectiveness is constrained instead by the other institutional and incentive factors mentioned earlier.

Networking among Training Institutions

Among developed countries, there has always been considerable collaboration among institutions in training for public administration. This collaboration is regularly underlined in periodic conferences of bodies such as the International Institute of Administrative Sciences, the International Association of Schools and Institutes of Administration, the Study Group of European Public Service Training Agencies, and country-level meetings of schools of public policy.

“Twinning” between training institutions in developed and developing countries emerged as a form of technical cooperation in the 1980s. Examples include the agreement entered into by ENA of France with national training institutes in the People’s Republic of China, India, and various countries in the French administrative tradition. Such agreements cover exchange of faculty and training in such areas as needs assessment, training evaluation and methodology, and curriculum development. This type of cooperation is also becoming common under the European Union’s PHARE technical assistance program between western European training institutions and their counterparts in eastern European countries.

A variant of the twinning concept is sector-specific training for several countries, such as that provided by the Dutch-supported Habitat coalition, which is organized around the Dutch Institute of Housing Studies and comprises Ghana, India, Indonesia and Peru. Another variant is the regional network of sector institutions that is sponsored and partly financed by UN agencies. For example, the UN Economic and Social Commission for Asia and the Pacific (ESCAP) has successfully sponsored a network of training institutions in urban development and housing, as well as a network of city mayors and managers called CITYNET.

A major example of intercountry cooperation is the public management network among countries in the British Commonwealth, sponsored by the Commonwealth Secretariat. The network is supported by the independent Commonwealth Association for Public Administration and Management (CAPAM), which arranges annual conferences on diverse topics for officials, experts, and practitioners; disseminates experiences and country profiles; and supports innovations in individual countries. CAPAM

and the Commonwealth Secretariat also arrange training courses for developing countries, and offer consulting services to governments in different areas. (A similar forum is being established for Europe under the auspices of the European Union.)

Institutes in Asian, African, and Latin American countries also offer courses for international participants, as noted earlier in the case of INTAN in Malaysia. There is increasing “South-South” cooperation between training institutions in the field of public administration, such as the agreement between the PRC and India, and the technical cooperation in the ASEAN countries. Under these agreements, the trainers, the faculty of training institutes, and senior officials attend programs and study tours organized in other developing countries.

In addition, there is increased networking outside the government as well. The institutes of public administration in a number of countries are collaborating in a variety of areas. Agreements between private business associations have led to specialized training for managers in areas of common concern, such as electronic commerce, computer crimes, cross-border transactions, commodity standards, and patent and copyright laws. Finally, nongovernment voluntary agencies in different countries are collaborating in broad governance areas or specific areas like low-income housing and microcredit. All these forms of cooperation should expand to enrich and strengthen training efforts in the developing countries, particularly as new information and communication technology opens up revolutionary new training opportunities. External donors have a constructive role to play in this direction.

KEY POINTS AND DIRECTIONS OF IMPROVEMENT

Key Points

Training of government personnel should be viewed as an important element of personnel management and individual development, and can make a major contribution to greater administrative effectiveness. However, it cannot be a solution to a dysfunctional system. Training cannot be effective unless the new skills are well utilized and the training is linked to the staff career path and actual job responsibilities. Training in an inefficient organizational framework or delinked from incentives is a waste of time and resources. Therefore, training of government personnel should take place in the context of a well-formulated national training policy, linked to

policies for career development, and providing room for sector-specific training and training of local government staff.

Training can be centralized through a central government unit that allocates all the funding and designs and administers all training programs, or decentralized, with each ministry in charge of financing and managing the program. Generally, as in procurement or personnel management, a combination works best—with a central unit defining policies and allocating funds to sectors; ministries responsible for deciding on training content and participants; and the actual training delivered by competent educational institutions.

Regardless of whether administration of training is centralized or decentralized, a good training program must begin with a sound assessment of training needs, from the viewpoint of the individual staff as well as their ministry and the government as a whole. Too often, however, training programs are supply-driven and correspond to the preferences and current capabilities of training institutions (or of external donors) rather than the real needs of the civil servants and the skill requirements of the government.

Assuming a good needs' assessment, the effectiveness of training depends on the motivation of participants and the quality of the training itself. The first factor is a function of the organizational and incentive framework within which the new skills are to be utilized. The second factor, training quality, depends largely on the capacity and competence of the training institutions. In-house government training institutions have the advantage of familiarity with the policies, culture, and needs of the government agency concerned; outside providers have the advantage of flexibility and the capacity to cater to a variety of training needs. Again, a combination usually works best for formal training. However, the practice of ministry-specific training institutions is generally wasteful and should not be encouraged.

It is essential to note that much valuable staff training is informal and on-the-job. For this, the ministry concerned and government as a whole should create an environment where coaching and mentoring of subordinates are a normal and expected part of a supervisor's responsibilities—and rewarded as such.

Training of developing countries' civil servants can benefit from a variety of international and regional programs delivered by multilateral

organizations such as UN, ADB, World Bank and IMF, or by training institutions in developed countries, such as the ENA in France. Networks among training institutions have also emerged, such as that supported by the Commonwealth Association for Public Administration and Management. Scarcity of training opportunities or funding is thus not the basic constraint for developing countries, at least for senior staff. The effectiveness of training is constrained instead by institutional and incentive problems, as noted earlier.

Directions of Improvement

In many developing countries, the time is ripe for a comprehensive review of the training system for government personnel. Training for public administration requires rethinking and reflection on both the demand and the supply side.

On the *demand* side, the foundation for such a review must be a revision of the roles of the state because the government's skill requirements depend necessarily on the tasks it is intended to perform. As all other aspects of government personnel policy, from retrenchment to compensation and to basic procedures, training cannot be targeted effectively in the absence of a clear idea of the functions of government. It is possible, however, to define skill requirements and hence training needs progressively for individual sectors or levels of government—provided that there is a clear link between training and staff career development.

On the *supply* side, many countries have an unnecessarily large number of institutions for training of government workers. Partly as a result, the availability of resources and quality of training are weak. Major improvements can be expected from a rationalization of the system, eliminating overlapping, duplication, and waste of resources. In particular, specialized training institutions associated with specific sector ministries require careful scrutiny, as they are often the source of unnecessary training justified only by the need for their survival. For this rationalization, greater reliance on the actual needs of government agencies and individual civil servants is important, and is possibly the only way to combat the supply-driven mentality of most training programs. Informal and on-the-job training should be systematically encouraged as well.

External assistance can provide a useful role in these improvements, especially through the permanent commitment entailed by “twinning”

arrangements between local training institutions and public administration institutes in certain developed countries. But external aid has often been a major part of the problem, too, supporting vast training programs without clear aims, lacking the essential institutional and organizational prerequisites, and in some cases inadvertently weakening the capacity of local training institutions. It is therefore important for developing countries' governments to reassert ownership of external aid programs for public administration training. In turn, this requires a simple but clear and sound national policy for training of civil servants.

NOTES

- ¹ This section is drawn partly from Commonwealth Secretariat (1996); Klingrer and Nalbandian (1998); Starling (1998); Franks (1999); and US Human Resource Development Council (1997).
- ² This section draws in part on Paul (1983); Sims (1993); Klingrer and Nalbandian (1998); Riley (1993); Corrigan et al. (1999); and internal ADB memoranda and country reports.
- ³ This section draws largely on Paul (1983); Sims (1993); Fesler and Kettl (1991); Corrigan et al. (1999); internal ADB memoranda and country reports; OECD (1999b); and Borins (1999).
- ⁴ This section draws mainly on Sims (1993); Fesler and Kettl (1991); Paul (1983); Mutahaba (1986); Oszlak (1999); Flanders in Perry, ed. (1989); Government of India (1996); Government of France (1998); and internal ADB memoranda and country reports.

PART III

INTERACTION BETWEEN
THE PEOPLE AND THEIR
GOVERNMENT

Chapter 13

“Exit” and “Voice”

The Republic does not have subjects, only citizens.

—Thiers

THE ROLE OF EXIT AND VOICE IN PUBLIC ADMINISTRATION

As emphasized in chapter 1, effective accountability for public administration has an external as well as an internal component. Albert Hirschman’s pioneering work (Hirschman 1970) identified two basic determinants of external accountability. One is the scope for the public to *exit*, i.e., the extent to which the public has access to alternative suppliers, public or private, of a given public service (or access to good substitutes for the service). The other is *voice*, the opportunity for the public to seek better performance from public service providers, without opting for alternative sources of supply. Voice refers to the degree to which the public can influence the access to or quality of a public service by some form of participation or expression of protest or views (irrespective of whether the exit option exists). To meet collective needs efficiently, governments ought to be able to ascertain the needs of all segments of the population, including the poor and marginalized groups. This requires opening avenues for individuals, user groups, private organizations, and civil society to express their views. Periodic elections cannot adequately serve the purpose of providing timely feedback on government performance in specific areas. In almost all countries, citizens therefore seek to project their views and interests beyond and in-between elections, in their capacities as taxpayers, consumers of public services, recipients of public assistance, and members of civil society organizations.

Exit is more of an economic response mechanism, prevalent in the competitive market, while voice is more of a political response, through political parties, voluntary agencies, and citizen groups. However, exit and voice options can both substitute for and complement each other. The public’s decision to use either one of the options, or both in combination,

will partly depend on the transaction cost of acquiring information about alternative suppliers (in the case of exit), and on the cost of various forms of collective action (in the case of voice). The relative effectiveness of exit and voice is determined by the characteristics of the service, such as the degree of market failure, economies of scale, barriers to information, education, legal and other factors, and the differentiability of services. Poor and marginal groups are particularly limited in their access to either exit or voice, owing to their inability to leave their location, or to access alternative providers.

Population pressures and demands for improved services are obliging governments in most countries to explore a range of institutional alternatives to direct service delivery. Certain activities are difficult to specify and are not contestable, i.e., entry of competitors is difficult or impossible (e.g., law enforcement). In these cases, there are no realistic exit options, and improved service provision can result only through voice mechanisms, and incentives and penalties for the officials responsible. For many other public services, however, it is possible to offer formal exit options to citizens through markets, the voluntary sector, and community-managed delivery.

Through pressure on policymakers, publicity, protests, and participation in key decisions, the voice of the public can cut through hierarchical control in centralized administrations, and counter weak internal accountability and motivation. The influence of voice will be enhanced when the organizational structure and incentives in public administration motivate civil servants to be more responsive to the public.

Beyond accountability for services, effective voice also entails that governments *consult* the citizens in formulating development plans, and in major project decisions, in order to secure the broadest consensus and lay the basis for effective program implementation. In developing countries, effective use of voice calls for programs of education, social mobilization, and even social marketing, in order to increase the use of socially desirable services such as immunization, family planning, literacy, nutrition, etc.

The downside of voice is the risk of delays and administrative overload, the problems and costs of sorting through a large number of views from the public (some of which may be unrepresentative), and the danger that a vocal and better equipped minority will drown out the interests of disenfranchised groups.

EXIT—PROVIDING CHOICE AND CONTRACTING OUT¹

The General Setting

As defined above, exit is the extent to which the public has access to alternative suppliers, public or private, of a given public service. Government at all levels should behave toward consumers *as if* they had an exit choice, even in a full public monopoly. Otherwise, loss of community support and strong opposition from the people will in time affect the performance of many services, deny public agencies the benefit of local oversight and a crucial stimulus for efficiency and—not incidentally—weaken political support for the government. When the quality of public services deteriorates beyond a certain point, people exercise their exit options by refusing to pay taxes and service charges, or organizing locally to have private suppliers deliver the service (e.g., private trash collection or water supply). Where exit takes the literal form of out-migration of skilled professionals and private firms, it has a lasting impact on the economic and revenue base of the local or national government concerned. With globalization (Chapter 1) most governments have become more concerned with this risk, and accordingly pay more attention to the quality of public services.

Exit possibilities are partly a function of the scope for unbundling the services provided. An apparent government monopoly does not preclude the operation of informal private suppliers in slum settlements and peripheral areas not covered by the public service network. In many cities in developing countries with an official monopoly of public transport, for example, the share of informal private transport can be as high as 90 percent. Certain types of health care, too, can be provided by a variety of private practitioners, and neighborhood services and spot sources often make up for the inadequacy or absence of other public services. An increasing cause for concern in developing countries is the exclusion of large numbers of the poor from services provided by public monopolies, and the deepening poverty that such exclusion brings. For the poor, exit possibilities may be more theoretical than real, if they cannot afford to move. Likewise, the individual unfamiliar with the many sources of services, needs information to be able to choose. But the choices themselves may not be real, if they are unaffordable, as persons without private health insurance know so well, even in some developed countries.

In the long run there is no contradiction between public sector efficiency and the encouragement of exit alternatives. On the contrary, the

active search for alternatives to direct service delivery by the government is an essential means of stimulating public efficiency and—more importantly—assuring that the basic needs of the poor and the vulnerable are met.

Contracting out²

Contracting the delivery of social services to the private sector can, if done right and under certain circumstances, lead to efficiency savings in and of itself. In addition, the prospect of losing customers is a well-known and powerful stimulus for performance in a private enterprise. Despite the absence of the profit motive, it can also prod a public sector organization to perform better. Therefore, the possibility of contracting out certain public services or functions should rank near the top of the list of questions to be asked periodically in government organizations. However, contracting out is only one market-related mechanism to improve efficiency and effectiveness. It is dealt here at some length because of the need for an understanding of the uses and limits of this practice as an exit mechanism.

What is contracting out?

Contracting out is the transfer to the private sector of the implementation of activities financed and previously delivered by the government. The practice has experienced a recent resurgence but is common in history. For example, “tax farming” was prevalent in ancient China, Greece, Rome,³ and, more recently, Thailand, which until 1875 did not have a governmental organization for tax collection. (Contracting out is practiced in the private sector as well, where it is normally called “outsourcing”.)

Generally, under contracting-out arrangements, the activities transferred to the private sector remain financed by the government. Separating the financing from the delivery allows the governmental purchaser to choose from among different suppliers and to control costs and quality standards, without having to take into account the particular interests of its staff or other bureaucratic impediments. Contracting out aims at improving efficiency and curbing costs by promoting competition and/or clearer identification of costs. For example, in New Zealand, the Audit Office contracts out a number of its activities. Integral to a possible decision to contract out is the “market-testing” approach, by which government assesses whether the public service in question can be better delivered by the private sector.

The generic notion of contracting out include build-operate-transfer (BOT) or build-lease-transfer (BLT) schemes, which entail private financing of public investment. In BOT schemes the private sector finances the initial investment; recoups it through the profits from an exclusive government concession to operate the project over a determined period; and at the end of the concession transfers the assets to the government. BOTs are seen as a means of attracting private and foreign capital to the financing of public infrastructure.⁴ BOT schemes have been adopted for many years in some developed countries (the most publicized one being the Anglo-French Channel Tunnel),⁵ and more recently introduced in developing countries. Asia has a variety of BOT projects, including bridges and the new airport in Hong Kong, China; power and railways in the People’s Republic of China; highways and airports in Malaysia; telecommunications in Thailand; and mass transit and power in the Philippines. The \$1.8-billion Hub River thermal energy project in Pakistan involves BOT arrangements second in size and complexity only to the project that built the Channel Tunnel.⁶

Some BOT contracts guarantee the contractor against losses in operating the project. (In a tollroad, for example, if the volume of traffic is less than projected the government could ensure the servicing of debt contracted for the project.) In other BOT contracts the contractor is formally responsible for the success or failure of the project. However, if the contractor goes bankrupt, in a majority of cases the government will in practice have to continue operating the project and to subsidize it, because of the large number of people depending on it.

Why and when

The reasons for contracting out in the public sector are many, and include reducing service delivery costs; lack of in-house expertise; providing a higher-quality product; obtaining a yardstick for cost comparisons between government delivery and private delivery (market testing); gaining access to specialized skills and equipment; avoiding high start-up costs; initiating new discrete functions; limiting the size of the government workforce; weakening the influence of employee unions; avoiding labor rules or restrictions; and keeping flexibility to adjust the size of the program (Rehfuss 1990). Occasionally, there may also be a deliberate intention of encouraging the private sector to develop in a particular sector or line of business. In all cases of contracting out, however, the government agency remains responsible to the government and to the population for the quality of service and for the contract outcome.

Private companies are frequently contracted to perform certain tasks internal to government agencies, such as courier services, cleaning and security, travel, etc., normally based on straight cost advantages. Of greater relevance to the citizens' exit options is contracting out the provision of final services to the public. Other than direct provision by the government department, three modes of service provision exist: regulated, grant, and contract. In the regulated mode, the government is involved in planning, but not in financing or producing the service (as for example in land zoning enforcement). Under the grant mode, the government provides financing for studies, or technical and legal assistance, but neither plans nor produces the service. Under the contract mode, the government both plans for and finances the service, but contracts out its delivery (as for example the maintenance of parks and community centers).

Because different services require different modes of provision, the nature and mix of the services provided by a government agency will determine whether and how reliance on contracting out is appropriate. Services never recommended for contracting out are mainly those involving the use of the state coercive power (e.g., police), and essential services whose disruption would create a major crisis, e.g., air traffic control. Generally, contracting out of public services should be considered only under five basic conditions:

- there are demonstrable cost savings or improved benefits to the users;
- outputs relevant to the desired outcomes can be clearly specified;
- performance can be monitored (and the administrative capacity to do so exists);
- the contracts can be enforced (and the administrative capacity to do so exists); and
- there are robust accounting and audit mechanisms in place.

Accordingly, contracting out is of particular relevance for local government services—sometimes as the consequence of central government limits on local government employment, but more often because of the efficiency advantages of private delivery of certain local public services. Major areas of local government contracting include: building maintenance; security; vehicle maintenance and repair; parks, landscaping, and recreation facilities; waste collection and disposal; streetlights and road maintenance; and similar services meeting the five conditions listed above.

In some developed countries, local government is required to submit most internal and external services to competitive bidding. (For example,

the Australian state of Victoria requires 50 percent of the budget to be submitted to compulsory tender.) The corresponding government departments are thus put under pressure to bring their cost and quality of services to the level of the best responsive private bidder, if they wish to continue to provide the service in-house and thus retain their staff and resources.

Nevertheless, provision by government (either by the traditional ministries or by nonministerial government bodies—Chapter 6) continues to be the predominant form of public service delivery. In most countries, the proportion of local and national spending on public services delivered through private business and voluntary organizations is not yet significant.

*Managing the contracting-out process*⁷

It is necessary first to define clearly the service goal and identify the specific activities to be contracted out. It is also important to

- evaluate likely changes in conditions (e.g., service increases and investment requirements);
- review issues of coordination between the activities to be contracted out and the other relevant governmental activities;
- assess whether activities in other government agencies could be incorporated into the project to increase its efficiency; and
- evaluate the quality of the contractor’s management.

A variety of options should be considered regarding the type of agreement (lump-sum contracts, price-per-unit contracts, shared profits, etc.), the objective (e.g., cost saving only or service improvement), and the potential suppliers. Project costs should be assessed (when possible) based on the experience on similar projects or specific studies; performance standards should be clearly stipulated in the contract; and the contract should incorporate provisions regarding contractor nonperformance and dispute resolution mechanisms.

Assessment and management of risks are important aspects of contract management (Box 13.1). The government agency needs to keep up its technical knowledge of the service, to be able to monitor the performance of the contractor and to audit performance information from the contractor.

Box 13.1**Risks and Opportunities in Contracting Out**

In *Malaysia*, the Government signed a novel and ambitious 28-year concession with a private consortium to upgrade, rehabilitate, and extend the entire country's sewerage system. Although the estimated US\$2.8 billion contract was awarded in 1993, progress has been slow, primarily because of significant public and commercial backlash from tariff collection and tariff increases. Malaysia's experience points to the unique risk allocation issues raised by private provision of retail sanitation services in instances where these services have never been centrally provided before, the legal right to cut off service for nonpayment is absent, and sewerage and water services are billed separately.

In *Argentina*, the city of Buenos Aires delegated the management and investment responsibility for its water and sanitation systems to a private consortium. Under the terms of the 30-year concession, the consortium will invest US\$4 billion in upgrading, rehabilitating, and extending the systems. In three years, the consortium has brought dramatic operational and financial improvements through reduced unaccounted-for water and higher bill collection rates. The success can be traced to the significant steps the Argentine Government took to ensure the financial viability of the concession: raising tariffs prior to privatization, assuming the state water companies' liabilities, financing a voluntary retirement program, providing a guarantee that the concession company would cut off service to consumers for nonpayment, and creating an independent regulatory authority to prevent politicization of the concession. Soon after the award of the concession, however, tariffs had to be raised ahead of schedule because the Government agreed with the operator's view that the physical state of the systems was worse than anticipated.

In New Zealand, following the deregulation of the New Zealand energy industry in 1992, Mercury Energy Limited was incorporated on October 1993 as the successor to the Auckland Electric Power Board (AEPB).

On 20 February 1998, a power crisis hit Auckland when four major cables feeding the central business district crashed. International experts engaged by Mercury Energy found possible causes for the cable failures: the exceptionally hot and dry weather, problems in the backfill and ground in which the cables were installed, steep slopes down which some sections of the cables were laid, vibrations from road and rail traffic, and the cutting of control cables by contractors. However, the company's competence, standards, and practices as Auckland's major provider of power, have been put into question. The ministerial inquiry into this incident distributed blame between Mercury Energy

continued on next page

Box 13.1 (cont'd.)

and its predecessor, the AEPB, because both neglected the evidence of increasing unreliability of the cables. Mercury Energy, however, gets a bigger part of the blame as it seems likely from the inquiry's conclusions that it did not properly evaluate the risk of supply interruptions. Moreover, the inquiry report concluded that the indirect nature of the trust ownership of Mercury Energy may have had an effect through “absence of clear Board accountability through effective shareholder and/or market disciplines,” a vital objective in a network industry with monopoly characteristics. Likewise, Mercury's contracts with its customers do not clearly define what supply risks are involved and unless exclusions and limitations were freely and equitably negotiated between supplier and customer, the supplier should normally bear the residual liability.

Source: Finance and Development (March 1997); The Age, Melbourne Online, *various issues* (1998); and Rob Laking, Director of Master of Public Management, Victoria University of Wellington (1998).

However, no matter how carefully the contract is designed and monitored, contracting out delivery of a public service does not discharge the government agency from its responsibility for that service. The agency has the obligation to monitor the performance of the contractor to ensure that standards are met and the contract is fulfilled. In any case, the public will remind the government forcefully of that obligation if anything major goes wrong with the execution of the contract and the delivery of the service.

The need for caution

As noted, contracting out can be an effective tool for promoting efficiency and improving the delivery of certain public services. When preparing and reviewing ministries' budget requests, it is always advisable to ask whether a more cost-effective private solution could exist, and move to contract out the service if the answer is yes (see the Decision Tree in Chapter 1). However, contracting out cannot serve to avoid or substitute for improving the efficiency and effectiveness of public administration, or for outright privatization if the service in question does not properly belong in the public sector. Also, contracting out carries fiscal, efficiency, and governance risk if it is not well designed and monitored. It is always necessary, therefore, to determine accurately the contractual and market conditions in which the possible private solution can be implemented.

The experience in practice with lump-sum contracts and partnering is similar to that with management contracts for public enterprises (Chapter 6). Generally, these contracts have not helped in rehabilitating ailing enterprises or improving their efficiency, and in many cases have led to asset stripping and profit milking by the private manager. (When management contracts are associated with substantial equity investment by the new management, these problems are significantly alleviated.)

A competitive environment is generally necessary to benefit from contracting out. After reviewing several surveys of contracting experiences in the United States (US) that show uneven results, Donahue (1989) concludes:

First, the profit-seeking private firm is potentially a far superior institution for efficient production. Second, that productive potential can be tapped only under certain circumstances. Public versus private matters, but competitive versus noncompetitive usually matters more... Half of a market system—profit drive without meaningful specifications or competitive discipline—can be worse than none.

Contracting out is also sometimes a way of slipping budgetary constraints rather than a deliberate choice on efficiency grounds. In theory, the financial risk should be transferred to the contractor, but contracts often include explicit or implicit government guarantees. The government agency achieves savings but, because of the importance of the service to the public, when the contractor fails to provide the service correctly or goes bankrupt the government has no practical alternative but to intervene and give financial support to the activity previously contracted out. Some private firms therefore use contracting-out agreements to get the contract, without intending to submit themselves to real market discipline afterwards. Contracting out also diminishes transparency, since it substitutes commercial confidentiality for accountability and thus escapes legislative controls.

When the government is obliged to support an ailing project implemented under a BOT contract, the fiscal cost may be particularly high, as shown by the Mexican experience described in Box 13.2. This calls for a careful analysis of the legal and economic aspects of BOT arrangements. The usual cost-benefit analysis of projects undertaken under BOT schemes must be undertaken, but further assessments of risks, variants, etc., are required. A BOT arrangement should never be an excuse to launch an unprofitable project. When the government cannot find a genuine private

solution, the reason is often that the project in question is not viable in the first place.

The corruption risk of BOT arrangements is of special concern. Compared with normal procurement, the complexity of BOT arrangements provides greater opportunities for corruption. For example, in a country such as France, where corruption within the civil service is nearly nonexistent, several recent judicial proceedings revealed corruption of local authorities through BOT contracts.

Box 13.2

Contracting Out Gone Wrong: Two Examples

In the 1980s, local authorities in the United Kingdom, faced with financial stringency, resorted to a range of private funding vehicles to evade public expenditure control. These unconventional means of finance involving private parties become known as avoidance instruments. For example, many local authorities resorted to sale-and-leaseback arrangements with existing assets, in some cases reaching the extremes of realizing cash through sale and leaseback of street furniture such as lampposts or parking meters.

Mexico launched in 1987 an ambitious program for contracting out the construction and operation of roads under BOT arrangements. Initially, the arrangements appeared to be successful, and more than 5,100 km of new toll roads were built. However, resources were allocated poorly and were used before they were needed; construction periods turned out to be 55 percent longer than had been agreed with the contractors; vehicle traffic 37 percent lower than projected; and investment 29 percent higher than agreed. The profitability of the roads was naturally far lower than had been anticipated. The Mexico economic crisis of 1995 aggravated the financial situation of the toll roads under concession to private companies, forcing the Government to implement a plan of emergency support of US\$2.2 billion. As a consequence, the participation of the public sector rose to 40 percent of the capital stock of companies holding the concessions, and the concession terms were extended to allow private investors a greater opportunity to recover their investment.

Sources: David Heald, “Privately financed capital in public services,” The Manchester School, 1997; and Robert Barrera, “Contracting-Out Highway Development and Operations in Mexico,” in Contracting Out Government Services, OECD 1997.

Involving the community

Contracting out to nonprofit voluntary agencies and community groups may help resolve some of the above problems and carries special benefits in terms of community development and social capital formation (Chapter 14). In some countries, e.g. the Philippines, these voluntary agencies agree to perform important social services such as rural extension, in exchange only for support in kind such as laboratory, equipment, or transport. Contracts may also be awarded without competitive bidding to small businesses, or those owned by women and minorities, or to community organizations—in pursuit of social or economic objectives broader than narrow efficiency and cost considerations.

Many developing countries (e.g., Bolivia, India, Uganda) have entered into noncompetitive contracts with voluntary agencies and civil service associations for the local and national management of many social services of special importance for the poor—typically, nutrition centers, health care and immunization, daycare centers, slum improvement, and basic sanitation. Because the outputs are difficult to specify, these services are unsuitable for contracting out to private business, but may be entrusted to nonprofit nongovernment agencies whose objective is to serve the public. Also, in many cases, such agencies are better placed to deliver the services because of their proximity to and affinity with the local community, and are often more efficient as well. As an illustration, public health spending in Cambodia in the mid-1990s was barely \$2 per person per year, compared to \$30 per capita spending in private health facilities. In two pilot projects, entrusting the operation of the health care system to nongovernment organizations (NGOs) substantially reduced health costs, and raised responsiveness to community needs at the same time.

Governments could also consider introducing in areas like education and health care healthy competition between government and nongovernment providers, e.g., the workers' training fund run on the basis of vouchers in Kenya and the Philippines, and the management of preschools in India (World Bank 1997).

In a number of countries, it is deliberate government policy to involve cooperatives in aspects of service provision such as the distribution of essential commodities and inputs, the management of public housing, extension services to farmers, and the like.

Finally, a special form of participation of nongovernment organizations in public service delivery is co-production. In a co-production arrangement, service delivery becomes a joint venture between the government agency and some citizens’ group. This collaboration is not always easy to administer, but can be most fruitful with neighborhood associations and other community groups for local services such as fire protection, public safety, refuse collection, area beautification, emergency medical services, care of the elderly, and cultural activities.

VOICE— COMMUNICATING AND LISTENING TO THE CITIZEN⁸

Establishing a Client Orientation

Citizen or client?

Government deals with the citizen in various capacities, only some of which resemble the private-sector relationship of provider to customer. It is important to distinguish between citizens and clients in any discussion of the role of government and its relations with society at large. Citizens have rights and responsibilities vis-à-vis their government that go well beyond their role as customers of public services. The nature of reciprocal loyalty is vastly different as well.

The use of the term customer or client is appropriate when the government delivers specific services, e.g., electricity or medical care. The client perspective is important and central to the rationale for setting up executive agencies for service provision, and for hiving off commercial activities from public entities (Chapter 6). It is based on the belief that business principles need to be infused into public service.⁹ However, the distinction between citizen and customer reminds us that the interests of specific client groups where a given public service is concerned may differ from those of the taxpayers and the public at large. Citizen orientation, then, becomes part of the movement for responsive public administration, which incorporates the interests of the public *both* as clients and as citizens.

Nevertheless, a client orientation can be a very important component of an overall effort to improve the effectiveness of government. Clear and credible statements of public service standards, action in accordance with these standards, quick response to complaints, etc., are needed to improve the level and quality of public service. Client orientation can also improve

the overall quality of the government-citizen interaction, by challenging the notion that citizens are passive recipients of services, which are delivered at will by public monopoly; by empowering the ordinary citizen to confront government agencies; and by replacing the patronage culture with a service orientation that has all the elements of external accountability.

Citizens' charters

A citizens' charter is a proactive initiative by government to organize the actions of government agencies around an explicit and public statement of service standards and obligations. The charter is based on the premise that since citizens contribute to all public services as taxpayers and have basic rights as members of society, they are *entitled* to public services of a certain degree of quality, responsiveness, and efficiency. They are also entitled to expect the state to perform its regulatory, tax, and justice administration functions effectively, fairly, and courteously.

Governments that have introduced citizens' charters view them as statements of initiatives and core principles, which would raise service standards in the way most appropriate to each agency within the government. The principles adopted in the British "Service First" charter program are described in Box 13.3. Countries with similar charters at the turn of the century included Australia, Belgium, People's Republic of China, France, India, Italy, Malaysia, and the US. Singapore has created service improvement units in all ministries. In many countries, provincial and local governments have also adopted citizens' charters, since local governments are particularly involved in service delivery.

A citizens' charter can vary from a general statement of performance standards to a detailed list of rights of citizens. In the United Kingdom (UK), over 50 organizations and many local governments have enforced charters, for hospital patients, rail passengers, the courts, taxpayers, child support, and other purposes. The British charter is concerned in particular with cross-cutting areas of service delivery and the needs of neglected groups. Whatever the format of the charter, it should be accompanied by information booklets, which detail the principles and standards, the complaint and compensation procedures, and the names and addresses of offices and officials to be contacted. A mere statement of promises, without specific information and guidance for the users, has little use or credibility.

Box 13.3
Service First Charter in the United Kingdom

Service First, the new charter program in the UK, takes the Citizens’ Charter of 1991 into the next century. It is part of the wider Better Government program to transform and modernize public services. Its nine principles, aimed at improving service responsiveness, quality, effectiveness, and cross-sectoral cooperation, are:

- Set standards of service.
- Be open and provide full information.
- Consult and involve.
- Encourage access and the promotion of choice.
- Treat all fairly.
- Put things right when they go wrong.
- Use resources effectively.
- Innovate and improve.
- Work with other providers.

Service First charters have been adopted and are being implemented by a large number of government agencies and local governments. A charter mark scheme organized by the central unit recognizes and encourages excellence in public service by motivating all the charter organizations to apply for and earn a charter mark. A people’s panel has been established to give people more say in how services are delivered and how they can be improved. The panel consists of 5,000 persons, representing a cross-section of the country by age, location, background, etc.

Source: UK Cabinet Office. 1995. Report of the Committee on Standards in Public Life. London: HMSO.

The actual implementation of citizens’ charters must be monitored, and effective monitoring requires political support at the highest level. Typically, monitoring is done by a central unit attached to the office of the minister or the cabinet secretary (as in Malaysia and the UK). Realistic evaluation is important as well, to ensure that the benefits, in terms of improved service quality and access, justify the costs of introducing and monitoring such initiatives.

Citizens’ charters and similar initiatives may risk treating the citizens simply as customers at the end of the delivery chain, forgetting their role in determining the goals of public activity itself. The citizens’ charters found in many UK countries can be faulted for being mandated from the top, instead

of emerging from the citizens themselves.¹⁰ In addition, there are potential problems: differences in service quality and cost for similar customers in different locations, as well as the general issue of the interests of taxpayers as a whole versus the interests of particular client groups.

As with other practices borrowed from developed countries, citizens' charters have to be introduced with particular care in the developing countries, lest they become a mere symbolic gesture with no provision for systematic implementation. A number of governments (e.g., India) came out with impressive citizens' charters as the result of external donor pressure or at the initiative of senior officials. These charters were short on commitment to service standards, and lacked a sense of ownership on the part of employees and consumer groups, who were not consulted in the development. Not surprisingly, implementation was not credible. The issues of administrative capacity and of costs again come to the fore. Citizens' charters can be an impressive adjunct of administrative reform, but only when designed well, in participatory ways, and efficiently and forcefully implemented. All this requires a substantial administrative and monitoring capacity, which may or may not be present in the country in question.

Furthermore, the effective implementation of citizens' charters involves a major revision of administrative procedures; appropriate delegation of powers, adequate resources, and other facilities; changes in the attitudes and skills of public employees; and systematic feedback by the service users. When charters are seen as mere publicity gimmicks and not effectively implemented, they can do lasting damage to the credibility of government. The specific obligations under the charter, such as maximum waiting times for patients, passengers on public transport, or complainants seeking redress, must correspond to what the organization can deliver, with its resources, staff, and other constraints. If not, these promises should not be made in the first place.

These problems should in no way discourage practical initiatives for a stronger client orientation in developing and transition countries, where citizens are commonly viewed as passive beneficiaries of public services granted by the government. Selectivity is a must, however. Such initiatives should be focused on the most critical areas of public dissatisfaction (based on citizen surveys), and cover both regulation and services. The initial activities could be in services that are more visible and around which citizens can organize themselves, such as health care and garbage collection, as well as on services delivered locally by decentralized and deconcentrated

units. Such efforts should be accompanied by consultation with both users and employees, and a quick review of administrative procedures to identify major stumbling blocks. The experience of most countries suggests that the implementation of these initiatives calls for changes in procedures and attitudes rather than for more resources.

Public Feedback and Consultation

At the outset, one should note that the public will voice its feelings in one way or another. Protests and street violence are overt indicators of citizen frustration, when the people are not given reasonable opportunities to express their views, or to have their complaints redressed swiftly, or to be involved in some way in public programs. So-called disorderly voice movements have shaped the policies of countries in different areas, and even the destiny of governments. Systematic and good faith consultation is clearly preferable.

Public consultation can take a range of forms, from simply transmitting information to giving citizens control over final decisions (e.g., the referendum mechanism in Switzerland or proposition initiatives in many states of the US), or eliciting substantive input from the public through a dialogue, or delegating the task of developing policy options to community representatives.¹¹ The various ways in which responsiveness to citizens can be enhanced are shown in Box 13.4. As noted at the start of this chapter, the relative infrequency of elections underscores the need for continuous citizens' feedback and consultation mechanisms to supplement the electoral mechanism.

Box 13.4

Initiatives to Increase Responsiveness to Citizens in OECD Countries

In recent times, most OECD governments have given priority to improving the relationship between the administration and the citizens, and have introduced measures to increase responsiveness to the public.

- **Procedural Measures:** Various measures—new laws, language improvements, redesigned forms, less red tape, faster procedures, staff training, and easier access—have been taken to make administrative procedures more responsive to citizens' needs. Examples: a special directorate comprising staff from key economic ministries and private-sector

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Box 13.4 (cont'd.)

representatives, to improve communication with citizens, simplify procedures and forms, etc. (France, Norway); a special commission to edit and codify the texts of the extensive and unwieldy administrative code so as to simplify access for all users (France); a review of virtually the entire body of laws to eliminate obsolete and dispensable laws (Austria); management guidelines including specific standards to minimize the number of forms, and to simplify and improve efficiency of communication (UK); a law emphasizing service orientation in administration (Sweden).

- **Information Measures:** These include establishing appropriate institutions, adopting promotional devices, making communication services available, and publishing documents. Australia, the Netherlands, and Norway have passed freedom-of-information acts making all public documents freely available to citizens unless specifically barred by law. France has established interministerial administrative information centers to provide citizens with information regarding laws, rules, and administrative procedures by telephone. New Zealand has published a directory providing information about manuals, rules and procedures, and the addresses and phone numbers of officials to contact.
- **Consultative Measures:** These are devices for obtaining feedback from citizens on administrative matters affecting the public. Examples: a red-tape commission to survey difficulties faced by the public in contacting the administration and to suggest improvements (Sweden); a special directorate to analyze media content and to conduct opinion polls (France).
- **Institutional Measures:** These measures seek to ensure support and protection for citizens by setting up special appeals courts, commissions, and advisory agencies. Typical measures: an ombudsman to allow citizens to lodge appeals against administrative decisions (Austria, Finland, and Norway); laws requiring public officials to furnish citizens with factual findings on decisions, including their grounds, within 28 days of written requests (Australia); Public Administration Act strengthening the legal protection for citizens by ensuring impartiality of administrators in decision making (Norway); a surveillance agency within the government to check the activities of units and services of the administration, and to enforce rules regarding the economic rights of citizens and conflicts of interest (Spain).

Source: OECD. 1997. "Consultation and Communications: Integrating Multiple Interests into Policy," Media Relations. Paris.

Feedback mechanisms may seek to obtain information from the clients of a particular public service about the service itself, such as its price, quality, timeliness, access, suitability, or safety; about the helpfulness of staff; or about the effectiveness of the complaint redress mechanism. But clients may be involved beyond giving feedback on consumer satisfaction. There is a continuum of client involvement and discretion, proceeding from information to consultation, partnership, delegation, and control.¹²

The general mechanisms for consultation and feedback may include:

- employee feedback;
- client/user surveys;
- citizen services;
- publicity and information campaigns;
- public hearings and local meetings;
- user advisory groups and user representation on agency boards;
- consumer complaints procedures;
- media interventions;¹³ and
- feedback from NGOs.¹⁴

In addition, ad hoc methods of eliciting consumer feedback include electronic bulletins, suggestion boxes, focus groups, and brainstorming groups. (Some of these ideas were borrowed by public organizations from the private sector.) User boards and electronic bulletins may allow more direct communication about service issues than a user survey, but these mechanisms may not be representative, particularly of the less literate segment of the user groups. Similarly, suggestion boxes may provide useful feedback from individual clients, but again tend to provide a fragmented view of general client preferences. Thus, systematic client/user surveys, conducted in statistically sound ways, are needed to help improve the service. Elaborate surveys, using sophisticated statistical techniques of stratified sampling and structured questionnaires, carry significant resource and time costs. However, quick-and-simple surveys may provide useful information at low cost, especially when conducted by local organizations, provided that they meet basic standards of statistical representativeness. Box 13.5 gives examples of user surveys in various countries, and Box 13.6 gives examples of user surveys in the Republic of Korea.

Box 13.5
Citizen Surveys in Different Countries

The Ugandan Government worked with NGOs and communities to survey the views of the public on service delivery. Several rural districts based their district plans on the survey findings.

Sweden uses an opinion survey instrument called the Swedish National Satisfaction Barometer to contact citizens who are customers of the largest public enterprises and to measure their satisfaction with the services provided. This longitudinal survey provides information on the success of enterprise reforms, and spurs efforts to improve services.

A number of cities in the US, such as Portland, Oregon, survey their citizens in an effort to appraise—and potentially improve—police, fire, sanitation, parks, and a range of other municipal programs. The results of the survey give leaders an indication of how programs are working. Portland is also developing benchmarks in areas like crime and education, and uses an interactive computer-based system to allow people to express their views on these benchmarks in town meetings.

In Canada, the media regularly publishes report cards on issues that are considered important by the people, to complement the information released by government agencies. These media report cards have a discernible effect on policy.

Source: Commonwealth Secretariat (1998c); Barrett and Greene (1994).

Box 13.6
Customer Satisfaction Survey Questionnaire
in the Republic of Korea

Quality Dimension	Some Question
Accessibility and availability of service	Is the service guidebook adequate? Is the application procedure easy to understand? Was the public servant kind to you when you asked for service?
Convenience	Were application forms and procedures simple and convenient?

continued on next page

Box 13.6 (cont'd.)

Quality Dimension	Some Question
Speed and correctness	<p>How many branches and counters did you have to visit to receive public service?</p> <p>How many documents were needed in public service applications?</p> <p>How many times have you been to the government office to receive service?</p>
Pleasantness	<p>Did the public servant do the job quickly and correctly?</p> <p>Are you satisfied with the time required to receive public service?</p>
Responsiveness	<p>Are you satisfied with the parking space at the government office?</p> <p>Are the restrooms in the government office sufficient?</p> <p>Was the government office clean and orderly?</p>
Equality	<p>Did the public servant let you know beforehand how long it would take to finish the service, and really finished it at the appointed time?</p> <p>Did the public servant correct and explain errors when he/she made them?</p> <p>Was it easy to receive information that you think can be made public?</p>
Feedback	<p>Did the public servant do the job impartially based on relevant regulations?</p> <p>Did the public servant offer service impartially without considering the social position of the customer?</p> <p>Did the public servant ask for pecuniary or nonpecuniary remuneration when you asked for consultation?</p> <p>Could you anticipate the result of the public service?</p> <p>Are you satisfied with the result of the public service?</p>

Source: Asian Productivity Organization. 1998. Productivity and Quality Improvement in Civil Service. Tokyo.

A variant of user surveys is the *citizen report cards* used in a number of Indian cities to allow citizens and businesses to rate public agencies in terms of such criteria as information availability, transaction costs, staff courtesy and helpfulness, delays, and corruption (Box 13.7). These report cards have been very effective, and merit very serious consideration in all developing countries, after taking into account local differences. Perhaps their main benefit is the inducement of healthy and virtuous competition among government agencies to provide better services.

Box 13.7
Citizens' Report Cards in Bangalore

A report card on urban public services is an innovative way of gathering systematic feedback from citizens on the performance of a city's service providers. In 1993, local civic groups in Bangalore, India, used a report card on services, prepared by the Public Affairs Center, to nudge their monopolistic service providers into responding more effectively to their customers.

The findings of the citizen survey were used to create a report card that rated the performance of all the major public agencies. The report card was sent to the heads of all agencies, and the findings were widely disseminated through the media. The survey was repeated recently to assess changes in responsiveness, information barriers, and corruption in urban public services, from the citizens' point of view.

The first to respond to the survey was the Bangalore Development Authority, which reviewed its internal systems for service delivery, introduced training for lower-level staff, and strengthened its service function. It also joined with the Bangalore Municipal Corporation, which initiated experiments in waste management and other areas, and created a forum of nongovernment organizations (NGOs) and public agencies to deal with key concerns. In addition, it has collaborated with a citizens' panel, consisting of experts, in the monitoring of the quality of road construction. (Elsewhere, the Karnataka State Electricity Board has formalized periodic dialogues with residents' associations to improve its services in the city, and several other agencies have strengthened their systems for redressing consumer grievances.)

The experiment has given the public a better appreciation of the value of citizens' feedback and of the role of civil society in improving local governance. Some 90 percent of the respondents felt that citizens' groups were more active than before, a sure sign that public pressure on service providers will continue.

continued on next page

Box 13.7 (cont'd.)

The Public Affairs Center has since prepared report cards on services in six other large cities of India, mostly in partnership with NGOs and local civic groups, making it possible to compare citizens' satisfaction with public services in different cities. City agencies could soon engage one another in virtuous competition for improvement. Report cards have also been issued for specialized services such as hospitals and public transport. In all cases, citizens have used the report cards as a trigger for collective action to make public agencies more responsive.

Source: World Development Report (1997); *Public Affairs Center, Bangalore* (1995, 1999).

Client/user surveys gain in value when people realize that their views do influence the performance of agencies or the choice between alternatives. Conversely, if the agencies take no meaningful action in response to the survey results, the credibility of the exercise disappears quickly and participation rates fall, thus calling into question the statistical representativeness of the survey itself. However, as more people become aware of the performance of specific agencies, they are more likely to exert collective pressure on the agencies to improve their services. User surveys or report cards can be conducted by nongovernment bodies as well as by government agencies, but public awareness and subsequent citizen action depend on wide dissemination of results and on mobilization, both of which normally require the active involvement of the government.

Government personnel are an important source of valuable feedback on service quality and access. Canada and other countries use government employees as a target group for surveys. The views of employees can also be elicited in other ways, of course. For example, in Singapore, where feedback for service improvement has existed since 1991, work improvement teams elicit feedback from junior employees by offering rewards for the best suggestions. Singapore also appoints a service quality manager in each department to receive comments and suggestions phoned in by the public using toll-free numbers. To minimize bias in reporting and to ensure the usefulness of this type of feedback, the information obtained in these ways should be supplemented by user surveys, data on complaints, and systematic observation. Incentives and rewards for employees could be linked to consumer satisfaction, as they are in some East Asian countries.

Decentralization offers great potential for increasing user voice, since local government bodies deliver many services relevant to the daily lives of citizens, but requires responsive and efficient representative structures, as discussed in Chapter 5.

Studies have shown that the potential for voice is stronger in some services than in others. Services with a stronger potential for voice are more visible (e.g., garbage collection, as opposed to garbage disposal); are locally provided; can be commercialized and provided by the market; and can rally user groups into pressuring public agencies.

Although greater efficiency in the visible services would be beneficial, overreliance on user satisfaction survey can subject the less visible services to neglect and degradation. An example is the thorny problem of where to locate waste disposal sites, the neglect of which can severely damage environmental quality over the long term, and typically affects poor areas to a greater extent.

User fees are usually seen as a way to generate revenue and prevent waste, but they also make users more vigilant and encourage them to demand accountability from the service provider, to reinforce the traditional accountability mechanisms of government. Thus, service-related voice mechanisms at the local level that are closely linked to service delivery can be considered. Users can join maintenance groups or project committees, or participate in setting user charges. Water user councils in a number of Latin American and Asian countries, for example, show the usefulness of user groups and committees. However, all potential users and minority groups must be represented, to prevent domination by a few interests, and to depoliticize the appointment of members. If the user group is representative and active, the public service organization should be prepared to consider and implement changes recommended by the group. Without meaningful follow-up, the user pays more and the service does not improve. Also, user fees for basic public services such as primary education and basic health, which should theoretically lead to better financing and hence wider services, in practice curtail access by some of the poorest and are inadvisable on both social and political grounds.

Broader *citizen surveys* provide both detailed and aggregate data on attitudes and expectations, and tend to avoid the bias or overly restrictive estimates of needs and wishes that often characterize specific user surveys. Citizen surveys where all the relevant social groups are statistically

represented can be a source of valuable information on a diffuse public. The sample size can vary: it can cover only those people directly affected by a decision, or a particular sector of the population, or an entire region. (A well-known type of citizen survey is the *opinion poll*.)

A common mode of consultation is to circulate proposed policies or legislation for comment among groups and organizations with a direct interest in the outcome, or to publish them in the official gazette and the media and to call for public comments by a particular date. *Public meetings* to discuss issues take this type of consultation still further. *Public inquiries* are designed to investigate and report on a specific issue, and are conducted by a person with judicial powers to take evidence and compel the attendance of witnesses. These inquiries can help in specific instances, but are expensive and time-consuming and should not be overused.

Public hearings, which are often mandated by law for proposed land use or major project proposals, give experts and the general public a structured opportunity to question public officials. In several provinces in India, local officials inform the citizens about development projects and expenditure at public hearings held by the government at the village and subdistrict level. The local people can also take advantage of those hearings to bring out instances of misallocation of funds or corruption, and the government is obliged to report back to them the action taken. Public hearings tend to strengthen the legitimacy of proposals. However, once again, it is important to ensure that all the relevant interests are represented, and that the hearing does not merely worsen conflicts over the issue.

Finally, joint consideration of issues in *public-private deliberation councils* has been institutionalized in different ways in a number of countries in East Asia and elsewhere (Box 13.8). Labor unions, industry, users, and the government are normally represented in these councils, which relay the viewpoints of these groups to the government department concerned. But as these councils do not share in decision making, the administration should not use them to whitewash its decisions, to give a mere semblance of consultation, or to silence opposition by co-opting outside interests.

Box 13.8**Deliberation Councils as a Consultation and Feedback Mechanism**

Deliberation councils are forums through which stakeholders and the executive (political or civil servants) can regularly exchange information and discuss policies to resolve specific problems. They reduce uncertainty in the policy environment, and present opportunities for key stakeholders in different economic and social sectors to provide institutional inputs and oversight. Governments use the councils to test the effectiveness of their policies and programs, and to draw up stable long-term policies based on the ownership of key interests. Examples of such councils are the Joint Public Sector–Private Sector Consultative Committee in Thailand during the mid-1980s; the informal consultative committees in Chile in the 1980s; the industry-based councils in Japan; the National Wage Council in Singapore; the Malaysia Incorporated concept; and the business-labor councils in Canada.

Singapore has set up a National Crime Prevention Council, which is chaired by a private-sector chief executive and is composed of representatives from civil society, professional bodies, and universities. Secretariat services are provided by the public interest division of the police. The council commissions studies on various issues relating to the incidence of different criminal activities and immigration-related offenses, and recommends specific prevention and control measures.

The key to the success of these councils is their capacity to act as a credible mechanism for the government to show its commitment, and their focus on clear, relatively narrow, sets of issues or subsectors. The councils can act like a rolling meeting of all the different interests, and work toward the most preferable option. The conditions for the success of the councils in developing countries are: broad representation of the stakeholders, public education to garner widespread support, technical assistance and support for the council, and emphasis on trust and mutual monitoring.

Source: World Development Report (1997); and OECD (1997d).

Redress of Public Complaints¹⁵

In the absence of exit options, individuals need to find ways of settling their grievances against government organizations and service agencies quickly and fairly. Systematic redress mechanisms bring wider benefits. They act as checks on the actions of service providers, bring out causes of recurring grievances, and correct underlying problems in policies and procedures. The institution of the ombudsman, which originated in Scandinavian countries, can play an important positive role as well.

Organizing for grievance redress

The right of redress assures citizens that an administrative wrong or malpractice will be put right, through personal or written explanation, apology, compensation, restitution, disciplinary action against the concerned official, or other remedy. Redress should begin with a complaint mechanism in every public agency, at all levels of public contact. Ideally, the complaint mechanism should be:

- readily accessible to users of services;
- simple to operate, with clearly defined procedures and responsibilities;
- transparent and widely disseminated to the public;
- speedy, with time limits for dealing with complaints and communicating the decision to the public;
- objective, with complaints investigated independently, if necessary;
- linked to performance appraisal and reward of employees;
- confidential, with protection for the privacy of the individual and against vindictive reaction; and
- integrated with the management information system of the organization and the central agency for grievance redress.

The grievance should be dealt with first at the operational level, with the help of delegated powers and internal instructions. Each ministry should set up redress mechanisms suited to its clientele and functions, but consistent with an overall central framework. Various governments, e.g., the UK, have issued clear guidelines for dealing with complaints from the public, besides forming independent committees to deal with sensitive areas like taxation.

Ideally the steps involved in setting up a redress mechanism typically include:

- Establish convenient, inexpensive channels for the public to lodge their complaints.
- Specify the procedures for investigating complaints, define the roles and responsibilities of the staff, set time limits for each stage starting from the acknowledgment of the complaint, and make all these widely known.
- Require senior officials to make themselves available at pre-announced hours to consider public complaints.
- Establish the procedures for allowing complainants to present their case, at a time and manner convenient to them.

- Insist on formal and understandable communications with complainants, specifying the reasons for rejecting complaints and indicating further avenues of redress.
- Establish procedures for appeal or review.
- Computerize the tracking of complaints, to facilitate monitoring by the agency, regulatory improvements, and issue periodic reports to the public.
- Devise mechanisms for dealing with collective or representative complaints, as well as complaints from disadvantaged persons.
- Consult with members of the legislature and other elected officials, to ensure prompt replies to inquires and to agree on a reasonable working agreement between civil servants responsible for responding to complaints and elected officials who take up complaints by the public or by specific groups.
- Set up telephone help lines, to provide information and assistance, and improve employees' phone courtesy.
- Link employees' performance in grievance redress and behavior toward the public to career rewards and penalties.
- Review the training and orientation program for front-line employees and managers.
- Require service agencies to treat consumer complaints as a valuable source of information, which should be systematically analyzed and considered in evaluating policies and programs.
- Publicize the performance of the grievance redress function, and take steps to replicate good practices.

This ideal arrangement may not be practicable even in countries with adequate administrative capacity and civil service commitment. However, *some* means of redress of public complaints must exist in any country, in clearly understandable form, and must be effective and credible. Whatever its specific content, the process must be related to measures to make service delivery and regulatory administration more responsive. A good example are the service feedback units in Singapore, which entertain criticisms of services from the public, and take steps to remove unnecessary regulations and other causes of recurring complaints. As mentioned earlier, the public also has access to the toll-free telephone number of a service quality manager in each ministry. Surveys indicate that the system is working well. In the Philippines, the Citizen First feedback mechanism allows citizens to take action against government employees who are found guilty of wrongdoing or who are slow in responding to their complaints (although follow-up is not as predictable or as energetic as in Singapore).

A central monitoring unit could be set up at the center of government, such as the cabinet office or the prime minister’s office, with adequate staff support and under an official with appropriate status and authority. Examples are the central Department for Administrative Reforms and Public Grievances in India, and the Public Complaints Bureau under the Prime Minister’s Department in Malaysia and in Mauritius. Such units can independently look into complaints against public agencies, report to the cabinet on the record of the departments in dealing with complaints, and suggest remedial steps (Box 13.9).

Box 13.9
Dealing with Public Complaints in Malaysia

Malaysia set up a Public Complaints Bureau in 1971 as an independent organization to look into complaints against public agencies. The bureau was reorganized in 1992 to strengthen its administrative machinery for monitoring the promptness and effectiveness with which public agencies act on public complaints, and for taking action to correct causes of recurring complaints. The bureau is the main channel through which the public can put forward complaints or grievances regarding: (i) public officials who provide poor-quality services or are discourteous or dilatory; and (ii) administrative actions and decisions that are alleged to be unfair, contrary to existing laws and regulations, or entail misconduct, misappropriation, abuse of power, or other forms of faulty administration.

The bureau is backed by the authority of the Prime Minister’s Office and the forum of a Secretaries Committee, in addition to its staff of professionals, enabling it to perform its job effectively and credibly and to enforce compliance by all the departments. Aside from monitoring the response of agencies to complaints it forwards to them, the bureau also investigates important complaints. It reports regularly to a committee headed by the Chief Secretary and consisting of heads of major departments and the police chief, which reviews actions taken by the different departments and issues directives to lagging departments. The public is reportedly well satisfied with the system.

Source: Commonwealth Secretariat. 1996. Current Good Practices and New Developments in Public Service Management. London.

Ombudsmen

Several governments in both developed and developing countries have established the institution of the ombudsman. The ombudsman (literally, representative) is a person (or group) of unimpeachable integrity and merit who receives and investigates complaints against actions of public officials, normally with a view to mediating and achieving equitable settlement of the complaint. This independent institution, with its origin in the Scandinavian countries, is a means of requiring government bureaucracies to respond to public complaints of bad or inefficient administration, or failure to follow due process.

The authority of ombudsmen varies widely between countries. They may act only as good-faith intermediaries and advisers, or may be authorized by law to investigate administrative actions and decisions that are alleged to be unfair, contrary to laws and regulations, or entail misconduct, misappropriation, abuse of power, or other forms of bad administration, and to impose sanctions. Sometimes, an anticorruption agency, if one exists, may also handle complaints against the administration, as in Hong Kong, China. Ombudsmen should be appointed through an apolitical process either by the legislature or by the executive in consultation with the political opposition. Ombudsmen normally function at the national level, but there is no reason not to consider a similar office at the provincial or local government level or in large public agencies.

Regarding the effectiveness of the institution of the ombudsman, the evidence is mixed. Effectiveness is determined as much by the willingness of the political system to let the ombudsman function independently as by the personality of the ombudsman. In the Philippines, the ombudsman is a powerful person who can prosecute and punish offenders, but Filipinos give very mixed reviews to the institution, which, to them, has been largely ineffective. Conversely, where the ombudsman has the requisite integrity, energy, and commitment, political leaders are inclined to chafe at the independence of the position, and seek either to control or to neutralize it. In Vanuatu, for example, the ombudsman was given broad jurisdiction over administrative matters, including public enterprises. However, following the tenure of an unusually assertive and active ombudsman, the institution itself was radically altered in 1999 by the political leadership. Indeed, when the institutional environment is unfavorable, the very success of an ombudsman may carry the seeds of its own demise, as the system reacts to prevent the office from acting at all. The institution of the ombudsman in

the Solomon Islands, on the other hand, did not have the requisite independence in the first place, as it comprised civil servants, members of parliament, and government nominees, and devoted its attention to complaints from civil servants or to the service conditions of members of parliament, rather than to complaints from the public. (In the UK, citizens deal with the ombudsman only through their members of parliament.)

As in all cases of institutional transfer, countries should exercise caution in importing successful institutions like the ombudsman. The institution succeeded in Scandinavia because of specific local circumstances and the political culture. Indeed, if established as a symbolic gesture with no serious political or administrative will to ensure its efficient functioning for the public good, the institution could damage the credibility of government. But even assuming an independent and honest ombudsman, the institution cannot substitute for the proper functioning of the regular organs of government. In fact, there is no need for an ombudsman if the feedback and grievance mechanisms are functioning very well and the administration is highly responsive, accountable, and effective. On the other hand, an unresponsive and unaccountable government will render even the best ombudsman completely ineffective. Hence, the institution can be an important adjunct to systematic accountability and voice mechanisms, but cannot substitute for them. In periods of transition and change, however, an ombudsman of courage and integrity can be instrumental in supporting the forces for better government, or in preventing a temporary weakness in governance from becoming entrenched and permanent.

KEY POINTS AND DIRECTIONS OF IMPROVEMENT

Key Points

However important they are, periodic elections must be supplemented by other mechanisms for holding the government accountable for its performance in providing public services. “Exit” is the extent to which the users have access to alternative suppliers or to good substitutes for a service. “Voice” is the degree to which the citizens can protest or express their views, in order to influence access to or quality of public services. Exit and voice are complementary, and their relative effectiveness is determined by the characteristics of the service and circumstances of the country. But in general, the poor and marginal groups are particularly limited in both their exit possibilities and voice channels, and special encouragement and facilities are needed.

Concerning *exit*, even when there is no possibility of alternative suppliers the government should behave *as if* the users of the service had a choice, partly because doing so is an essential means of stimulating administrative efficiency. Because service provision is a continuum—from direct government financing and delivery to full delegation to the private sector—exit possibilities may not exist for the entirety of a particular service, but should still be sought for specific aspects of service provision, or a specific geographic area or user group. The clearest exit mechanism is provided by contracting out the service—i.e., the negotiated transfer to the private sector of the implementation of activities financed and previously delivered by the government.

Contracting out can reduce costs and can have other advantages. However, it also carries major financial efficiency and corruption risks, especially in developing countries, where the public administration has limited capacity to negotiate favorable contracts and, more importantly, to monitor their execution in practice. Particularly problematic in this respect are BOT arrangements, whereby the private operator finances the construction, recoups the investment through an exclusive concession, and transfers the assets to the government at the end of the period. Accordingly, contracting out still accounts for a minor proportion of public service delivery in most countries.

Various mechanisms have been elaborated in recent decades to increase citizens' *voice*. A *citizens' charter* is an explicit and public statement of service standards and obligations to serve as a guide for the government agency's behavior, and can vary from a general mission statement to a detailed quasi-contract. Citizens' charters can be invaluable for establishing greater service orientation in government, but only when they are well-designed, forcefully implemented, and accompanied by the needed complementary measures (e.g., agency flexibility in rewarding or penalizing employees.) Absent these conditions, citizens' charters can become a mere formality and harm the credibility of government.

Public consultation and feedback can take a variety of forms, including service user surveys, public hearings, consumer complaints procedures, and so on. Practices vary in different countries, but, in general, consultation must be followed by action if it is to be effective. Lack of meaningful action impairs the credibility of consultation, leading to a decline in participation and eventually a resort to exit options (or to disruptive activities).

The exercise of voice also requires *grievance redress* mechanisms against government organizations and service agencies. A good grievance redress system ideally should include a convenient channel for the citizens to present their complaints, clear procedures setting out the responsibilities of the staff, prompt adjudication of the grievance and communication to the complainant, incentives for employees to behave correctly toward the public, and several other steps. However, regardless of its specific features, the grievance process must always feed back into measures to make service delivery and regulatory administration more responsive.

The institution of the *ombudsman* can be a useful adjunct to a grievance redress system. An ombudsman is a person (or group) who receives and investigates citizens' complaints of inefficient or arbitrary actions of public officials, with a view to achieving a fair settlement. Ombudsmen authority differs widely in different countries, and their effectiveness has been mixed. Originating in Scandinavia, the institution succeeded there because of a supportive institutional and political environment. Even when the ombudsman is in fact a person of energy and integrity, lack of political support for the institution or of the basic mechanisms of accountability in government will render the office ineffective.

Directions of Improvement

In developing countries and transition economies, exit possibilities (in the form of alternative modalities of public service provision) are generally more limited than in developed countries. Correspondingly, in such countries, voice mechanisms of consultation and public feedback are more important to foster government performance and accountability in service provision. In addition, strengthening the citizens' voice also has a beneficial impact on the quality of governance as a whole.

Concerning exit, not only are choices of alternative suppliers of public services more limited in developing countries, but contracting out also presents special risks, especially in BOT arrangements. The weak administrative capacity in these countries renders the government unable to supervise and monitor contract execution effectively. In some cases, contracting out might be the only option to improve a service, or a BOT scheme the only way to obtain the large-scale financing needed for large infrastructural investment needed. In those cases, in addition to scrutinizing the contract very closely, developing countries could consider obtaining

specialized assistance from a third party during negotiations, and from yet another independent entity for contract supervision.

Contracting out the delivery of some public services to nonprofit voluntary agencies and community groups does not carry the risks mentioned above. This route also offers creative possibilities for expanding choices for the poor and most vulnerable, for whom exit is literally not an option. However, one must first verify that the community agency is not merely a front for private business groups; prevent its capture by such groups; and assess carefully the long-term impact of the service contracting on the effectiveness of those agencies in terms of their primary function of serving as critics and watchmen of government activities.

Concerning voice, citizens' charters stating the users' rights to certain public service standards can be a strong adjunct of administrative reform, but only when designed well, in participatory ways, and efficiently implemented. This requires substantial administrative and monitoring capacity, as well as a major revision of procedures, delegation of powers, and adequate resources. Consequently, citizens' charters are not a major direction of improvement for developing countries and transition economies, in many of which impressive charters have been promulgated without real ownership by the government agency or the employees, and thus not implemented.

Aside from the specific device of citizens' charters, a much stronger client orientation is essential in public administration of developing countries, where citizens are too often viewed as passive beneficiaries of public services granted by the government. To produce lasting improvement, however, government initiatives in that direction should keep in mind that the interest of specific client groups may differ from those of the taxpayers and the public at large. Also, initiatives should be selective, and focus on the more critical areas of customer dissatisfaction—normally in locally-provided services. Moreover, such initiatives can interact positively with decentralization moves and with participatory approaches to improve the overall quality of governance.

Among the myriad possible mechanisms of public consultation and feedback, particularly effective has been the device of issuing public report cards on the performance and integrity of different government agencies. The lack of profit motive notwithstanding, the desire to stay at the top or to improve a low standing is proving to be a powerful motivator for government agencies in developing countries with representative governance.

The high cost of sophisticated client surveys has sometimes discouraged its use in poor countries. However, since there is no substitute for direct feedback from service users, government agency employees or the citizenry at large, quick-and-simple surveys may still provide reliable information at low cost, especially when conducted by local organizations—provided that basic standards of statistical representativeness are met.

The same is true of grievance redress mechanisms. In their ideal form, such mechanisms can be expensive, and highly burdensome on the limited administrative capacity of developing countries. However, simpler varieties can be explored, suitable to local conditions.

When considering introducing any improvement along the above lines, one should recall that both exit possibilities and voice are especially limited for the poor and more vulnerable groups. Therefore, special measures to address the situation of those groups are a must. In the absence of special measures, improving voice channels will typically entail greater voice for the better-off and the more vocal and, assuming a limited stock of administrative attention, may even reduce service access for the poor.

Similarly, because the potential for voice is stronger in services that are more visible and locally provided, the natural inclination to focus on those services may inadvertently produce neglect of the services that are less visible and those with a regional or national impact. Thus, for example, an increase in users’ voice might lead to improving (visible) garbage collection, while (less visible) garbage disposal worsens—producing environmental damage and a probable adverse impact on poor communities less able to keep from becoming the unwilling host of garbage disposal sites. Once again, greater *client*-orientation must be in the context of stronger *citizen*-orientation, and improvements in service efficiency matched by greater effectiveness of the national public administration apparatus as a whole.

NOTES

- ¹ This should be read in conjunction with the discussion in chapter 6 on the continuum of service delivery option. It draws partly on Arnberg in OECD (1996c), Peters (1996), Paul (1995), Girishankar (1999), and World Bank (1997).
- ² This section has drawn partly on World Bank (1997), Gidman (1994), Commonwealth Secretariat (1996), Rehfuss (1989), Dehoog in Cooper and Newland, eds. (1997); and OECD (1997c).

- ³ See John Brewer, *The Sinews of Power: War, Money and the English State*. Knopf, 1989 quoted in Premchand (1993).
- ⁴ At least in developing countries. In developed countries with open financial markets, this advantage of BOT schemes is questionable. See Heald (1997).
- ⁵ For about 40 years in France for toll-roads and water supply under the name of "Public service concessions." See D. Heald. "An evaluation of French concession accounting." *The European Accounting Review*. 1995.
- ⁶ James Leigland "Privatization of Public Enterprise in Asia: Current Patterns and Emerging Issues" in Naomi Caiden (1996).
- ⁷ The section is adapted from parts of Schiavo-Campo and Tommasi, 1999, chapter 14.
- ⁸ The discussion in this section is drawn partly from Paul (1995); Berry, Pourtney and Thomson, in Perry, ed. (1989); Aitken in OECD (1996c); Feinberg (1997); OECD (1997d, 1998); World Bank (1997); Hirschman (1970).
- ⁹ See, for example, the term "customer-driven government" in the US National Performance Review (1999).
- ¹⁰ Peters (1996).
- ¹¹ Arnberg in OECD (1996c).
- ¹² Lunde in OECD (1996c).
- ¹³ This subject is discussed at length in chapter 16.
- ¹⁴ This subject is discussed at length in chapter 15.
- ¹⁵ This section draws on Commonwealth Secretariat (1996,1995a); and Government of India (1997a).

Chapter 14

Social Capital and Participation

When you want to know if the plumbing works, ask the occupant.
—Anonymous

THE CONCEPT OF SOCIAL CAPITAL

There is increasing recognition of the importance of social capital, since the original formulation of the notion by Bourdieu and Coleman, and the interest generated by Putnam's work—especially his study of comparative regional governments in Italy (Putnam 1993). The term “social capital” refers to those features of social organization, such as norms and networks, that facilitate the flow of reliable information and coordinated actions in the interests of all members of the group. Voluntary cooperation is easier in a society that has inherited a substantial stock of networks of civic engagements, which foster robust norms of reciprocity and acceptable behavior. Social capital is economically beneficial because the reciprocal and regular interaction of individuals generates three positive external effects: facilitates the transmission of knowledge about the behavior of others, and thus reduces the problem of opportunism; facilitates the transmission of knowledge about technology and markets, and thus reduced market failures in information; and facilitates collective action (Collier 1998.)

The notion of social capital implies that vertical networks, no matter how dense, cannot sustain social trust and cooperation, because they are based on hierarchical control, divergence of interests and thus individual hoarding of information. Instead, horizontal networks based on equality and reciprocity—not only trade associations but also neighborhood groups, cooperatives, sports clubs, etc.—produce regular information exchange and build trust among the members.

Fundamentally, social capital is trust capital. Trust generates the conditions for positive interaction among individuals and is, in turn, fostered

by continued positive interaction. Conversely, the absence of trust greatly increases transaction costs, as individuals are obliged to dedicate resources to collecting information and protecting their property rights. Thus, unlike physical capital, social capital increases as it is used, and diminishes when it is not used.

A community with a high stock of social capital is characterized by cooperation, trust, reciprocity and civic engagement, and the norms of mutual expectations effectively restrain individual opportunism. The civic traditions of a region provide a historical repertoire of the forms of collaboration available to resolve the problems of collective action while fostering the *long-term* interest of each individual as well. Thus, Italian regions with a high stock of social capital are found to be characterized by better governance and livelier economic activity (Putnam 1993.) Examples abound in developing countries as well, such as the rotating credit associations in some African countries (*tonines*), and the striking success of community-based credit and enterprise institutions like the Bangladesh Grameen Bank.

Indicators of trust have been used in many countries (e.g., Colombia) as proxies for the stock of social capital, and research shows that the density of horizontal networks of civic engagement has a positive impact on local economic development, the quality of governance, and the provision of public services. In rural Tanzania, for example, villages with high degrees of participation in village-level social organizations have a higher adjusted income per household than villages with lower stocks of social capital. Other positive effects include an association between social capital and the quality of local schooling. Where parents organize to monitor local schools, school quality is usually enhanced. This effect has been verified in some states of India as well, and elsewhere in the developed and developing world.

Social context and history profoundly affect the effectiveness of institutions. A high accumulated stock of social capital gives a major headstart to countries (and to regions within countries) in improving the quality of government. However, the absence of such tradition is not an irremediable condition. Social capital does require time to build (recall also Douglass North's notion of path dependence, discussed in Chapter 1) but not necessarily centuries. One good generation can suffice to transform the social capital landscape of a country, provided that there is a coherent vision and consistent efforts in that direction.

Specifically for poverty reduction, however, the social capital built among the poor cannot be sustained in the absence of bridges to other organizations and of supporting attitudes in local and higher levels of government.

There is a downside to social capital, as well. When bonds within a network are neither complemented nor kept in check by bridges to other networks, the greater cohesion and trust built *within* one particular group can be used to exclude or even destroy persons outside that group. For example, many communities in Asia have set business networks that increased their social capital but excluded individuals from other groups. (This was one underlying cause of the 1997-1999 Asian economic crisis.) As more extreme examples, organized crime generates profits for the members—partly through the building of “trust among thieves”—while reducing the quality of life and productivity of society at large; military dictatorships usually replace positive social capital with inward-oriented social capital, aimed at preservation and enrichment of the military elite; and so on. Changes in legal environment and economic incentives can also turn positive forms of social capital into negative ones. For example, a weakened legal system and growing profits from drug activities in Colombia turned existing rural community networks away from productive endeavors and toward criminal activities.

An enormously difficult challenge in dealing with the dark side of social capital in multiethnic countries is how to overcome entrenched hostility and pervasive mistrust between groups each characterized by a high degree of *internal* trust, e.g., reconciling Protestants and Catholics in Northern Ireland, Serbs and Albanians in Kosovo, Christians and Muslims in the Moluccas, etc. Indeed, most difficult of all is the situation where social capital within a group is built *through* its repression of others—repression which thus becomes essential for the very survival of the group’s identity.

Consequently, it is a must for the state both to encourage social capital formation within groups and localities *and to* build bridges and linkages between groups and regions. This is possibly the highest task of organized government in any society.

In developing countries and transition economies, the role of aid donors and other external entities in this task can be very helpful or very destructive, depending on whether the assistance nourishes the seeds of social capital and facilitates linkages, or drowns local social capital in top-down initiatives and patron-client relationships.

FOSTERING PARTICIPATION

The Meaning of Participation¹

The role of participation

Participation should be intrinsic to all public programs. This is because of the risk to generate programs divorced from the interests of the people, and because even good programs tend to be more costly and less effective if not designed and implemented with appropriate participation. The need for participation has been propelled by a number of factors: (i) the earlier expansion of the role of the public sector without a commensurate improvement in the mechanisms for the involvement of the people or of users; (ii) the growth of international aid, which has increased the scope and number of central government programs but also widened the distance between the center and the field; and (iii) evidence of recurring failure in public programs on account of their alienation from the intended beneficiaries.

Empowering citizens requires that channels for participation be easily and widely available, and that the citizens have wide access to information on government programs and policies. It also requires that participation be effective, not symbolic or part of a process designed to preempt opposition. Active community involvement is needed as well. Participatory approaches in the public sector are often top-down, and hampered by the lack of adequate processes for enabling bottom up participation or responding to community initiatives.

Participation structures

Citizen participation has been mandated in a number of countries, either under general laws or under specific statutes for particular sectors or levels of government (Box 14.1). These laws have made it obligatory for governments to set up citizen or user advisory boards in a number of areas. Such mandating of participation, however, could make the process mechanical and liable to capture by vested interests unless safeguards are introduced.

Box 14.1 Institutionalizing People's Participation

Political pluralism at the local level has been introduced in many Latin American countries. The federal government of Bolivia passed a law in 1994, commonly known as the law of popular participation. Among other things, it requires the involvement of grass-roots organizations in local decision making. Twenty percent of national revenue is transferred to municipalities for the implementation of public services, according to the needs identified by community organizations in the municipal participatory plan. These community organizations are also assigned the role of proposing and supervising local investment projects in social sectors and in urban and rural development.

India has a legal framework for community participation in local government in the form of ward committees in large urban areas, and legally constituted neighborhood and area development committees. The ward (equal to an electoral constituency) committees are given responsibility for many local functions, along with a budget. The neighborhood committees are similar to the *barangays* (villages) in the Philippines, and include inadequate representation of women and disadvantaged groups. They may be given the responsibility for managing the delivery and maintenance of services in the locality, and running community facilities.

Many developing countries also have legally constituted users' groups for different services such as irrigation, education, and waste collection. The water management associations in the Philippines and other countries show a mature level of group leadership in sharing water, collecting user charges, and influencing public water policy. Village committees for education, health care, distribution of public assistance, social forestry, and the management of common resources exist in many countries and function well.

Care should be taken, however, not to allow legal institutionalization to stifle local initiative. When structures for community management are mandated by government agencies or overregulated, there is a danger of routinizing and devaluing genuine representation and involvement of all sections of community. There is also the risk of capture of these groups by elite interests to the neglect of minorities.

Source: Asian Development Bank country reports; and Fiszbein and Lowland (1999).

Structures for community participation are often devised as part of administrative decentralization, whether established by law or by executive instructions. These structures usually take the form of grass-roots organizations and of the assignment to community groups of local responsibilities, such as utility connections, garbage collection, zoning and building permits, preventive health care, and parks and recreation. Community councils and neighborhood committees have been set up at the submunicipal level in a number of countries. These councils are often given an independent budget and the opportunity to suggest priorities for the overall city budget. Some, such as St. Paul, Minnesota, USA, are authorized to raise additional resources for local schemes.

To avoid a legal structure for the community councils, some countries set up instead a network of local district councils made up of citizens' representatives and voluntary agencies elected by the community. The resident committees can thus more easily build horizontal networks with associations of users such as tenants, health-care users, parents, and interest groups for the handicapped, street children, and other marginal groups, etc. As mentioned earlier, all those networks contribute to build social capital within the community.

Constraints on participation

The biggest challenge to effective participation is usually bureaucratic behavior, which tends to conflict with participatory norms. Impatience with the long gestation period for community mobilization should not lead governments and donor agencies to avoid participation in favor of quick benefits from top-down approaches. Also to be avoided is the use of symbolic or limited participation as window dressing to legitimize faulty policies. Greater responsiveness to community participation calls as well for bureaucratic reorientation and training to motivate the government personnel to work effectively with the local groups.

A constant concern of managers is the loss of control over the project. When the beneficiaries do not want the services offered, or would rather have other services, they do not cooperate. Or, the project may be co-opted by a powerful economic, social, or political group (such that the benefits in a squatter upgrading project, for example, accrue to the landowners rather than the occupants). In politically volatile areas, the attempt to involve community organizations may create social conflicts, which either paralyze the project or cause wider problems.

Closely related to the involvement of citizens in programs and activities that touch their lives directly is the dissemination of public information in such a way that minimizes media distortion, educates the citizens, and promotes their understanding of the basic issues. Use of the right language and sensitivity to the local context are crucial here, as is the development of mechanisms to encourage dialogue rather than confrontation.

Support for civil society organizations, the encouragement of partnerships, and the use of community volunteers should not make governments lose sight of their primary responsibility for providing public services. Alternative delivery systems should not be used as excuses to avoid government's obligation to deliver core services.

Mainstreaming Participation in Government Activities²

Recent approaches to people's participation have shifted from the instrumental objective of improving efficiency and accountability in project implementation, to ensuring participation in definition and design of projects. This approach involves the citizens in the shaping of issues and the design of programs, and emphasizes *ex ante* rather than *ex post* participation. Declining confidence in government institutions in many countries has led citizens to seek more proactive ways to articulate their interests and needs. The original project-focused approach to participation has widened into participation by the people in all stages of program and project planning and implementation and, even in some cases, control of the projects within a defined framework.

Governments are involving the people through various forms of public consultation. Development projects at the city or settlement level with a community participation component include the environmental improvement of slums, such as the Kampung Improvement Program in Indonesia, and rural employment programs in many other Asian countries. In many infrastructure projects, efforts are made to build in the community an understanding of the technical and financial implications of specific options, and the capacity to act on this information (Kessides 1997). Trained community workers and local volunteers have been given a central role in the process. The planning and preparation of investments in slum improvement, housing, low-cost sanitation, and health have incorporated community mobilization and public information campaigns.

The evidence about participation reveals that antipoverty and social development projects that take a participatory approach are more successful than those based on hierarchical structures (United Nations 1997). In the poverty alleviation projects in the Philippines, living conditions improved most significantly in *barangays* (villages) that actively took part in planning and service delivery. In the process, there was increased social acceptability, and the minorities were included in the planning process.

Beyond the managerial benefits, participation can have several major benefits:

- enhances the design of the project by enabling the project designers to take full advantage of knowledge of local technology and other conditions, and adaptation of the project to the social organization;
- enhances program sustainability and cost recovery;
- resource mobilization is facilitated, and the community can be encouraged to contribute labor and materials;
- benefits may be distributed more equitably, although there is the danger of take-over by vested interests;
- can lower information barriers between the public agencies and the people, and induce useful feedback from users of public services;
- it can help increase the use of public goods, e.g., programs for mass literacy, immunization, etc.;
- some community institutions that are developed during project design and implementation may continue to produce benefits even after the project is completed; and
- avoids the negative consequences of not consulting the intended beneficiaries, such as local rejection of sanitation or housing designs, or resistance against cost recovery efforts.

Citizen participation at the community level in different countries shows a type of plateau effect at work. In communities where citizen participation was designed to meet only the minimum requirements of the program, participation fell dramatically as the program ended. By contrast, in communities that had developed a strong internal justification and standards for effective action (including links to local government and NGO involvement), participation continued to grow even after the government program ended.

There is a major concern relating to tension between representative democracy—the notion that governments are elected to decide on behalf of

citizens—and the pressure for more direct public participation in the policy process. Some argue that giving people a direct say in individual decisions renders decision making by elected governments obsolete. Public participation should complement, rather than substitute for, public policy processes and the decisions of elected representatives, and should not be allowed to blur the lines of accountability between ministers, legislature, and public officials. There is also a key concern about the accountability of the participatory groups themselves. It is clearly unacceptable for voluntary pressure groups not accountable to anyone to paralyze decision making by elected government bodies that are directly accountable to the legislature and indirectly accountable to the citizenry.

The guidelines for a number of national programs for poverty reduction attempt to address these concerns by providing a framework for community participation linked to government departments and nongovernmental agencies. Programs in India and the Philippines provide for the participatory identification of families below the poverty line, based on a number of indicators, and decisions on the entitlement of poor families for services (Box 14.2). Similar efforts for convergence are seen in primary education, health care, women's education, sustainable development, and family planning in many countries (Box 14.3).

Box 14.2

Integrated Service Delivery with Community Participation

The urban basic services programs in India and the Philippines, and the Urban Community Development program in Thailand, attempt a comprehensive approach to community-based poverty reduction covering service delivery, community empowerment, and capacity building. In the case of the Philippines, the program uses nongovernment organizations and universities to conduct baseline surveys to identify eligible poor families.

The national and provincial governments in a number of Asian countries incorporate steps to harmonize program guidelines and staff structures for convergent delivery of services, and agreements with neighborhood committees ensure that the activities reflect felt needs, mobilize local support for programs, and lead to sustainable benefits after program completion. The communities are also consulted on the agencies that should implement the programs, and the more capable communities are allowed to take on community contracts for services. Voluntary agencies are involved fully, and form part of the planning and capacity-building exercise at the city or settlement level.

Source: Clarence Schubert 1996.

Box 14.3**Community Participation to Improve School Performance**

Parents and communities in many countries are becoming more involved in the governance of their children's school. A law passed in 1993 in Sri Lanka formed school development boards (SDBs) to promote community participation in school management. Each SDB consists of representatives from the school staff, parents, teachers, and past students, and is chaired by the school principal.

In Mauritius, parent-teacher associations have been so successful that government funds are being used to strengthen the partnership further.

Bangladesh's social mobilization campaign, which involves the community in education, has revived school management committees throughout the country.

However, effective involvement in school governance does not come easily. Training is often required, and can be effective, both in literate communities, such as in New Zealand, and in relatively less literate ones, as in parts of Uganda. Action Aid in Uganda is providing community training in two districts for parent-teacher associations and school management committees.

Source: Campos and Pradhan (1996).

Often, a project involving community participation in one area can expand into other areas. For example, starting with a low-cost sewerage program, the Orangi Pilot Project in Karachi (Pakistan) eventually expanded to include low-cost housing, basic health and family planning for poor housewives, and women's work centers; supervised credit for small family enterprises; and promoted the upgrading of private schools with poor physical and academic facilities (Shubert 1996).

National citizens' groups in many countries also contribute significantly, but are more representative than participatory. Accordingly, they have not directly involved their members. Group membership based on financial contribution alone is not enough to empower citizens, and by definition tends to exclude groups that cannot pay. On the other hand, local groups are more participatory but have fewer resources to function as an effective lobby on a national level. Once again, the potential for constructive linkages between such groups should be encouraged by governments and explored by the groups themselves.

Community participation succeeds best in a context of vibrant and responsive representative structures in urban and rural areas, as successful urban services projects in Asian countries and the examples of mayors leading community efforts have shown. A responsive and efficient municipal council will not see community efforts as a threat to its influence but as a foundation for building service improvements. Real improvements are most achievable when actors outside government can work with public representatives who have the authority and resources.

Implications for Developing Countries

In any serious participation effort, four factors seem to be essential (Berry et al. in Perry 1989): *effective outreach*, *equal access*, *significant policy impact*, and *enactable policy*. The participation effort therefore needs to be tailored to the specific target population and the problem at hand, provide a realistic opportunity for large numbers of the target population to participate, and make it available to all citizens on an equal basis. To be more than symbolic, participation should have a significant impact on final policy decisions. Finally, the participatory effort must be capable of being expressed through an enactable government program, such as the distribution of funds for projects, or the implementation of regulations affecting the environment.

These criteria lead to certain conclusions. The existence of traditional forms of community participation makes it easier to build on them for new efforts for participation. The public activity should be designed flexibly to accommodate existing organizations, as opposed to the conventional approach whereby outside consultants provide inflexible blueprints. It is essential to identify and promote community leadership, especially from traditionally excluded groups, with the help of the decentralized elected local structures. Most successful urban participation efforts are built on representative neighborhoods, and the informal power of the community to influence the formal decision-making hierarchy.

Programs that involve citizens early in the decision process, rather than only for implementation after the project structure and guidelines have been decided, will be perceived as more fair and credible by the people. Another crucial need is the gradual inclusion of traditionally excluded groups such as women and the disadvantaged.

Effective citizens' participation does not come easy to communities that lack management skills, ethnic discrimination, and poor access to information. Community groups and local government personnel must be trained to develop their skills and attitudes, as mentioned in Chapter 12. Some projects for urban basic services include such training, and local school committees have gone through community-level training. Special subsidies have been provided to assist in the development of citizens' groups in some countries, and others help disadvantaged citizens' groups get relevant information on public issues.

There are, of course, costs to participation as well, at least in the short term: delays in project start-up; increased staff requirements and delays in implementation; and the inability of communities to organize themselves for participation. Moreover, incentive structures do not typically reward public officials for encouraging community involvement; local officials could also derail citizens' participation, or the project could be co-opted by powerful local vested interests under the guise of participation; and without effective outreach participation can reinforce gender, caste, and ethnic discrimination.

Greater community participation also requires political commitment and political support, and the embedding of participation in the political culture. When citizens believe that the officials and leaders are willing to inform, listen, and negotiate with them, it becomes easier to persuade them to become involved.

ENABLING PARTNERSHIPS³

Benefits of Partnerships

Partnership broadens the range and deepens the base of participation. Instead of viewing social capital exclusively within the group (usually within small communities), and in isolation from the state, partnerships address the relationship between groups and between the state and society. Partnerships can arise from the joint initiatives of government agencies, in conjunction with the private profit sector, nonprofit and voluntary agencies, civil society associations, and community organizations. Public agencies entering into partnerships include nonministerial bodies and state-owned enterprises. Within a partnership, each actor contributes resources (financial, human, technological) and soft inputs like information and organizational support, and shares in decision making and implementation on the basis of mutual agreement.

Partnerships may be mandated or voluntary. An example of a mandated partnership would be the citywide partnership of government and nongovernment agencies in the urban basic services programs in India and the Philippines, or the sustainable cities program in a number of African and Asian cities. A nonmandated or voluntary partnership would be achieved when community organizations or user bodies form a network, with or without the mediation of a voluntary agency, and then subsume other actors in the city or region. Partnership can be permanent or for a specific project.

Partnerships help build social capital in two ways. They can strengthen the organization and skills of individual stakeholders, their capacity to work together, and the confidence that the relationships will endure, based on the recognition of successful outcomes. Secondly, the learning process for the partners helps to break down barriers and creates trust. (Community monitoring to prevent capture by vested interests or the exclusion of marginal groups is, of course, a prerequisite.) The key to successful partnerships is not only establishing links to specific groups, but putting in place legitimate processes for local decision making about management and resources.

A good partnership must first deliver the services for which it was set up, and to do so with a modicum of efficiency. However, it should also be based on effective structures of accountability to ensure that the beneficiaries have a hand in shaping the project. In addition, government-community partnerships should be partly judged by the extent to which they give voice to marginalized and minority groups. For example, a partnership project for rural water supply may be accountable in terms of access to information, review processes, and key decisions by the village council, and may ensure timely service at low cost. But if it does not address issues of distribution and a fair share of benefits to weaker groups, it cannot be considered successful, and certainly not for poverty reduction.

The benefits of partnership can be measured in terms of the new resources that the partners bring in, or more effective use of existing public resources, or greater resource, or the impact on building human and social capital (Box 14.4).

Box 14.4**The Nadi Social Development Program in Malaysia**

In the 1970s, the resettlement of squatters in Kuala Lumpur gave rise to a series of public-sector and community initiatives. The Nadi (Malaysian for “pulse”) Social Development Program, which began in 1980, used an approach that was community-based, and involved interagency resource sharing. Agency programs reflected the new emphasis on the urban poor and community-scale operations.

The Social Development Division in the Federal administration became the focus of coordination of more than a dozen ministries and departments. The program worked through action committees operating in conjunction with local community leaders and organizations. The area-wide and client-oriented approach has required a reorientation in the structure and style of public-sector effort. The program has enhanced the quantity and quality of power supply, community health care, community centers, and vocational training. It shows how the government, with limited resources and staff, can provide services by coordinating various agencies and fostering organized community representation.

Source: United Nations Center for Human Settlements (1990).

In good partnerships, everybody gains. Trust and concerted effort by stakeholders helps each one to become more effective. The partners can then expand the area of activity and induct more people in a kind of multiplier effect. Private business benefits, too, from a better social image and increased worker support. Government agencies gain public credibility, and benefit from the social mobilization of the people for public goods like health and education and the extension of services to previously unserved areas in cost-effective and sustainable ways. The employees of the local government acquire new skills in working with the community. For poor people and grass-roots organizations, the experience of working with public and private agencies enhances their capacity to expand in other areas. (For example, a network of dairy cooperatives in Indian villages formed to help in milk collection and processing resulted in vastly improved sales, allowing the cooperatives to expand into many other areas of rural development, including literacy and health improvement.) The consumers can link up with consumer movements and form associations at the local and national levels to advocate consumer protection laws, e.g., those that prevent the sale of unsafe items.

The initiative to form partnerships need not always involve government. Community organizations, such as committees of slum dwellers or women's groups, could unite at the city level for advocacy and mutual support. They could also form networks with community organizations in other cities, as has been done in a number of Asian countries. NGOs and public institutions can facilitate the formation of these networks by providing information, training, and links to financial institutions, business, media, trade unions, and even international NGOs.

Co-production and Volunteer Work

Co-production means shared responsibility of government agencies and citizens groups in the design and implementation of services. The services at the local level could also be contracted out, as discussed in Chapter 13. Co-production helps to expand the scope of public services, to bridge gaps in provision, and to increase the responsiveness of government. It has been used to expand day-care services and to promote one-on-one literacy programs and family planning, among other support services. More importantly, like the entire concept of participation, co-production promotes responsible citizenship. It should, however, be seen as an effective complement to governmental efforts, rather than as a substitute, partly to reassure local government staff about the security of their jobs and hence to gain their cooperation.

Volunteers devote their time without compensation to assist in providing public services from which they do not benefit. In many countries, a growing elderly population provides a large pool from which to recruit volunteers, and the growth of public involvement has itself nurtured more volunteering. Volunteerism takes many forms; volunteers range from firefighters to old people assistance, participants in resident welfare organizations, etc.

Volunteers work in large numbers in the nonprofit sector (Chapter 15), but are also used directly in social mobilization or social service delivery programs of governments in many countries. In many provinces in India, retired professionals and civil servants donate their time to adult literacy programs, and for assisting rural elected councils in planning funding needs. The use of volunteers brings many of the gains possible with co-production, especially increased service levels at little additional cost to government. Also, the dedication of the volunteers can have a beneficial demonstration effect on the regular employees in the government organization.

To achieve these gains, however, managers must carefully structure and plan volunteer programs. They must ensure that the positions filled by volunteers complement rather than compete with regular positions; that the volunteers have the necessary skills; and that reasonable employee worries about volunteer involvement are resolved in time and the results communicated to the employees. Training must also be provided to volunteers to enable them to perform their roles adequately, such as the training given to local resource persons in India.

Role of Business and Local Leadership

Business can contribute to effective partnerships by management training for micro-enterprises, NGOs, and local authorities; employee volunteer programs; support for community projects; and cooperation with both government and nongovernment agencies in social development and environmental management.

There are good examples of private companies joining forces to mobilize local skills and resources, or to support specific activities related to education, health, environmental management, or slum improvement. Among these examples are the Brazilian coalition for child-friendly companies, the Jamaican coalition for access to information technology, and private encouragement of employee volunteerism in Colombia and Mexico.

Studies show that the towns that provide more efficient services are those where private business played a direct positive role in political life (as in the cities of Anand and Manipal in India). In developed countries, private business associations such as the Paris Chamber of Commerce can also perform a constructive role in partnerships for better service delivery (Box 14.5).

The creation of collaborative networks between business, government, education, and the community can sometimes generate a new type of leader, the *civic entrepreneur*, who combine entrepreneurship and civic virtue, and link community competencies with economic interests.⁴ They are neither opportunists nor philanthropists, but contribute time and talent to strengthen their communities. Civic entrepreneurs should be encouraged by being accorded recognition and opportunities for collaboration.

Box 14.5

The Paris Chamber of Commerce and Industry

The Paris Chamber of Commerce and Industry (CCIP) is a public corporation governed by a law of 1898. It was founded by Napoleon Bonaparte in 1803 to replace the old merchant corporations in Paris.

CCIP exists to:

- represent and defend the interests of all companies, trade, industry, and services before public authorities;
- train future technicians, managers and executives, and all working men and women;
- inform and advise companies on legal, social, fiscal, commercial and international issues, and support them at all stages of their development; and
- help in urban planning and infrastructure development in Paris and its region.

Funding for CCIP comes from the tax levied on companies and professionals in the district, operating revenues, and a mandatory tax on training levied on all companies. There are about 4,000 employees, 62 percent of whom work in educational activities.

Reference was made earlier to the possible resistance from local political leaders to participatory processes. In the building of partnership and trust, the elected local leaders can play a major role, as case studies of innovative mayors and public participation in a number of cities have shown.⁵ Mayors can champion the delivery of better services and mobilize public participation if the laws provide for predictability of tenure, real executive powers, and adequate revenue for local governments. A similar role can be taken by political leaders in district development councils in countries like India.

Role of Donor Agencies

Donor agencies should work together with governments to:

- identify pockets of social capital, and support them or at least take care not to destroy them through ill-considered assistance;
- use local-level participation to help design and deliver projects to the extent appropriate in each project. For example, a cooperative credit system may function more smoothly among women, who already

have traditional relationships and a history of working together to reach common goals;

- create an environment that enables social capital to thrive, by providing infrastructure to help people to communicate better, and promoting the rule of law;
- invest in social capital, directly and indirectly, through participatory project design and implementation, and through cross-sector partnerships for development;
- bring to the attention of governments the good and the bad experiences with participation in other countries; and
- facilitate positive linkages between different groups.

Nevertheless, in conclusion, neither constructive external assistance nor civil organizations can be responsible for effective and responsive delivery of public services. Active participation should not cause governments to lose sight of their responsibility to do so, or lead society to loosen up on holding government accountable.

KEY POINTS AND DIRECTIONS OF IMPROVEMENT

Key Points

The effectiveness of government and the vitality of the economy depend to a great extent on society's stock of *social capital*. Social capital refers to the reservoir of trust and cooperation habits that are generated by the functioning of voluntary networks of reciprocity—from trading associations to cooperatives, sports clubs, etc. Social capital is economically beneficial as it facilitates the transmission of information about others' behavior and about technology and markets, thus lowering transaction costs and encouraging collective action. A well-known example is the success of community-based microcredit, such as that provided by the Grameen Bank in Bangladesh.

Unlike physical capital, social capital grows the more it is used. However, the more greater cohesion within one group is used to the detriment of others, the impact on society as a whole may be negative, especially in religiously or ethnically diverse countries. Therefore, it is important for government not only to encourage networks of cooperation among citizens but also to foster positive linkages between different networks.

Government activities require the *participation* of stakeholders to succeed. Until recently, participation was conceived narrowly as feedback from public program beneficiaries to help in the implementation of the program. This remains an important component of participation, but the concept has expanded to include participation in the upstream phases of project selection and design. True synergy between government activity and citizens' involvement is achieved when the intended beneficiaries are encouraged to participate in choosing the activity and designing it, in addition to cooperating in its implementation and signaling problems or possibilities for improvement. A badly designed project cannot be implemented well, and strict implementation of a well-designed program that does not address the real needs of the intended beneficiaries is not a great advantage.

A variety of participatory structures and approaches have been developed in different countries, with some success in improving administrative effectiveness and reducing poverty. Care must be taken, however, to prevent participation from undercutting the responsibility of representative government and weakening its accountability. In addition, the participatory groups themselves should be accountable in some explicit and transparent form. Finally, it is essential to avoid the risk of "capture" by powerful elites, and to ensure that the poor and marginal groups are effectively included in the participation and feedback mechanisms.

The scope and range of participation can be enhanced by *partnership* between government agencies and civil society. Such partnerships go beyond the micro aspect of participation and address also the relationship between groups, thus helping to build social capital for society as a whole. A good public-private partnership must not only deliver the program or service efficiently in the first place, but also enable the beneficiaries to shape the project, and give voice to marginalized groups and minority interests. Private business, too, can contribute to successful partnerships for public service delivery and the development of social capital. Once again, it is important to protect against the risk that the initiatives only serve as a cover for vested interests or are subject to capture by powerful local groups.

Directions of Improvement

Because social capital, building reciprocal trust from voluntary associations, is important for economic development and effective public administration, governments in developing countries should encourage

voluntary networks of cooperation in all areas. This need not require vast resources. Sometimes, a public signal of encouragement from the government may be enough. Or, government may make simple facilities available to local communities and provide some access to information of common interest—the community groups will do the rest. (This approach resembles the site and services projects, which provide land clearing, road access, and utility connections for industrial zones.) Among the poor, however, voluntary cooperation requires more active government support to become sustainable.

Not all forms of social capital deserve support. Networks of cooperation founded on a principle of exclusion, or of active hostility toward other groups in society, must be guarded against, particularly in ethnically and religiously diverse societies. Also, to avoid eventual divergence between different groups, the spontaneous development of social capital within certain groups should be complemented by deliberate government encouragement and assistance to create linkages and positive interaction between groups.

Developing countries should similarly foster participation by citizens' groups in government programs. Reliable feedback on program implementation from the intended beneficiaries is needed. For this, it is important to provide adequate channels of communication and give sufficient encouragement and protection to "whistle-blowers." At the same time, it is necessary to ensure that the sample is representative of the beneficiary population and does not consist merely of those who respond first or loudest. Affirmative action to elicit feedback from the poor and marginalized groups is also important.

Governments also need to assess carefully the legitimacy of groups claiming rights of participation and make sure they are grassroots-based rather than being creations of special interests, mainly by canvassing local opinion on those groups.

Beyond feedback on program implementation, upstream participation in the selection and design of projects is important. Country circumstances will determine which of a variety of possible approaches is realistic and effective for this purpose. Concerning project and program selection, the first prerequisite for effective participation is a representative and responsive local government, prodded by an active local community. Concerning project and program design, a low-risk, low-cost variant of participation found useful

in many countries is the formation of a “beneficiary review group,” with the mandate to do its best to find fault with the proposed design and send the project back to the drawing board for improvement.

Participation fatigue is often a problem. When participation is undertaken for purely cosmetic reasons or in mechanical ways, or when the feedback is not seriously considered, participation fatigue is a rational response and a visible symptom that the participation approach was insincere or badly conceived. But even with the best intentions, initial enthusiasm in participation may wane if the foundation—social capital—is weak. Hence, social capital formation and participation should be conceived as complementary.

Mainstreaming participation is a long-term affair, which calls among other things for careful piloting. Because of the positive impact of one good participatory activity on others, governments should consult the local communities on the types of low-cost activities for which participatory approaches can be tested. For such sequencing, and in general, governments should follow four principles in their approaches to participation:

- *effective outreach* (tailoring the approach to the target population and the problem at hand);
- *equal access* (making it realistic and equally probable for large numbers of the target population to participate);
- *impact* (linking participation to significant policy decisions); and
- *actionability* (promoting the incorporation of the outcome of participation into actual government programs).

Donor agencies should work together with governments to:

- identify pockets of social capital and support them, or at least take care not to destroy them through ill-considered assistance programs;
- avoid creating patron-client relationships of dependence;
- create an environment that enables social capital to thrive, by providing simple facilities, channels of communication, and the lessons of good and bad experience in participation; and
- invest in social capital formation, directly and indirectly, through participatory project design and implementation and the facilitation of positive interaction between groups.

Nevertheless, active stakeholders' participation should not cause governments to lose sight of their primary responsibility to provide public services, or lead society to loosen up on its task of holding the government accountable for doing so.

NOTES

- ¹ This section has drawn on Bamberger (1986); Berry et al., in Perry (1989); Cernea (1992); Thomas (1995); and internal ADB memoranda and country profiles.
- ² This section has drawn partly on Bamberger (1986); Berry, Portney, and Thomson, in Perry (1989); World Bank (1997); and internal ADB memoranda and country papers.
- ³ This section has drawn partly on Fiszbein and Lowden (1999); Tandler (1997); Mccarney (1999); Berry, Portney, and Thomas, in Perry (1989); and Hino (1999).
- ⁴ Henton et al. (1997).
- ⁵ Campbell (1997).

Chapter 15

Civil Society and NonGovernment Organizations

Good government is no substitute for self-government.
—Mahatma Gandhi

CIVIL SOCIETY AND GOVERNANCE¹

“Civil society” fills the space between the individual and the government. Civil society comprises voluntary groups (organized or unorganized), interacting socially, politically, and economically for the common interest of their members (UNDP 1997). Civil society has historically grown around traditional associations and religious groups, and has been fostered by political, social, and religious protest movements in different countries. It now includes organizations as varied as trade unions, professional groups and clubs and civic groups, cooperatives, community organizations, citizens’ watchdog committees, human rights groups, tribal and other groups of indigenous population, and associations based on religion, gender, race, culture, and language. Civil society organizations can be intermediary or citizen-organized, are united by common needs, interests, values or traditions, and can be mobilized into many kinds of activity. A strong and active civil society is the foundation on which rest the four pillars of governance: transparency, accountability, participation, and the rule of law.

The idea of civil society as a corrective force to both arbitrary government and imperfect markets emerged in the 19th century. The impetus for better governance has come, more often than not, from grassroots movements in both urban and rural areas. Recent examples include the role of student protests in the 1960s in the United States (US) and Europe, citizen and youth protests in some Asian countries (e.g., Republic of Korea); movements organized around environmental and global issues, etc. Often

the root of such movements and organizations is a feeling of alienation and nonconsultation in the process leading to major decisions affecting the livelihood of people.

The transition from single-party to multi-party systems in many transition and developing countries has resulted in new, and often fragile, forms of representative government that are superimposed on the erstwhile colonial or authoritarian structures and have not yet taken root among the citizens. In such nations, civil society organizations play a critical role in countering arbitrary actions and consolidating the base of good governance.

Moreover, recent efforts to address social exclusion and a democratic deficit focus on the role of civil society organizations, use of volunteers, and partnerships. Democratic deficit involves the lack of voice to the people, beyond electoral franchise and periodic elections. Social exclusion refers to the marginalization of minorities, women, and weaker sections from the processes of policy making, local administration, and the delivery of services. Encouraging civil society organizations can, in time, help address both problems by fostering the involvement of people in specific activities of concern to them, and they create a new assertiveness and habit of participation (see Box 15.1 for an illustration).

Civil society should not be viewed as a benevolent homogeneous category. Civil society organizations can also include associations motivated by vice, greed, sectarian interests, ethnic hostility, and social repression, as well as various business lobbies, such as tobacco, which are not representative of the general public interest. As emphasized in the previous chapter, social capital also has an important downside. However, this chapter focuses on the positive forms of civil society.

Box 15.1
Involving Civil Society in Colombia

The national evaluation system of public management in Colombia, referred to as the SYNERGY, is intended to pull civil society into the process of improving public sector management. The requirement for national evaluation is spelled out in Article 343 of the national constitution. The Planning Department is required to define what role the civil society will play at every stage of the National Development Plan. Every presidential candidate has to register his or her intended program for the country, and the plan emanates from the program of the successful candidate. The elaboration of the plan is drawn on the basis of the advice of the National Planning Council (NPC), which represents all sections of civil society. NPC stands at the top of similar councils at territorial and local levels, and makes recommendations to the Government on the plan, based on the council's discussions with its lower level units. Thus, civil society is involved not only in the definition of the plan's objectives, but in defining its strategies, program implementation, and in evaluating the results, to check conformity with citizens' expectations at every stage. Inter-institutional working groups, called program management units (PMUs) at ministry level, bring together all the stakeholders for the purpose of harmonizing sector and national program goals. NPC is consulted on appropriate representation of different interests in PMUs.

Source: Pablo Abitbol, in Partnership. Economic Development Institute, World Bank, 1996.

TYPES OF CIVIL SOCIETY ORGANIZATIONS

Formal organizations, such as labor unions, adhere to codified rules and regulations governing organizational behavior. Informal organizations consist of groups of individuals, who cooperate in different ways for the benefit of their own communities, for collective action, financing, and the provision of goods and services, e.g., neighborhood committees and user groups of various types in areas such as irrigation, thrift, and credit. Cooperation in informal organizations could be short term and episodic, or long term. Community or grassroots organizations in different forms straddle the formal/informal division.

Informal organizations also include the slums and squatter associations, informal schools, local security committees, waste-pickers, and informal systems of transport. These informal activities and groupings account for a large proportion of service provision in housing, transport, sanitation, electric supply, health clinics, etc. in cities in developing countries (as much as 90 percent in Lima, Peru, for example). They fill the void left by the inability

of the formal system to meet the needs of poor and marginal groups (McCarney 1999).

Civil society organizations can also be distinguished between primary organizations and “apex” organizations. Individual primary organizations can join one another into regional and national umbrella organizations, networks, or coalitions, in order to gain strength, share experiences, provide support services, overcome isolation, and secure identity vis-à-vis donor agencies and national governments.

Trade Unions

It is appropriate to consider *public sector unions* as civil society associations with a positive potential role in policy and program implementation, instead of the conventional view of these unions as adversarial actors, with a capacity for disrupting work in public services (Tendler 1997). This has been demonstrated in the case of a number of social sector programs in Asia and Latin America. The reform program in transitional economies of Eastern Europe, such as Romania, has included strategies for enhancing the participation of trade unions and professional associations in the restructuring of government branches, drafting of legislation, and wage protocols (Ianescu 1996). In any event, as discussed in Chapter 13, lack of appropriate participation by the relevant stakeholders almost invariably slows down and often destroys effective implementation.

Educational Institutions

Universities and academic institutions can perform useful civic roles individually, or in partnership with other organizations. Universities can reach out for key roles in the administrative innovation process of the region, baseline surveys in poverty reduction programs, and the spread of extension services to the people (as in the Philippines). Universities can also collaborate with business and government in addressing skill shortages, especially in information technology, and help with retraining of redundant employees. They can also help in the process of community learning in collaboration with nongovernment organizations (NGOs) and perform a variety of other public service functions (see Box 15.2 for an illustration). Unfortunately, civil society functions are not being performed by universities in most developing countries, partly because of their internal problems, and partly because of their insulation from the broader society. Their potential contribution deserves to be explored more systematically in most developing countries.

Box 15.2

A Public Organization in the Market Place

The School of Public Policy at the University of Birmingham in England is an entirely self-financed organization that receives no public subsidy and sells its services, but works for and with the public sector. Of 90 academic staff, 20 are members of its International Development Department (IDD), which offers postgraduate programs, training courses, and research and advisory services to transitional and developing countries.

When the School of Public Policy was created in 1964, it focused on mature students, mainly practicing public officials. Normal university finance, oriented mainly to undergraduates, could not be used, and alternative sources of funding had to be found. Hence, IDD and the School as a whole have had to conform to two imperatives, one market-based and the other professional.

First, IDD has to pay its full costs, and “full” really means full. Each department of the School operates as a budget center, balancing its own expenditure against its income. Every square meter of its building, its telephone and heating services, and the university’s facilities and services are paid for in an overhead charge. Staff and salary and social costs also have to be covered. The net effect is that members of staff are expected to demonstrate that they earn around two and half times their salary.

Second, the department has to demonstrate that it is a worthy member of the academic community, based on high independent ratings of both its research and its teaching. The direct payment is made by the governments, donor organizations, nongovernment organizations, and individuals who commission our services as teachers, consultants, or researchers. Who else pays? Staff also pay a price; they see university colleagues in ordinary departments having an easier life; they see that private consultancy organizations with lower overhead costs pay their staff more.

Who benefits? What clients get is a responsive provider of the service they want. IDD has to be responsive because it could not survive if it did not provide the service that clients. Clients know that IDD not only teaches organizational effectiveness but also has to practice it; that the department is profit-making unlike its consultant competitors; and that the department carries the intellectual guarantee of being part of a university. Staff also benefit by having considerable influence over the activities of the organization, managing their own future, and obtaining much more varied experience than the typical academic or consultant.

continued on next page

Box 15.2 (cont'd.)

The difficulty is to manage such an organization within the constraints of both a university and of academic individualism. The organization cannot use the incentives and sanctions of the business manager—as pay levels, hire and fire procedures are governed by university-wide requirements. Organizational effectiveness therefore depends on the goodwill, energy, and mutual support of staff, and on the shared pride in winning business and influence.

Is this a model for emulation within the public service? It depends on existence of a broad market to which services can be sold, and can only work in a small organization where team spirit can be combined with a direct personal sense of responsibility for the survival of the whole. However, this experience does show that market pressures can be harnessed to the public service, and in this sense fulfill a civil society role.

Source: Richard Batley, Professor of Development Administration and Director of the International Development Department, University of Birmingham.

The Judiciary

The judiciary has indirectly become part of civil society in a number of countries. Civil society institutions have made innovative use of judicial mechanisms, for seeking effective redress of complaints, or for directing the executive to attend to improper acts of commission and omission. Sometimes, the judiciary itself also acts proactively to deal with issues of social injustice and discrimination, corruption, and nonperformance by the executive. Public interest litigation has encompassed wider issues like the condition of schools and hospitals, environmental quality, consumer rights, and violation of safe building practices. However, public interest litigation is no substitute for basic changes in governance practices and attitudes.

Grassroots Organizations and Traditional Structures

Most intermediary civil society organizations are one step removed from ordinary citizens. By contrast, *grassroots organizations*, e.g., the rotating credit associations in Africa and other regions, farmers' associations, workers' cooperatives, parent-teacher associations, and religious associations deal with the people directly. Such organizations build trust, reduce the alienation of ethnic minorities and socially disadvantaged groups, and counter the elitist orientation of many government agencies. However, they tend to face problems of narrow membership, low management capacity, and the

risk of takeover by traditional wielders of power. Many countries like India and the Philippines have initiated steps to incorporate community-based organizations into the decentralized administrative structures, either as tiers of government, or in systems of mandatory consultation. The role of customary institutions should not be overlooked either (Box 15.3).

Box 15.3

Traditional Institutions of Civil Society in the Pacific Islands

The institutions of civil society in the Pacific Islands include persons of chiefly rank, with customary titles and some form of traditional authority, along with the Christian churches and other religious organizations, trade unions, small business associations, women's groups, and nongovernment organizations. Community leadership in urban settlements often reflects the structure of the villages from which the town dwellers originate. People move easily between kin-group settlements in town and village, and similar authority systems operate, although modified by the urban environment.

Traditional chiefs and the churches are supposed to be the keepers of the ethical standards of society. They are able, by mobilizing their followers, to give or withhold political support or access to resources, which government and business require to survive. Therefore, traditional chiefs can have powerful growth-supporting and redistributive roles; but their contribution has been erratic, and many have been bought off by politicians or dealmakers.

In practice, institutions and individuals in Melanesia have multiple roles, in what is called the "wantok" system. Governments and churches are involved in business; churches provide public goods; trade unions run investment funds; individuals function simultaneously as elected politicians and ordained priests; civil servants and entrepreneurs; army officers and traditional chiefs; or some other combination of roles, which blurs the lines between government, business, and civil society. These multiple roles explain why the norms applying to any one role can be infringed with no apparent sense of wrong-doing. They also make it difficult to enforce accountability and prevent diversion of public funds to private pockets.

Source: Knapman and Saldanha (1998).

It is necessary to consider also citizen groups that resort to administrative lobbying, often in adversarial relation with business. The need to counterbalance the vast power and influence of business lobbies (e.g., in the US, the sugar lobby, or the gun lobby led by the National Rifle Association) has led to calls for citizen participation programs in many cities.

Public interest lobbies have played a major role in developed countries in the enactment of regulatory legislation and consumer protection laws. Right to information campaigns, as in India, have pushed hard for the disclosure of public records. Citizen advocacy has led to the closure or shifting of polluting factories. Such advocacy tends to focus on visible issues, which can bring together large numbers of citizens. However, it also tends to be ad hoc and reactive, not sustainable over long periods, and, of course, unable to cover a broad spectrum of issues, due to inadequate resources and managerial skills.

Cooperatives

Cooperatives are an important part of civil society in most countries, and fall in between grassroots organizations and larger organized groups. Cooperatives have legally defined structures and membership, and are often federated into regional and national organizations. Starting with rural areas, in many countries cooperatives extended their reach to urban areas, and there was a tremendous growth of housing associations, cooperatives for landowners as well as tenants, industrial cooperatives, cooperative finance organizations, and various forms of production cooperatives. Credit cooperatives in rural areas provide also agricultural inputs, marketing, processing, and warehousing. Cooperatives of milk producers have been responsible for a dairy revolution and rural prosperity in a number of provinces in India. Cooperatives have entered areas of agro-industry like sugar and oilseeds.

Cooperatives are often subject to government control in developing countries, and tied to government funding. There has been a tendency in some countries to co-opt the cooperatives as an extension of government machinery, instead of protecting their independence. Cooperatives have also become the subject of manipulation by powerful political interests in some countries. By contrast, in many cities of the developing world, other cooperatives are extending downwards to reach the lower income groups and slum dwellers, and use the support of formal finance institutions to build cooperative ownership and management of shelter and other activities. Government support for cooperatives can be constructive, but should be limited and avoid interference, lest the cooperative's utility as a part of civil society be destroyed.

Nongovernment Organizations

The term “nongovernment organization” (NGO) is broad and ambiguous, as it covers by definition a variety of different entities with different purposes. Generally, however, the term “NGO” has come to be understood as comprising only organizations with a public interest orientation (as opposed, for example, to a trade union or a cooperative, which provides services limited to its members). NGOs are, of course, part of civil society. However, because NGOs in the above sense have become a major interlocutor and partner for governments and international agencies in many countries, their role and capabilities merit separate discussion.

THE NATURE, EVOLUTION, AND ROLE OF NGOS²

Evolution of NGOs

NGOs are described variously as private voluntary organizations, nonprofit organizations, or voluntary development organizations. As usually understood, NGOs possess four defining characteristics: they are voluntary, independent, nonprofit, and aim to improve the circumstances of disadvantaged people or address broad public problems, such as environmental protection. NGOs act on issues related to the public interest, and not to the sectional interests of members. Over the past 50 years, NGOs have emerged as a major rallying point and lobby for development and for social concerns at the domestic and global level, and for representation of civil society in various forums. A significant role for NGOs was incorporated in global summits on population, habitat and the environment, women’s development, and AIDS, and the Asian Development Bank, World Bank, and other international organizations have made major outreach efforts in recent years.

Apart from the factors leading to growth of civil society in general, the growth of the NGO in recent years has also coincided with concerns about big government and the need for alternative modes of service delivery. The growing exclusion of the weaker groups from development and political processes has led to a new emphasis on NGOs in many countries. However, there are political misgivings as well, and in some cases decided antagonism, about the role of NGOs and especially the large international ones. This is due to the political activism of NGOs in some cases, but also to suspicions regarding the agenda of foreign donors supporting them, and to legitimate concerns about NGO accountability.

The NGO sector in many countries has dramatically expanded not merely in number but also in diversity and types of activities. A few numbers will help illustrate. In Europe and the former Soviet Union, the number of NGOs has at least tripled compared to 1989 (World Bank 1997). India alone has over a million registered NGOs. The large NGOs in Bangladesh employ over 50,000 personnel. In some developed countries, expenditures by NGOs account for almost 4 percent of gross domestic product. Over 20 percent of official aid is channeled through NGOs, and NGO coalitions have observer status in conferences of United Nations bodies (Hailey 1999).

NGO work spans the whole spectrum of human needs and endeavor—health, education, rural and urban development, environment, population, social welfare, employment creation, training, gender, the informal sector, indigenous people rights, peace, and human rights. Their activities range from care and welfare provision to service delivery, resource mobilization, research and innovation, public information, and advocacy.

NGOs can vary widely in size, staff, resources, and type of activities. However, even the largest local NGOs, in countries like India, are small and localized relative to the reach of government or big business.

As distinction is sometimes made between developmental NGOs and the other organizations. Developmental NGOs include organizations formed to agitate for government action to meet local needs for infrastructure and social services; groups committed to securing through group action economic and social benefits for citizens, such as improved land tenure and land redistribution; and those directly involved in community activities or production.

There is also a distinction between advocacy-oriented and service-oriented NGOs. Advocacy groups are concerned primarily with influencing public policy and development. They devote themselves to social mobilization, self-help, and usually some aspect of community organizing. Service-oriented NGOs emphasize actual provision of services. Generally, advocacy NGOs tend to disband after specific goals are achieved, while service NGOs are on the whole more permanent. However, an organization can change and take on different roles. Advocacy groups sometimes mutate into service providers. Advocacy NGOs are more prevalent in developed countries, where public services are reasonably well-covered. Whistle-blower NGOs partake of both the advocacy and the service function, by investigating the efficiency of local services and investment projects, and

publicizing instances of waste, fraud, and abuse. They have been effective in several developing countries, e.g., the Philippines.

NGOs can be project NGOs, national NGOs, umbrella or network NGOs, and international NGOs. NGOs with an umbrella role, such as the Self-Employed Women's Association of India, not only perform the functions of traditional grassroots organizations but also provide networking and support services for other volunteer organizations. A number of NGOs seek a role as intermediate and support organizations at the national and regional levels to provide support and services to people's organizations.

Many international NGOs, such as the Red Cross, Save the Children, Oxfam, CARE, etc., have substantial resources, political support from within developed countries, and enjoy high standing. They in turn support networks of national NGOs engaged in similar activities, and link up with NGOs from developing countries through funding, operational links, partnerships on specific issues, and networks.

The diversity of NGOs accounts for the diverse legal forms. For example, NGOs that are sponsored by the government could have a structure and membership pattern that is imposed from above, and government appointees could sit on their management board. Even spontaneous associations need to conform to a specific legal structure, for accountability and audit purposes. This is especially necessary if the organization seeks to secure funding from domestic or foreign sources. Some NGOs affiliate themselves with parent NGOs with a clear legal structure, while remaining as loose community organizations in the field.

The membership of NGOs can be drawn from a specific group like farmers or milk producers or construction labor, or can be broad-based, within a locality or region. The procedures for membership can be formal, involving eligibility criteria and limiting the size of the membership, or informal. In most cases, membership carries a fee to cover organizational expenses.

The Potential and Limits of NGOs

The great diversity of NGOs, described above, makes generalizations very difficult. However, NGOs in both developed and developing countries are being challenged to address issues concerning their accountability, transparency, and representativeness. The debate has grown both because

of the questioning by the NGOs themselves of integrity and accountability in government, and instances of misuse of funds even by established NGOs in many countries. Accountability, through arrangements for registration and reporting to government agencies, is often poorly enforced. Private NGOs can be accountable to nobody but themselves, and even participatory NGOs can sometimes turn out to be privately controlled (or to be in effect arms of government). In addition to issues of accountability and representativeness, observers have pointed out other common problems of NGOs: bureaucratic tendencies, wasteful duplication, excessively narrow issue advocacy, closed decision-making processes, top-down management, paternalistic attitudes, and others.

To address such doubts, NGOs in many countries are instituting various measures to improve their governance and operations (Box 15.4). These measures include: clearer statements of goals; stricter management and financial processes; equal opportunities for men and women at all levels of the organization; better procedures for human resource development; better monitoring and evaluation of the organization's activities; greater access to information; and closer networking among NGOs.

NGOs have a potential to help make government services more effective by objectively and openly identifying target groups, facilitating their access to services, and coordinating the delivery of inputs from various agencies. They can help mobilize resources from the local population by relating the process to perceived outcomes and to social pressures for participation. Finally, NGOs are expected to provide checks and balances on the abuse of power at different levels, and to offer avenues for public hearings. Good government needs strong organizations between itself and the individual citizens; and the poor and disadvantaged need the crucial additional advocacy and support that only a committed and effective NGOs can provide.

On balance, the substantial support for NGOs among many governments and donor agencies is amply justified. It rests on the broad perception that NGOs represent a force toward active and pluralist civil society; have particular strengths in poverty alleviation and sustainable development; and offer the prospect of more efficient public service delivery. NGOs have created or implemented new models of partnership between government and civil society.

Box 15.4
A Code of Conduct for NGOs?

The UK Foreign Policy Centre warned that advocacy nongovernment organizations (NGOs) must open up to public scrutiny to retain their credibility. Various recent events, particularly the riots in Seattle against the World Trade Organization (WTO), have generated new demands on NGOs themselves to become more accountable. The centre advocates the formulation of a code of conduct for NGOs and a program of self-regulation with external verification. According to the proposal, NGOs would be certified by a regulatory body and commit to certain standards of accountability, transparency, and internal democracy.

A similar system has been operating with some success in the Philippines, where the Philippine Council for NGO Certification is the umbrella group that can recommend withdrawal of recognition for organizations that violate accountability or other basic standards of conduct.

The quid pro quo of such certification would be enhanced access to the deliberations of governmental bodies (internally) and, for international NGOs, some appropriate participation to the deliberations of international organizations such as the International Monetary Fund, World Bank, WTO, Asian Development Bank, etc.

Source: Financial Times, June 19, 2000.

The Picture in Developing Countries

The potential of NGOs, mentioned above, has not been fully realized in many developing countries. In most of these countries, NGOs are small in scale and work only in areas that government and private providers hardly reach, if at all. Box 15.5 illustrates the situation in Asia, where most NGOs are of the nonmembership type.

Some developing countries consciously emphasize the mass base of NGOs and support for participatory structures. With this in mind, NGOs in those countries assist in training and project implementation (as in Kandy, Sri Lanka); provide technical inputs for community mobilization and planning (as in the Kampung Improvement Project in Indonesia); and coordinate the implementation of social sector programs at the regional or national level, if substantial mobilization of the people is involved (as in the mass literacy movement in Kerala, India).

Box 15.5
NGOs in Asia—Some Illustrations

India has large national nongovernment organizations (NGOs) operating in a single state, in a few districts, or in only a few villages. Foreign NGOs have varied roles: they support and fund national NGOs, or have networks with local NGOs, or operate directly in a few localities.

In the Philippines, NGOs generally work to address the needs of disadvantaged groups through development activities. People's organizations of forest dwellers, farmers, etc., are organized by the members themselves for community activities, and are, in some cases, assisted by NGOs. There is an extensive network of coalitions and umbrella groupings based on issues such as health and land reform. NGOs were instrumental in the downfall of the Marcos regime and may have taken on essential roles as whistleblowers and development watchmen.

In contrast, although Bangladesh has an extremely large NGO sector, the proliferation of NGOs has not led to effective mechanisms for cooperation among them.

In Thailand, cultural and religious traditions have shaped the NGO movement.

NGOs in Asia work in three broad categories of political space. Some work in an environment of political repression, as in the Philippines during the martial law regime and Indonesia until 1998. Others deal with nonantagonistic but bureaucratic government under stable but unrepresentative conditions. Still other NGOs function in conditions of relative democracy, as in Bangladesh, India, Nepal, and Philippines. The challenge in all cases is to build accountability into NGOs and make them more responsive to the demands of the poor.

Source: Farrington, Lewis, and Satish (1993); World Bank (1997).

Activist NGOs have often been reluctant to step into areas of service delivery with government funding, to act as agents of public agencies, or to accept grants to meet staff and overhead costs. They see such involvement as compromising their ability to exert pressure on government from the outside and perform their legitimate role on behalf of civil society. These concerns are entirely legitimate. Yet much productive potential lies in government-NGO or donor-NGO collaboration. One mechanism worth considering is the system of NGO funding in Denmark and the Netherlands, where NGOs gain access to unconditional grants according to transparent

criteria, without having to bid for contracts. This is one way in which NGOs can maintain their independence while assisting government in areas where they have definite advantages. Or, as in the Philippine health program, the NGOs may even offer to assist in mobilizing and supporting communities for no payment, as long as they receive government help in the form of equipment and transport.

In contrast to their service delivery role, some NGOs are emerging as entrepreneurs, in the course of delivering social and economic services. Examples are the Grameen Bank in Bangladesh, the Sulabh International of India (for low-cost sanitation and community latrines), and the low-income housing foundations in a number of Latin American countries. In many cities in Latin America, autonomous nonprofit corporations are entrusted with the implementation of public works programs. The NGOs are contracted by national and local governments to deliver social services, to channel loans to target groups, and to provide training. In many developing countries they are also associated with the operations of social funds, established at national level for lending in areas such as women's development, nutrition, literacy, and needy children. This business role of NGOs and their ability to attract donor funding without bids often draw complaints from business, apprehensive about the prospect of business units masquerading as NGOs.

RELATIONSHIP BETWEEN GOVERNMENTS AND DONOR AGENCIES AND THE NGOs³

Nature of the Relationship

The overall trend in government-NGO collaboration is the model of negotiated relationships, which call for mutual adjustment. These relationships encompass service delivery and resource mobilization as well as activities to bring about broader social and economic change. Government-NGO relationships of the latter kind are often financed through grants.

Government-NGO relationships involving contracted service delivery and resource mobilization entail five types of partnerships. First, NGOs help in mobilizing the community, introducing participatory approaches, forming and supporting community organizations, and organizing user networks. In the second type, NGOs facilitate large government programs, such as the community mortgage program in the Philippines, the Reinsertion

Program in Colombia, the Build Together project in Mozambique, etc. Such facilitation can encompass a variety of roles from conducting beneficiary surveys, training, and evaluation. The third type consists of alternate delivery system such as the communities program in Brazil, the urban community development organization in Thailand, and the health project in Addis Ababa. The fourth type is partnership for policy and program formulation, such as the People's Dialogue in South Africa. Finally, there can be a continuing government-NGO dialogue on policy or program issues.

When government agencies entrust substantial responsibilities to the NGOs under multiple programs, some problems often arise. First, not all NGOs have the time and expertise to manage the funded services, and to ensure the delivery of services with full community involvement. Sometimes, the problem is on the government side, when too many government organizations try to deal with NGOs, often with disparate guidelines and inadequate communications. In remote areas, government staff are not well-informed about government policies and the latest instructions. As a result, relations between government and the NGO may be excellent at the level of the national ministries, but tense and conflict-prone at the local level. The reverse can also happen, with good relations at local level and misunderstanding at the center. Either way, government-NGO collaboration is hampered by mistrust and lack of coordination.

Very little support from donors or government is available for NGOs to build their own capacities. Governments do not often pause to look at the long-term effects of service delivery arrangements on the viability and service commitment of NGOs. NGOs may feel that government involvement destroy the innovative and responsive element of the projects. Each side may feel that the other side is secretive or uncooperative. Regular communication between the government and NGOs in common fora would help to address these mutual suspicions and threats.

The Need for Caution in Supporting NGOs

External funding agencies, including major international foundations, have supported many NGO initiatives and partnerships in developing countries, partly because of a justified belief that NGOs can be more efficient than government agencies for service delivery to the poor. Donor agency involvement, however, has sometimes also led to distortion and to determining the activities of NGOs by donor preferences rather than by community needs. Moreover, some donors have to exert pressure on the

host government to channel aid funds through NGOs, without ensuring that a credible system for enforcing NGO accountability and transparency is in place. Donor funding may also hamper NGOs from evolving priorities and programs consistent with their own analysis of local conditions; encourages the rise of fraudulent NGOs while leaving smaller NGOs at a disadvantage; and fosters competition among NGOs and discourages networking.

Governments and donor agencies must be especially cautious in distinguishing genuine and committed NGOs from bogus organizations formed exclusively to attract a share of the money. This is a persistent problem for governments in developing and transitional economies that wish to support the NGO movement. In addition, apparent NGOs may simply be proxies for the government itself or individual corrupt officials. Regrettably, media exposés or inquiry reports about the misuse of funds by certain NGOs tend to discredit the entire movement.

In countries with mushrooming NGOs, governments should first do a quick survey of existing NGOs, to identify those with transparent governance on the basis of criteria such as an elected board of competent persons, prudent financial management, audited and published accounts, membership in an NGO coalition, and, especially, established reputation among grassroots organizations and peer agencies. (This survey will also bring out the multiplicity of NGO types and involvement at the national and local level.)

The evidence from a variety of projects in most developing countries indicates the functional complementarity of government organizations and NGOs: up to a point, each can learn from and support the other (Farrington and Lewis 1993). The interaction between the two is bound to be dynamic and complex, however. It may take several years to dissipate mutual suspicion and build mutual trust and confidence, which is a precondition to formal collaboration. The differences between the macro perspective of government and the micro perspective of NGOs can be explained and partly reconciled through constructive dialogue.

Areas of Collaboration Between Governments and NGOs

Notwithstanding the above cautions, governments in developing countries can build mutual trust and closer links with NGOs in several ways. Governments can build their capacity to identify the NGOs that

possess development credentials, through transparent and well-understood criteria. Government at different levels could address the legal and regulatory constraints facing NGOs, reduce restrictive and arbitrary bureaucratic practices, and ensure consistency across sector ministries in their guidelines for NGOs. Governments could assist NGO coalitions in maintaining a database of NGOs, and operate guidance systems for small NGOs to help them gain access to resources, as in Mexico. To avoid bidding and negotiation, governments could also earmark funds for NGO activities, as in the Netherlands. Finally, they could provide assistance for NGO capacity building in various programs including service delivery and support to micro enterprises. In all these efforts, however, it must be kept in mind not to overload NGOs with the basic responsibility for public services, and undercut their independent capacity to mobilize resources. Examples of good cooperation are summarized in Box 15.6.

Box 15.6

Examples of Successful Government-NGO Cooperation in Bangladesh

Palli Karma Shahayak Foundation (PKSF)

The PKSF is an apex financial institution that channels budgetary funds to nongovernment organizations (NGOs) for income-generating credit programs for the poor. Established in 1990, it has so far disbursed funds to 110 NGOs, which in turn have financed about 250,000 poor people. Of the over 900 NGOs that applied to the foundation, only 110 were selected, and the repayment rate is close to 100 percent. This success is due mainly to the following:

- *An independent and professional board.* PKSF's board comprises eminent and qualified professionals mainly from the private sector.
- *Sound recruitment practices.* The large majority of PKSF's professional staff have been recruited through competition.
- *Autonomous character.* The PKSF board has full autonomy in recruitment, operating policies, and salaries that are much higher than those in government, enhancing the foundation's ability to hire good staff.
- *Clear mandate.* PKSF has a very clear mandate, which has led to a strong sense of organizational commitment.

Water and Sanitation Sector

Government-NGO collaboration in this area is an example of how local and foreign NGOs have helped improve the access of the poor to water and

continued on next page

Box 15.6 (cont'd.)

sanitation facilities. In 1980–1981, sanitation coverage was about 2 percent, and NGO intervention in the sector was unsatisfactory. Since then, coverage was increased to 35 percent in 1995. Tubewell coverage has similarly increased over the past decade. Ninety-six percent of the population now use tubewells for drinking water. During the last decade the NGOs, under the aegis of an umbrella body, the NGO Forum, have made significant progress in extending safe water and sanitation facilities to 8.5 million people in rural Bangladesh. They have installed as many as 100,000 tubewells in remote rural and peri-urban areas, and set up two million latrines in rural areas and fringes of the country, largely without financial or institutional support from the Government. Recognizing their contribution, the Government provided them with additional funding, which permitted installing an additional two million latrines in six months, compared with the capacity of the Department of Public Health and Engineering of only about 100,000 a year. The NGOs also brought about a policy change. Under the Government's own program, beneficiaries are provided latrines at a subsidized rate of Tk400, involving a subsidy of about Tk250. NGOs, however, charge a full price of about Tk600, viewing the subsidy as unnecessary and uneconomical.

Source: World Bank (1996b).

There is much that NGOs themselves need to do in order to improve their capacity to assist communities and to engage in effective partnerships with government and other stakeholders.

- NGOs should not automatically assume that all government agencies are threats to their independence;
- should recognize that the citizens' interests are paramount in forming partnerships with them, directly or along with government;
- should address problems of poor communication and linkages among themselves, the attitude of mutual suspicion and distrust of public agencies, and the public perception of nontransparency and lack of accountability for the use of funds;
- like architects and other professionals, NGOs could be encouraged to adopt self-regulation (as in the Philippines where there is a code of conduct for NGOs); and
- should not allow their increasing service role to undermine their equally critical role of advocacy and empowerment.

While NGOs are not designed to be alternatives to government, their role is to build pressure to keep governments honest, open, and responsible. NGOs also have much to learn from each other, and should support the smaller NGOs, through coalitions and umbrella organizations of the type seen in South and East Asia.

KEY POINTS AND DIRECTIONS OF IMPROVEMENT

Key Points

“Civil society” fills the space between the individual and the state, and comprises voluntary groups and associations of all kinds—professional, religious, cultural, etc. A strong and active civil society is the foundation for good governance, providing contestability for the government, productive relationships among people, opportunities to influence policy, advocacy for the poor, and mechanisms for participation. Civil society organizations, however, are not necessarily intended to act in the public interest, and also include associations and lobbies formed for sectarian or vested business interests.

Civil society organizations can be formal (e.g., trade unions) and governed by codified rules, or informal (e.g., squatters’ associations). Among *formal institutions*, public employees’ unions are sometimes viewed as inimical to reform, but instead can often help foster administrative effectiveness. Educational institutions, too, can perform useful civic roles, e.g., in retraining redundant government employees. In some developed countries, the judiciary system has been brought into civil society by public-interest litigation, and citizens’ groups have emerged to counterbalance the influence of business lobbies. Cooperatives can play a constructive role as well, provided that they are not co-opted to become in effect agents of the state. *Informal institutions* are especially important in building trust at the local level and empowering disadvantaged groups. Unfortunately, they suffer from problems of chronic mismanagement and fluctuating participation and, when successful, are constantly in danger of capture by influential elites.

NGOs are frequently identified with civil society and, like all other civil society organizations, they are voluntary and independent of government. However, unlike the other organizations that act to protect the interests of their members, NGOs are intended to help disadvantaged people or address broad public problems or both. In the last decade, NGOs have expanded substantially (they now channel over 20 percent of all official

aid), mainly because of widespread concerns about big government, the search for alternative modes of service delivery, the shift to poverty reduction as the key goal of international aid, and the need to address the exclusion of minorities and weaker groups.

NGOs vary widely in mandate, size, and resources. The main distinctions are between advocacy NGOs (concerned with influencing public policy) and service NGOs (concerned with social service delivery, and generally more permanent), and between international NGOs (e.g., Save the Children) with large resources and political influence, and national or local NGOs. Even the largest national NGOs in developing countries cannot match the resources and reach of government and big business. However, international NGOs typically link up with national NGOs through funding and partnerships.

NGOs can help make government services more effective; mobilize local resources; provide checks and balances on the use of government power; and give the poor and disadvantaged the special advocacy they need. On the other hand, NGOs can also suffer from loose accountability, narrow perspective, opaque decision making, top-down management, and other problems. On balance, the substantial support for NGOs from government and donors has been amply justified, but is in danger of eroding unless these issues are credibly addressed (as many NGOs are currently doing).

NGO collaboration with government and donors can be helpful to both sides, but requires attention to several issues. On the NGO side, limited management capacity and dispersal of attention can compromise their effectiveness in service delivery. On the government side, too many actors are frequently involved, and coordination between central ministries and their local staff can be weak. Financial support from donor organizations has been important, but in some cases it has distorted the priorities of the NGOs themselves, and in other cases it has gone to NGOs created solely to get the money or to NGOs that were in effect proxies for the recipient government itself. Nevertheless, collaboration with NGOs has been effective on balance, and can expand much more, provided that the practical issues are carefully managed.

Directions of Improvement

Active civil society organizations strengthen the interface between the citizens and their government and are thus important both for the quality

of governance and for improvements in public services. General directions of reform especially relevant for public administration include:

- strengthening the roles of formal civil society organizations, e.g., by involving educational institutions in retraining and other implications of administrative change, or by attempting to relate to public employee unions as a constructive agent of change rather than an adversary;
- supporting grass-roots organizations, e.g., farmers' groups and neighborhood groups, by strengthening their management capacity and protecting them from capture by local vested interests;
- encouraging the growth and efforts of informal voluntary groups, which are particularly important for the poor and disadvantaged;
- recognizing the roles of traditional customary institutions; and
- facilitating the emergence of public interest citizens' groups to counterbalance organized business lobbies.

In particular, governments in most developing countries should improve their relations with NGOs, which are not only voluntary and independent like other civil society organizations, but also nonprofit and public-interest oriented. Most developing countries have not yet realized the potential of NGOs to prod public administration effectiveness, mobilize local resources, provide checks and balances on the use of government power, and give the poor and disadvantaged the special advocacy they need.

The generic requirements for improved relations with advocacy NGOs are open channels of communications and the willingness to listen to diverse points of view. And service NGOs can help considerably in the design of government programs and the delivery of public services. It is especially important in this context to encourage and be responsive to whistle-blower NGOs, which investigate the efficiency and integrity of local services and investment projects.

NGOs, for their part, also need improvement in certain respects. They should be:

- accountable for the use of funds and the effectiveness of their operations;
- more flexible and cost-conscious in their procedures;
- more willing to recognize a wider range of viewpoints;
- more participatory and bottom-up in their management style; and
- more willing to network with other NGOs.

NGOs can be excellent partners for government, particularly vis-à-vis the poorer and marginal groups, mainly by:

- mobilizing the community and introducing participatory approaches;
- facilitating large government programs;
- running alternative service delivery systems;
- contributing to government program and project formulation; and
- participating in dialogues on policy issues.

Financial support from government and, equally significant, assistance in building up the NGO's management and operational capacity are important, but the organization must be careful not to allow such support to weaken its independence, critical attitude, or capacity to exert pressure on the government. Similarly, donor support should not distort the mission and mandate of the NGO, and partnership with a large international NGO should always leave the local NGO stronger rather than more dependent. Developing countries should therefore explore neutral funding mechanisms such as those developed in Denmark and the Netherlands, whereby NGOs gain access to unconditional government grants on the basis of transparent criteria, without having to bid for contracts. (Donors should consider providing external assistance for such funding.)

On the other hand, government and donors, too, should be careful in their dealings with NGOs, and not inadvertently support NGOs created solely to benefit from public funds or to provide a cover for vested interests. External donors should, in addition, be mindful of the possibility that an NGO may in fact be a proxy for the host government or public agency. For this purpose, it is advisable to conduct and keep up to date a survey of NGOs, to identify those with:

- transparent governance;
- prudent financial management;
- audited and published accounts; and especially
- established reputation among grassroots organizations and peer agencies.

NOTES

- ¹ This section is drawn from United Nations Development Programme (UNDP) (1997), World Bank website on civil society; the British Council published data on civil society, Public Affairs Center (1999), Mehta (1997), World Bank (1997), Pope, ed. (1996), and Robinson and White (1997).
- ² This section is drawn from Farrington, et. al. (1993) and Commonwealth Foundation (1996).
- ³ This section was drawn mainly from ADB and World Bank project profiles; Internal ADB memoranda and country reports; Farrington, et. al. (1993); and the UNDP *Human Development Report* (1997).

Chapter 16

Transparency, Information, and the Role of the Media

Sunshine kills germs. —Anonymous

TRANSPARENCY IN PUBLIC ADMINISTRATION

Neither voice nor exit mechanisms can operate if the people do not have the relevant information. When the public does not know who makes administrative decisions and how, its only voice will be through anomic public protests. And if deprived of access to information about public service delivery, the citizens will withdraw completely from public provision. As emphasized throughout this book, transparency is one of the four pillars of good governance, and information is the lifeblood of efficient economic activity as well as of a good relationship between a people and their government.

Transparency in public administration means that relevant information is made available to the general public in usable form, and that government regulations and decisions are clear and adequately disseminated. Transparency is a prerequisite for genuine accountability and reinforces predictability. Inefficiency and corruption thrive best in the dark, and the capacity to press for change from outside government requires a public with adequate information on the activities and standards by which to judge the performance of public services.

Public administration traditions are steeped in confidentiality and secrecy. Large organizations, public or private, have a reflexive tendency to withhold information, and administrative rules often reinforce this tendency. Often, lines of communication are closed even within government agencies and between them. Information withheld becomes an instrument of bureaucratic influence, and is thus treated as a quasi-private asset of the individual or of the small group that produces or possesses it. This is especially

the case in vertical hierarchies with little external accountability. Whatever its origin or justification, the habit of withholding information eventually becomes a cover for arbitrary or wrong exercise of authority, dishonest transactions, and bad procurement decisions. It is often said, echoing Lord Acton's dictum, that power corrupts and absolute power corrupts absolutely. Power over information is as corrupting as power over people. In contrast, transparency helps to build open and accountable government, and to inhibit corruption among public officials. Transparency in public administration has two main aspects: public communication and citizens' right of access to information held by government.

PUBLIC COMMUNICATION¹

The data that the government produces, and the rules and regulations that it enacts, are too vast and varied for any individual citizen to know. Government also holds masses of information on both individuals and business, ranging from vital statistics and taxes to health and education. Government agencies have the monopoly of certain types of data such as the population census, police and land records, and legal information. Transparency thus entails more than simply making the vast mass of information available. It requires a genuine willingness on the part of government to communicate, and genuine efforts to do so effectively.

Public communication is the practical expression of open government. It lends visibility to the performance of all agencies, and addresses the problem of unequal access to information by different sectors of the population. Realistic public expectations and confidence in government are sustained by trust in the accuracy of the information used and provided by government. In many countries, the laws mandate the types of information that should be made available to the public, including decisions affecting individuals and groups, rules and regulations, and department activities. The different categories of information to be provided to the public include:

- Information about government as a holder of data—what records are maintained, and how is their accuracy ensured?
- Information about government as a business—how much does it spend, on what, why, and with what results?
- Information about government as a service provider—what services are available, at what price and quality, and how are they to be secured?²

Open public communication has to contend with the longstanding bureaucratic practices noted earlier and, in many countries, with legal constraints. Often, unauthorized disclosure of information to outsiders makes both the communicator and the holder of such information liable to severe punishment, through “official secret accounts” or similar laws. Administrative discretion typically holds sway in classifying records according to different degrees of confidentiality. One African country treats even the directory of government officials as confidential, whereas an increasing number of countries makes the names and telephone numbers of senior officials available on the Internet.

A critical aspect of public communication, particularly in developing and transition countries, is the opaque budgetary process. The complicated and often arcane presentation of the budget inhibits informed debate and effective scrutiny by the legislature or the media. By contrast, the UK encourages open discussion of budgets in local government; and in some cities in Brazil, local budgets are built from the bottom up, out of the demands of the citizen; in the US, India, and South Africa, NGOs are encouraged to analyze the allocation of public funds to areas of specific interest to the poorer and weaker groups, and to publicize their findings. The best answer to budgetary opaqueness, however, is not to assist citizens and groups in deciphering inscrutable budgets but to compel the government to present financial information in ways that are clear and accessible to ordinary citizens. Fiscal transparency of this sort is perhaps the strongest single aspect of the administrative reforms introduced in New Zealand in the early 1990s.³

As noted in Chapter 1, however, transparency is a relative, not an absolute, concept. There are competing rights to privacy, and a legitimate role for confidentiality in government. For example, free and frank discussions in the highest policymaking forums or independent advice on sensitive matters must be confidential (Chapter 2). Disclosure would drive such discussions underground, with serious risks for healthy governance, and the formal record would still contain no information of any substance or value to the public. However, strict criteria can be specified for deciding the type of confidential interaction and transactions. In any event, disclosure should be the rule rather than the exception: all government information should be open to the public except when otherwise specifically provided for good reasons and on the basis of clear criteria. Hence, even when the information itself is confidential, the *criteria* for keeping it confidential must be public and transparent.

Public communication through the Internet is becoming widespread, and the public has enormous information at its fingertips. However, developing countries are constrained by low ownership of computers and limited capacity to sift through vast amounts of information. Greater use of information technology overall may thus heighten the inequality of access to information, both between developed and developing countries, and within countries. There is here an important role for the government: services can be offered on-line to the public, using the network facilities of post offices, district agencies, and telephone companies. Single-entry point or single-window (information kiosk) channel information services to client groups, from various agency sources. Also, community information centers, which provide low-cost access to on-line services through franchise providers, offer a way of reaching poor citizens. This has been attempted in some developing countries, and deserves active government and donor support. (See Chapter 18 for a discussion of information technology and public administration.)

The availability of more information or improved information technology, by itself, does not guarantee its use, especially if educational levels are low or the citizens cannot access basic services and engage in economic activities. The people may also not be interested in information when they feel alienated from the political process or have come to believe that their participation does not count.⁴ People must therefore be informed about the existence of information on different topics, and convinced of its usefulness. Of course, the information must *in fact* be useful and in usable form. In many cases, citizens lack of interest is rational, insofar as the information is not relevant to them or because they are not in a position to take advantage of the opportunities.

In many developed countries, and in most developing countries and transition economies, the management of public records needs considerable improvement. Government agencies should have the legal obligation to define, classify, and preserve official records, and to specify the time limit beyond which the records will be publicly disclosed on request. Equally important is the task of preparing the documents for public inspection in intelligible language, without jargon. All these activities are costly and time-consuming, and require constant follow-up. Therefore, as in the case of client orientation initiatives discussed in chapter 13, selectivity is mandatory. Improvement and disclosure of public records, especially in developing countries, should focus only on areas where the benefit of disseminating the information is demonstrably greater than the cost of doing so. These

benefits and costs differ in different countries, but budget and procurement are two areas where better records and disclosure would be beneficial virtually everywhere.

The public communication function of government has traditionally been equated with propaganda for its activities, and with the provision of sanitized information on government decisions. Some governments have deliberately used the public information office to mislead, and this continues to some extent in developing countries without fully independent and capable media. Good governance as well as technological trends clearly call for a recasting of this traditional role of the public information office in government in the context of the broader move toward transparency.

There is a need for professional public information officers at national and subnational government levels, with four major functions:

- disseminating reliable information to the public;
- developing a climate of trust between the government and the citizens through openness and honesty in all communications and courteous treatment of all citizens;
- providing guidance and training to all government officials and elected representatives in communication skills; and
- continuously monitoring public opinion and disseminating the findings within government.

These functions require a two-way exchange of information with citizens and civil society, and the active involvement of public information officers in mobilizing citizens to participate in dialogues on key issues. To complement the relaxation of controls on government media and popular exposure to new print and electronic media, governments interested in a more effective public information function should improve their relations with the outside media. A continuation of the traditional censor-and-regulate approach can only undermine the credibility of official communications. Better relations with the media may include: improved relations with journalists and better-packaged information; honest and unambiguous messages, especially during crises; stronger coordination between policy advice and press relations functions; and alternative mechanisms for disseminating information to the public. As governments become less monolithic, both at the central level and across geographic levels of government, the risk of ambiguity or incoherence becomes greater,

and the coordinating role of the central government information office (in consultation with line ministries) correspondingly gains in importance.

The right of citizens to have access to information from governmental bodies on request includes:

- personal information about themselves;
- nonpersonal information held by the government that does not endanger national security, law enforcement, free trade, or the rights of privacy of others; and
- information disseminated by the government on its own initiative.

There are important differences between the access rights of citizens and the public communication role of government. Individuals who request access to information must choose and specify which documents they need. Such access can help in monitoring the exercise of authority by government, but presents a challenge for most citizens. Hence, in areas where access rights are not effective, active public communication is necessary to convey the relevant information to citizens. This is particularly true in developing countries, with their larger numbers of poor and less literate persons. Access rights and public communication are therefore complementary: the government is required to only assume a passive role in the former, but must be proactive in the latter.

Most developed countries (Australia, Canada, France, Ireland, Netherlands, New Zealand, US, and the Scandinavian countries, among others) give citizens and organizations the right of access to government records outside specifically exempted categories, through freedom of information legislation, passed during the last 20-30 years. Such legislation has been enacted at the subnational level as well in some countries, such as India and the US. Codes of practice for access to information exist in countries like the UK, despite the continuation of the Official Secrets Act (Box 16.1). Many countries with laws on official secrets plan to amend these laws to provide broader access to information. Judicial decisions in many countries have fully supported the citizens' right to information, and have helped curb the tendency of the executive branch to withhold records without justification.

Box 16.1

Protecting the Right to Information in South Africa

The Open Democracy Bill has had a long and contentious path through the legislative process in South Africa. It has taken four years from the initial concept to the drafting of a Bill that entrenches the freedom of information. Initially endorsed by all political parties, business and civil society groups, the late inclusion of government rights to information led to the withdrawal of support by opposition parties. While there was a consensus on the purpose of the legislation, difficult implementation issues gave rise to intense debate.

During this time, the Bill has been refined and streamlined from an ambitious Bill that tried to encapsulate broad issues of open democracy to a Bill that focuses on the right-to-information enshrined in the Constitution. For example, the section of the Bill designed to offer protection to whistleblowers of corruption, as well as issues of privacy, have been hived off into separate legislation. The resultant Bill, likely to be renamed the Access to Information Act, is intended more narrowly to promote transparency of organs of government by requiring them to disclose relevant information.

Although primarily designed to protect the rights of citizens to access information held by the State, the Bill also provides for the right to access and correct personal information in either the public or private spheres and for the right to information held in the private sector, when such information is required for the exercise and protection of any rights. In this regard, the Bill sets an international precedent, as freedom of information (FOI) legislation is generally confined to information held in the public sector, as explained in the text.

As in FOI legislation in other countries, some information is provided routinely and without charge; other information is available on request and on payment of a fee. Government and private bodies are required to publish manuals stating the categories of information that they hold and how the information can be accessed. The Bill provides for mandatory disclosure of information that is considered to be in the public interest. The definition of public interest includes contravention or failure to comply with the law, public safety, and environmental risk and open, accountable, and participatory administration. Grounds for refusing access to information include the protection of personal privacy, information supplied in confidence by a third party, or information that is considered sensitive for commercial or security reasons.

Source: Laura Walker, personal communication (May 2000).

Box 16.2

Openness in Executive Bodies in the UK

Access to Information

A specific code providing access to information should be in place, with clear and published procedures, including:

- Well-defined criteria for information to be withheld, which should be cited whenever a request for information is denied;
- Standards for speed of response to inquiries;
- A mechanism for appeals within the organization, and then to another independent body; and
- A policy for charging appropriate fees providing the information.

Meetings

- Meetings should be open to the public, with minutes available for public inspection, and key decisions publicized in newsletters, etc.;
- A well-publicized annual general meeting should be held, open to the public and the media, allowing them to question board members on the performance and activities of the body; and
- Forums should be established for consumer groups or users, or public meetings on major issues, to involve and inform the public and organizations with a major interest in the issue at hand.

Publications

- The entity should produce annual reports and accounts, containing information on the role and mandate of the body, its long-term plans, board membership, performance against key targets, and targets for the forthcoming year;
- Routinely publish important information, such as key statistics, salaries of staff, results of consultations, major procedures (including criteria for allocating public funds), and reports of regular investigations; and
- All publications should be made as widely available as possible, through public libraries and similar facilities, and all annual reports and accounts should be deposited in the library of Parliament.

Source: Government of UK (1995).

The laws on freedom of information (FOI) reverse the traditional presumption in favor of official secrecy. Such legislation enables any person (sometimes not even citizens) to request information from government, its agencies, or nonministerial public bodies. FOI laws normally extend to all bodies substantially funded or controlled by government (local authorities, the judiciary, the legislature, state-funded educational institutions, and private organizations that carry out statutory functions) and apply to current or past records maintained in any format, including electronic.

FOI laws set time limits within which the information request should be granted or refused, and require written communication of refusals, along with the reasons. A fair and reasonable system of charging the requesters for the cost of assembling and transmitting the information is provided, as the taxpayers at large should not be made to pay for the information interests of an individual, on the same principle as charging users of public services. A government agency must decide to release or withhold information only on the basis of its nature and content, and not on the basis of the identity of the requester or the use to which the information might be put.

Administrative and judicial remedies are available to those whose requests for information have been denied. In case of final administrative denial, the law typically grants the requester the right of appeal to either a court of law or an independent authority, such as an ombudsman or an information commissioner, if one exists. The court or the independent authority then reviews the proceedings and either sustains the withholding of the information or issues binding orders to the government agency to release the record. In keeping with the basic premise of FOI legislation, the burden of proving why the information should be withheld falls on the government agency, and not on the requester.

As noted earlier, the legal framework in all countries exempts from disclosure certain categories of information. These usually relate to national defense or foreign policy; internal cabinet documents; personnel and medical files; privileged or confidential financial or commercial information; law enforcement; information that will prejudice the management of public services; information that may result in the breach of a court order or parliamentary privilege; and personal privacy information.

Available evidence shows that the enforcement of FOI laws entails significant costs, which may or may not be matched by commensurate benefits to ordinary citizens. Requests under FOI legislation have therefore tended to come from organized business, seeking data for competitive purposes, and from interest groups, rather than from individual citizens. The law has occasionally exposed to public scrutiny even the personal correspondence of government ministers; on the other hand, officials have also been known to hide behind FOI exemption provisions to deny even innocuous information to citizens. Generally, however, in developed countries, the media have used FOI legislation to get relevant information on government decisions and activities and publicize it, thus making the government more accountable.

Considerable preparatory action is needed in any event to implement the law effectively and to process requests promptly. This may stretch the administrative capacity, recordkeeping abilities, and budgets of poor developing countries, as anyone familiar with government offices in poor countries, with their rooms full of files in cardboard boxes, will readily understand. Inadequate preparation, and the failure to install the necessary regulatory and organizational framework, undermines the credible enforcement of information disclosure requirements. Within the Organisation for Economic Co-operation and Development (OECD), the access of citizens to government-held information shows considerable variation between countries, motivated in part by concerns to weaken the competitiveness of government *vis-à-vis* other countries with more restrictive information laws. All these issues are forcing a rethinking even in countries that launched the movement for legal rights to government information. At the same time, it remains certainly true that excessive secrecy has been a major reason for the declining trust of people in their government.

The issue is therefore very complex, and no universally applicable conclusion can be reached. Fortunately, FOI legislation is not the only option, and other routes to better information flows exist. For example, governments could enact codes of practice on public reporting and access to information, and independent citizens' bodies could monitor the process; laws and regulations that prohibit disclosure of information can be amended to make disclosure the norm rather than the exception; government personnel can be given incentives to disclose information and disincentives for unwarranted secrecy; service providers may be required to specify their standards of service and to make this information easily accessible to the public; etc. Any of these measures can improve the transparency of public administration, short of adopting a full-fledged FOI law.

Most of the useful information in the hands of government is nonclassified and nonconfidential anyway. Therefore, more than the disclosure of confidential information, the practical issue is how the existing rights of access to available information can be made more effective. With improved records management, and wider use of information technology, relevant information can be made available through easily accessible mechanisms, including local outlets in all public offices in countries with dispersed settlements, high illiteracy, and a low level of computerization. Also, as noted in the previous section, the traditional role of government information officials should evolve from merely publicizing government

achievements and creating photo opportunities for high officials, to providing positive support for an open information policy in government. Access to information can be promoted in village councils, municipalities, and other elected bodies, through open meetings, newsletters, wall posters, open hearings, and other effective local channels. Nevertheless, government outreach cannot be a substitute for aggressive, professional, and independent media—a subject to which we now turn.

ROLE AND RESPONSIBILITY OF THE MEDIA⁵

Even a democratically elected and benign government can easily be corrupted, when its power is not held in check by an independent Press.
— Henry Grunwald

Nature and Role of the Media

Role of the media

The role of media is important as a feedback, exposure, and conduit mechanism in all countries. Most citizens receive their information about what is going on in the government, and how it affects them, through the filter of the media. The sheer deluge of information in modern society makes it impossible for even the most diligent citizens to keep track of all the events, or to take advantage of their access to information in all the public agencies and government organs. An alert and professional media is essential to communicate, in a fair, responsible, and understandable form, information about the activities of government and how they might affect the people. Conversely, governments rely to a considerable extent on the media to receive feedback and assess public opinion on their policies and programs. Finally, the media have also played a traditional watchdog and gadfly role, in investigating misbehavior by politicians and officials and private business, a role traditionally summarized as “comforting the afflicted and afflicting the comfortable.” The media is thus a crucial instrument of accountability, in addition to being an instrument of communication. A free press and free media rank along with an independent judiciary as one of the two institutions that can serve as powerful counterforces to corruption in public and private life.

“Old” and the “new” media

The traditional old media are newspapers, magazines, and radio. Together with basic television news, these continue to be dominant in many developing countries. In particular, radio continues to play an important role in informing and educating the citizenry. It is a cheaper and more universal tool for reaching the people in countries where television has not spread to the rural areas and remote regions. Instances of innovative use of radio are the noncommercial public broadcasting programs, local radio channels for public communication, and open university and other school and skill instruction programs. In many developing countries, radio is also the main medium for reaching the population in emergencies. Countries like India are devising new uses for the radio: district channels, community radio stations, and ham radio links to district offices.

The term new media has been coined (Davis and Owen 1998) to describe new types of mass communication, such as talk radio, television news magazines, print and electronic tabloids, the Internet, and computer networks. The new media, in turn, can be categorized on the basis of whether they employ old or new technologies. New media that employ old communication technologies include talk radio, TV talk shows, and news magazines. New media based on new technologies include electronic town meetings, electronic tabloids, cable broadcasting, and, of course, the Internet. The new technologies have infused communication with new immediacy, so that the public can receive and send out messages with an ease and speed unimaginable only a few years ago. Some argue that at the close of the century the possibilities have barely been scratched. In many developing countries, of course, the reach of new media is largely confined to the urban areas, and to the better-off and more literate sections of the population.

The new media, including the Internet, offer higher opportunities for interaction with the public, and a significant potential to educate, facilitate public discourse, and enhance public participation, beyond the time and space constraints of traditional media. In addition, new media technologies easily bypass national and international boundaries, thus bringing citizens of each country into contact with diverse cultures and distant events to an extent that was not imaginable earlier—a key dimension of globalization (Chapter 1).

At the same time, the role of the new media for education is incomplete and sporadic, and its very speed encourages a slide toward the superficial. The quest for ratings and profits in a competitive industry means that speed is often more important than accuracy. The sheer mass of information, and the mix of the useful and the irrelevant, calls for skills and new technology to sift through the material to make it useful even for public agencies, not to mention for ordinary citizens. This limits the utility of new media even in developed countries. Also, while commercial considerations drive both the mainstream press and the new media, the former has a historical ethos of public service, grounded in the professional norms of journalism. Considering the many instances of manipulation of the new media for political and business considerations, it is not clear whether the ethics of the traditional print and radio media will transfer to the new media as well. This is a vital challenge for civil society in all countries and for global organizations as well, especially considering the risks of the new communication technologies in the hands of unrepresentative or oppressive regimes.

Freedom of the Media

The degree to which the media is truly independent is the degree to which it can effectively scrutinize the conduct of public officials and release uncensored information to the public. Mass media organizations (press, radio, and television) tend to be weak in many developing countries. In most countries, radio and television were government monopolies when they were first set up, and continue to be under state control. It is only in recent years that the private sector has been allowed entry into radio and television, but government still dominates. By contrast, the print media in most countries has been generally private, although some newspapers are published by government-owned or government-sponsored agencies. The problem in many developing and transition countries is not so much the nature of media ownership but a long tradition of censorship, whether overt or self-imposed.

Curbing the media through regulation is not a proper approach to securing the professionalism of the media. Governments should not act on the premise that the interests of the media ought to coincide with those of the party in power and the bureaucracy. Indeed, if the media attempt to redefine the political agenda, it is a sign that the government is failing to communicate its own agenda, or to share accurate information with the media.

Advocates of transparent government have been demanding that governments should consider a basic set of principles to govern the freedom and independence of the media (Transparency International 1996):

- Laws and practices limiting the right of the news media to gather and distribute information should be kept to a minimum;
- Government authorities, national and local, should not interfere with the content of print or broadcast news, or access to any news source;
- Independent news media should be allowed to emerge and operate freely in all countries;
- Government should not discriminate in its treatment, economic or otherwise, of the news media, public and private;
- The independent media should have unrestricted access, at par with the official media, to all material and facilities necessary to their publishing or broadcasting operations, including newsprint, printing facilities and distribution systems, broadcast frequencies, and satellite facilities;
- Fiscal and financial practices should not inhibit the free flow of information;
- There should be no restrictions on free entry into the field of journalism or on its practice, except for professional certification; and
- Journalists should have security and full legal protection.

These principles may require some fine-tuning and modification in developing and transitional countries, especially where ethnic tensions or centrifugal forces are at work. Legitimate restrictions on the freedom of the media stem mainly from the protection of the rights and reputation of individuals and groups, the prevention of actions that could inflame communal and religious feelings, and matters of national security. (For example, the newspapers and radio in Rwanda played a major role in inciting the tragedy of 1994.)

Also, libel laws exist in all countries, since individuals need to be protected against defamation by the media. Sometimes, officials could also be intimidated by the media into abusing their authority in order to benefit a private person, and should be able to take the matter to court. However, it is the judicial system, and not the administration, that should be the arbiter of the standards of privacy relative to the freedom of the press.

As implied in one of the principles listed earlier, the independence of the media can be threatened without overt censorship, by the exercise of the

power of government over the allotment of scarce resources such as newsprint, access to loans, or infrastructure and land. Such influence extends to overt inducements to news channels and journalists in the allotment or withholding of advertisement, in order to encourage favorable reporting. Sometimes, the media are selectively used by members of government to “leak” information, with various motives.

In addition to government in influence, the domination of the published and electronic media by a few big companies or persons is a genuine threat to the free flow of information in all countries, and to the emergence of smaller operators. The poor financial situation of many regional and national newspapers could make the owners and the journalists dependent on large corporations for advertisement and other support, and lead to the erosion of their independence. Entry barriers for independent media outlets should be removed, and to the application of antimonopoly principles to the media.

Responsible Media

Media responsibility and self-regulation

Media accountability is a critical issue in all countries, and the media itself can often be a source of passive or active corruption. Checks and balances on the role of the media should not come from government, and can therefore take two main forms: self-regulation, and cultivation of a more critical public. While the private media is guided by commercial considerations, it should also respect the public interest and professional and ethical principles. If the information media start competing with the entertainment media for market share, the “infotainment” phenomenon will eventually erode the credibility of the news media among the citizens. By focusing on scandal, fabricated crises, and prurient mass appeal, the media can aggravate the decline in confidence in public leaders and institutions, and fail to perform its essential role of informing the public and holding the government accountable for policy and substantive decisions. In turn, when governments are forced to react to a cacophony of rumors, the urgent supersedes the important, and instant decision making prevails over considered policy formulation.

One way of guaranteeing the independence of the media while inducing them to be responsible, is allowing the media themselves to make collective judgments and to effectively regulate the behavior of their members, but with external scrutiny. This is the logic behind setting up autonomous press councils in a number of countries. These councils, consisting of independent

persons of integrity, can provide an open forum for complaints against the media by the public, and chastise the press and other media when they are irresponsible or lapse into sensational and salacious reporting or unwarranted invasion of privacy. Press councils should have the prestige and credibility needed to give their reports strong moral force and nurture the development of media standards. These councils could work with the government in developing common approaches to independent reporting, consistent with agreed ethical and professional standards. In sum, the old motto of the New York Times still provides a healthy guideline: "all the news that's fit to print." A more elaborate set of principles have been formulated by the British Commission on Press Complaints (Box 16.3).

Box 16.3

Code of Practice Enforced by the British Press Complaints Commission

The British Press Complaints Commission is charged with the enforcement of the nonstatutory Code of Practice, which was framed by the newspaper and periodical industry. The following are its main provisions.

Accuracy

Newspapers and periodicals should take care not to publish misleading or distorted material, and to correct promptly any incorrect reporting and, where appropriate, issue an apology to the parties concerned.

Opportunity to reply

Individuals and organizations should be given a fair opportunity to reply to inaccuracies.

Comment, conjecture, and fact

Newspapers, while free to be partisan, should distinguish clearly between comment, conjecture, and fact.

Privacy

Intrusions or enquiries into individuals' private lives (including the lives of people in hospitals and similar institutions) without their consent are generally unacceptable. Publication can only be justified in the public interest, to expose crime, expose serious antisocial conduct, protect public health and safety, or prevent the public from being misled by the actions or statement of an individual. This restriction covers interviews with or photographs of children, the identification of children under 16 who are charged with sexual offenses or are victims of sexual assault, and intrusion into personal grief.

continued on next page

Box 16.3 (cont'd.)

Misrepresentation

Journalists should not obtain information or pictures through subterfuge or misrepresentation, except in the public interest, as mentioned in the previous item.

Harassment

Journalists should not obtain information or pictures through intimidation or harassment.

Discrimination

The press should avoid prejudicial or pejorative reference to a person's race, color, religion, sex, or sexual orientation, or to any physical or mental illness or handicap.

Financial journalism

Journalists should not use for their own profit financial information they receive in advance of publication.

Confidential sources

Journalists have a moral obligation to protect confidential sources of information.

Source: Her Majesty's Stationary Office, UK (1994).

The independence of the media also implies the responsibility of the media owners to observe the principles of independence *within* their organization. In the pursuit and practice of their profession, journalists and editors should be free of any form of interference not only by government, but also by their employer. Civil society associations can play a strong role in this context.

Civic journalism

In the context of a more responsible media, a new movement called civil journalism is developing. Civic journalism represents a response to the concern, even in developed countries, over the risk that the electronic and print media are swayed by the interests of the better-off groups, and fail to inform and support the needs of the poor. This movement is evidenced by the growth of local newspapers, community radio channels, and local newsletters and posters. Civic journalism has been described as a reform

movement to rebuild public trust for journalists, and revitalize governance democracy. It allows for greater citizen input into the process, entails a partnership of citizens and journalists to foster good governance, and develops report cards for the media on issues that matter to the citizens. Another aspect of the movement is promoting media literacy, in order to provide the citizens with the skills to make informed evaluations of media messages.

In developing countries, civic journalism can play a major role in citizen education and in the dissemination of good practices at the national and local levels. There are instances of newspapers joining forces with citizen groups to raise civic issues and form partnerships with citizens to agitate for more responsive and improved services. The media have played an important role in many countries in mobilizing advocacy around issues such as slum upgrading, exploitation of marginal groups and children, rehabilitation of people displaced by projects, etc. In order to perform all these roles, journalists themselves require assistance in building their skills and investigative capacity. This has been recognized in a number of countries, and public agencies are promoting the effort (Box 16.4).

Box. 16.4
Journalism in Africa

In Uganda, workshops on investigative journalism allowed journalists to interact with other actors in the struggle against corruption and to realize their limitations. The emphasis on skill building, together with live case studies of corruption in government, helped increase the individual capacities of journalists.

In Tanzania, a workshop in Arusha drew up a one-year training program for editors and media managers, practicing journalists, nonmedia practitioners, and freelance senior journalists. Training was provided in management and business training, professional skills, civic and external relations, awareness raising, and academic and research skills.

A workshop on governance in Benin, which brought together many African journalists, discussed their roles in decoding the complex messages coming from the state and civil society and communicating the substance simply and widely to the people. The lack of trained journalists was a serious obstacle in performing these roles.

Source: Economic Development Institute (1996).

KEY POINTS AND DIRECTIONS OF IMPROVEMENT

Key Points

Voice and exit mechanisms are inoperative without adequate information. Transparency in public administration has two main aspects: public communication by government, and citizens' right of access to information. Both aspects are very difficult to implement if government records are badly managed in the first place.

Public communication calls for an affirmative effort by government to disclose and disseminate relevant information or its activities. Transparency must be balanced, of course, with the need for confidentiality of internal debates and of information affecting individuals' right to privacy. However, disclosure should be the general rule, and withholding of information the exception. Because governments generate masses of data, professional public information officers are important—not to give a spin to government decisions, but to disseminate those decisions of greater importance to the citizenry and explain their rationale.

The public's *right of access* to government information is often embodied in FOI laws. FOI legislation, now common in developed countries, reverses the traditional presumption of secrecy, sets time limits for decisions on requests for information, and provides appeal procedures. FOI laws have opened up public access in many countries. They are costly to implement, however. Also, they tend to be used mainly by organized business and strong interest groups, rather than by individual citizens or weak and poor communities.

The *role of the media* is essential for transparency in government, both as a channel to communicate to the public and explain relevant information, and as a watchdog on government actions and misbehaving of elected officials and civil servants. Naturally, the media cannot perform these roles unless it is free to do so—free both from government interference and from the influence of corporate interests in countries where the media is dominated by a few large owners.

It is also important that the media have sound professional and ethical standards and behave accordingly. Although it is highly inadvisable for government itself to intervene to professionalize the media or correct possible excesses, some accountability mechanism is needed, preferably from and by

the media themselves but with appropriate participation from other institutions and the public at large. (In addition, of course, there are legal and judicial remedies for media misbehavior, such as libel laws.)

A distinction has recently emerged between old and new media. Old media comprises mainstream newspapers, radio, and TV news. New media includes talk radio, tabloids, the internet, and electronic journalism. The new media offers exciting new possibilities for a better flow of information, which is particularly important to reap the benefits of globalization (or protect against its risks). However, its very speed encourages a slide to the superficial, and weakens the professional ethics normally associated with the old media. One key to a good balance between old and new media can be found in the civic journalism movement, which attempts to respond to the concern that both old and new media may be swayed by the better-organized groups to the disadvantage of the poor and weaker communities. Civic journalism can use both old and new media technologies to foster greater citizen input and a new partnership between the media and the rest of civil society.

Directions of Improvement

Along with weak governance comes opaqueness in government decision making and information, and a restricted or timid public media. The directions of improvement in transparency in most developing countries should include efforts on both fronts.

The prerequisite for both is improved government recordkeeping. If the information cannot be found, it cannot be communicated; if it is not organized, it cannot be found; and if either too little or too much information is retained, it cannot be organized.

At one extreme are countries where recordkeeping is scattered and documents are nonexistent, as in many African countries. At the other extreme are countries where too much information is kept, notably in South Asia. The result, however, is the same: the inability to access quickly relevant government information when it is needed. In the former situation, the direction of improvement is obvious (although not easy), and consists of enforcing official rules concerning the keeping of government information. In the latter case, the habit of keeping unnecessary records, including those on the smallest transactions, must be broken. This, in turn, requires simplifying administrative rules, since excessive red tape is both a major

source of corruption and a key impediment to accessing information. A change in attitude is also required: the need to retain each document (and why in so many copies) must be justified, and measures must be devised to penalize unnecessary record holding and to reward civil servants who free up communications. These incentives and disincentives should be made part of the personnel management policies of the government.

Similarly, the role of a ministry of information needs to change from the traditional role of disseminating propaganda and protecting the government from embarrassing disclosures, to channeling communication and building trust between the government and the citizens. This role shift will require, among other things, choosing ministers of information and senior ministry staff for their credibility with the public.

In all countries, citizens must not be restricted in their right to access government information about themselves. However, the exercise of the citizens' right to other government information should focus on the areas most important for governance—i.e., budget, electoral processes, procurement, land use, and basic service delivery. Ways should also be found to improve information access for all citizens and not only for the richer or the better organized. Hence, when information access rights are nominally equal but de facto inoperative for poorer people and groups, proactive communication efforts by government are needed.

In most developing countries and transition economies, the significant costs of enforcing FOI legislation are not warranted by the benefits, partly because inadequate recordkeeping raises the costs of information retrieval and partly because of the high demands of FOI mechanisms on scarce administrative capacity. It is all the more important, therefore, to put in place a variety of other innovative mechanisms to channel relevant government information to the public. The cooperation of local voluntary organizations can be very useful in this respect.

To protect and strengthen the essential role of the media in good governance, developing countries and transition economies should take a two-pronged approach: reduce official restrictions on media access and activity, and help build media capacity and professionalism. Inadequate media capacity should never be used to justify media controls by government; but neither can it be accepted as the normal state of affairs. Certain restrictions on media activities are needed to combat libel and defamation, and are indispensable in multi-ethnic countries to prevent or manage

conflict. Clear legislation to that effect, however, is preferable to administrative discretion, except in rare emergencies.

Media accountability is a critical issue in all countries. Moreover, in developing countries, weak and noncompetitive media can easily become the instrument of particularistic vested interests and fail to perform their essential role of informing the public and exposing government mistakes and corruption. (In these circumstances, the media themselves can be a source of active or passive corruption.) External entities—both official donors and specialized international foundations—must help developing countries build up the capacity and standards of their media, partly through journalists' internships and twinning with established media organizations in developed countries.

NOTES

- ¹ This section draws mainly on OECD (1997d), Commonwealth Secretariat (1997d), Cooper and Newland (1997), Government of UK (1997), Guhan and Paul (1997), Pope (1996), Schachter (1997), and Government of India (1997a).
- ² Commonwealth Secretariat (1996).
- ³ On issues of budgetary presentation and transparency, see Schiavo-Campo and Tommasi (1999).
- ⁴ Schachter (1997).
- ⁵ This section has drawn largely on OECD (1997d), Davis and Owen (1998), Pope (1996), and Bjornlund and Bjornlund (1996).

PART IV

IMPROVING
ADMINISTRATIVE
INTEGRITY, RESPONSIVENESS
AND SERVICE

Chapter 17

Fostering Public Ethics and Preventing Corruption

▪ With Frédéric Boudier, Janos Bertok, and Robert Beschel, Jr.

If a [public servant] neglects his duties, works for his own profit or accepts bribes, it will cause a rapid decay of public morals. People will cheat one another...take advantage of the poor, and there will be no justice for anyone.

— Buddha

As discussed in Chapter 1, public administration is confronted with difficult new challenges and pressures in the 21st century. Demands for better service are increasing and various public sector reforms, such as decentralization, greater managerial discretion, and increased reliance on market or quasi-market mechanisms have been introduced. Public servants face potential conflicts of interest resulting from these new objectives, and in particular from the assignment of more discretionary power to managers. Moreover, uncertainty arises from globalization, which increases contacts with different ethical and cultural norms, and results in a change in society's perception of the expected behavior of public officials. In this complex new context, integrity and ethics in the public service have become even more important for the credibility of government in both developing and developed countries.

ETHICS IN THE PUBLIC SECTOR

The General Context

The features of a public service ethos

In several developed countries, as discussed also in Chapter 20, public administration reforms have been accompanied by (and sometimes based on) a questioning of the very notion of “public service”, and mistrust of civil servants. The complex challenges faced by government in all countries

cannot be met successfully unless the status of government service is revalued. In turn, this requires that the traditional public service ethos be reinforced. The specific core values associated with public service vary from country to country as detailed further in this chapter. The generic values are, however, common to all countries: public servants are expected to treat all citizens with respect, fairness, and integrity; to be impartial and equitable in their actions; and to ensure accountability and effectiveness in the delivery of services.

The politician and the civil servant

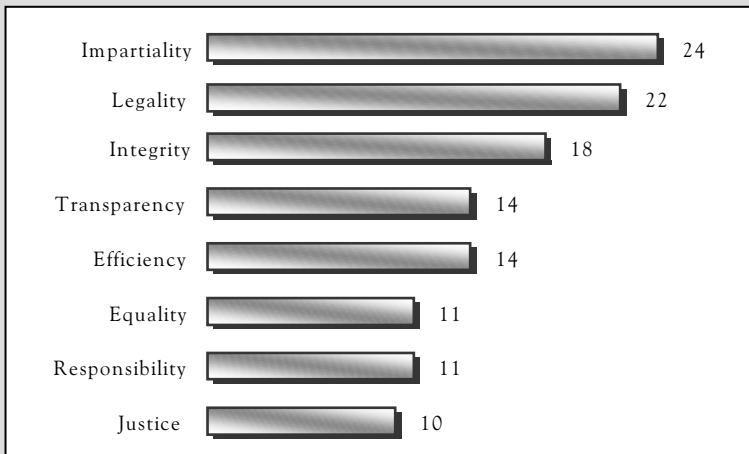
In a representative governance context all public officials, whether elected or not, must be responsible and accountable for how they perform. This means that integrity of *both* the politicians and civil servant must be assured, as both carry a public responsibility and the distinction between politician and public administrator is often difficult to define for the public. The general public does not make such distinction and holds the government responsible, and rightly so, as most public decisions involve both elected and nonelected officials. This is also true at international and supranational levels. For example, in Europe, citizens often perceive the European Union Institutions as one single government called Brussels without making a distinction between the elected members of the European Parliament, the employees and the members of the European Commission, or national public officials meeting in the Council of Europe. International organizations, too, are viewed as a monolith. As a consequence, the integrity issue necessarily involves all components of a government, and attempts to deal with lapses in conduct should target all types of government officials. In the United Kingdom (UK), for example, the Committee on Standards in Public Life had a mandate to review standards at all levels of government activity.

It is clear that the public cannot accept double standards for politicians and civil servants. However, when dealing specifically with public administration, politicians should be viewed more in the context of their relationship with the civil servants rather than as a specific target for attention, as the nature of their accountability is different. This leaves out of the scope of this chapter (and this book) areas such as financing of political parties and political campaigns which in many countries raise profound ethical issues that go much beyond the integrity and effectiveness of the public administration apparatus itself.¹

Are public values universal?

It is frequently argued, especially in Asia (although much less so after the 1997 financial crisis), that cross-country comparison of public ethics is inappropriate, because public ethics are part of the overall value system, which is country- and culture-specific. For example, giving and accepting gifts is a normal way of doing business in some countries, and highly problematic in others; or, nepotism and a violation of the merit principle in some context is viewed a natural “helping your own” in others. Economic conditions are also relevant. As discussed elsewhere, highly inadequate civil service salaries are frequently associated with public corruption. In general, value differences among countries result from the *interaction* of many different factors including historical and cultural specificity, level of economic development, strength of civil society, and accepted governance norms. Nevertheless, despite the real differences among countries there is a growing convergence of views on what is seen as good and proper behavior. There are fundamental values closely associated with good governance, market economy, and a professional civil service: political values of freedom and justice and administrative values of legality, personal integrity, efficiency, effectiveness, equity, and responsiveness. Of course, these values are translated differently in each system, and in the day-to-day work of public officials (Figure 17.1).

Figure 17.1
Most Frequently Mentioned Public Service Values in
OECD Countries



Source: *Public Trust: Ethics management measures in 29 OECD countries*, OECD 2000.

Globalization and changing societal norms

One positive recent development is that countries are increasingly watching events elsewhere, including ethical crises and attempts to deal with them, as part of the general phenomenon of globalization. In Australia, for example, problems and public scandals in other countries have motivated the interest in fostering and maintaining appropriate ethical behavior and accountability. In European countries, the same emulative effect can be noticed following the widely-publicized scandals that led to the collective resignation of the European Commission in 1999.

Globalization has also increased contacts between public officials in different administrations with different ethical standards, as well as contacts with business, including foreign-based or multinational enterprises that may play by different rules of the game. If not addressed, this issue could lead to a global lowest ethical common denominator. If addressed constructively and vigorously, instead, this greater interaction can generate pressure to improve standards everywhere. As a major step forward, Organisation of Economic Co-operation and Development (OECD) countries took collective action against corruption by reaching consensus on the need to outlaw the bribery of foreign public officials in international transactions. (See later in this chapter.)

To foster integrity in the public sector, behavioral standards must reflect changing societal norms. The increasing demands of society in certain areas require specific new action. In most developed countries and some developing countries, this is the case, for example, of measures to eliminate sexual harassment or racial discrimination. A major challenge is that societal norms are evolving faster than in earlier times. What was accepted as normal practice only a few years ago may be now considered as unethical. For example, the long-established tradition of receiving gifts in the Japanese administration has been restricted by the National Public Service Ethics Law of August 1999, which obliges senior officials to report gifts of a value greater than 5,000 yen (less than \$50 equivalent). Before passing this law, Japan had elaborated a code of conduct to provide guidance on expected standards, which already proscribed gifts. However, it was felt that this was not strong enough a tool. Moreover, societal norms are becoming more diversified even in a given country. In the Netherlands, for example, the increasing diversity of society has generated some diversity of standards and values.

Public Sector Values

It is impossible and unfair to demand ethical behavior from public servants unless they are clearly told the basic principles and standards they are expected to apply to their work, and where the boundaries of acceptable behavior lie. The main duty of government is to state standards and to provide mechanisms to support them. A concise, well-publicized statement of core ethical principles and standards that guide public behavior creates a shared understanding across government and the broader community. By themselves, codes of conduct, like all legislation, are useless if dissonant from societal norms or if not enforced. However, they can make a useful contribution to fostering public service integrity when the institutional context is favorable.

Reinforcing traditional public sector values

In most OECD countries, public servants conduct is guided by the broad public sector values presented in Figure 17.1. The following values are formulated differently according to specific country contexts, and should be balanced against one another, when they occasionally conflict (e.g., loyalty to the organization vs. personal honesty):

- *Honesty*: While this value is fundamental and is expected in all sectors of society, it takes on a particular meaning in the public service, as it implies the ability to hold a public trust and to put the common good ahead of any private or individual self-interest. Typically, countries integrate the standard of honesty in the recruitment process of civil servants, by verifying that the person does not have a prior criminal conviction (e.g., in France, Poland, the United States (US), and many other countries).
- *Impartiality*: In addition to nondiscrimination on ethnic, religious, gender, or economic grounds, the main aspect of this value is political neutrality, i.e. nonpartisanship. Civil servants, while loyal to their political leadership, are expected to behave in a manner that does not favor or damage any political party or faction. Indeed, as discussed in Chapter 11, they are subject in their personal political expression to constraints not applicable to persons in private employment.
- *Loyalty*: In a democratic context, loyalty to the political leadership is a duty of civil servants, but reaches its limit when it would imply unethical behavior. This is obvious when the order given is illegal. But loyalty also ends when obedience could seriously jeopardize a

public interest or require unethical behavior (even if not formally illegal). In a complex management environment, the loyalty principle is also challenged when public servants are asked to be ultimately accountable to the citizen (see Chapters 13 and 16 for a discussion of client orientation in government). In theory, there is no conflict between serving a government and serving the clients: users get what they are entitled to, as determined by government policy. But in practice, responsiveness and service to citizens require public servants to use their discretion in their day-to-day activities, which may well conflict with their loyalty to administrative superiors.

- *Continuity*: Civil servants are expected to ensure stable and continuous services to citizens. Aspects of continuity are that they cannot desert their office and can only have other professional activities in addition to their public duties in limited cases, which do not conflict with performance of their tasks. For example, under Article 101 of the Japanese National Public Service Ethics Law of 1999 civil servants have an obligation to give undivided attention to duty. Another aspect of continuity is that when leaving their position, public officials should not hide or remove any information concerning their past activity in order to ensure a smooth transition.
- *Balancing transparency and discretion*: As discussed in detail in Chapter 16, traditionally government has been reluctant to release information. Sometimes, there are good reasons. But secrecy also works as a way to hide misconduct. It is the duty of the state to define clearly what information is public and to guarantee access to it. For example, the openness and transparency of the Swedish public administration, embodied in the Freedom of the Press Act, have contributed to reduce corruption in the public sector. In Italy, measures increasing transparency were one of the most effective instruments in promoting integrity and reversing corruption. In countries where democracy was restored recently, as in central and eastern Europe, transparency was identified as the key means to achieve modernization. Joining international organizations can also be an incentive. For example, the Republic of Korea created a new legal framework by enacting a Law on Administrative Procedures (1997) to provide information of administrative decision making for citizens, and passed a law on freedom of information. The consequence of openness is extensive control exercised by the citizens and even more by the mass media. Therefore, the obligation of openness must be balanced by the value of discretion. This means that public officials should have clear guidelines about what information they are entitled

to provide and to whom. In this respect, Article 100 of the Japanese National Public Service Ethics Law of 1999 prohibits the divulgence of any secret that may have come to employees' knowledge in the performance of their duties. Other countries have similar provisions.

- *Responsibility and accountability*: Public official must feel personally responsible and accountable for their decisions and actions. Developing a good sense of the public interest is essential. In the Republic of Korea, it has been suggested that a weak sense of responsibility among public officials—caused by frequent change in posts—was a major corruption incentive. These values are operating within a sense of the public interest: virtually all developed countries, and many developing countries, have explicit provisions similar to that in the Canadian Conflict of Interest and Post-Employment Code for Public Office Holders: “public office holders, in fulfilling their official duties and responsibilities, shall make decisions in the public interest and with regard to the merits of each case.” Views of what the public interest means vary in different countries. In any case, employees are expected to arrange their private affairs—to go back to the Canadian example—“in a manner that will prevent real, potential or apparent conflicts of interest from arising, but if such a conflict does arise between the private interests of an employee and the official duties and responsibilities of that employee, the conflict shall be resolved in favor of the public interest.”

Public Sector Managers in a Changing Environment

One of the major recent challenges to public ethics has resulted from the adoption of the many public management reforms discussed in this book (see especially Chapter 19). Public managers face a radically different environment in those countries that introduced and managed substantial reforms in the public sector, which have been intensified since the mid-1980s, especially in the direction of introducing contestability for public functions, and making a number of functions previously performed by the public service commercialized, privatized, or outsourced. Note that none of the following observations is intended to discourage such reforms, or to imply that they inevitably have a negative impact on integrity in the public service. The intention is to underline the linkage between these reforms and the ethical framework, and the ensuing need to take realistic complementary action to prevent an unintended weakening of public integrity.

The impact of delegation

These reforms may have enhanced the efficiency and effectiveness of certain public services, but also led to a fragmentation of public corporate culture, standards, and behavior. This situation requires a new institutional environment in which public servants can be made accountable for the use of their greater discretionary powers, and continue to adhere to the updated values-based framework. The balance between delegation and accountability is of central importance in achieving a well-performing and professional public service with integrity. As central regulations and controls are reduced, the role of public values and the public interest concept that they reflect become increasingly significant, both as a guide for behavior and as the common reference point and unifying thread for the public service. Mechanisms for safeguarding these values need to be upgraded to protect the public interest in new and current situations, lest the greater service efficiency be paid for by a reduction of integrity and, in time, a reduction in effectiveness.

The impact of lower resources

Most governments have faced significant pressure to reduce public expenditure, after the massive expansion in state responsibilities in the 1960s and 1970s. Measures for a more efficient use of resources have included lower budgets and reductions in the size of the public sector workforce (Chapter 10). In some countries, staff reductions did not affect efficiency or workloads when overstaffing was substantial and the downsizing focused on the weaker-performing employees. In other cases, however, fewer employees have been asked to carry out the same level of work with fewer resources. This can have a negative impact on public servants' morale and apparent increases in productivity may be accompanied by lower service quality. Or, short-term improvements may be followed by long-term deterioration of services. Similar impacts on morale and a sense of public service might result from inadequate incentives. For example, when the US budget restrictions led to caps on the salaries of senior executive staff, the logic of the senior executive service itself was negated. Additionally, when resources are limited there may be pressure to cut corners or bypass due process. Training, including induction and ethics in service training, is often the first activity to be curtailed. Downsizing raises other issues related to postemployment restrictions and potential conflicts of interest, as well. It also generates negative implications (low morale, potential loss of best skills afraid by the uncertain situation) that require special efforts to maintain strong ethical behavior.

Finally, public service restructuring also risks affecting the overall state and management of ethics and conduct. Restructuring often includes changes in the status of public sector organizations through devolution of power to autonomous agencies, corporatization, and privatization (see Chapter 6). The modification of familiar legal and administrative forms of organization generates uncertainty as to which values should be applied to the new entities, or how to adapt values to a new environment. In some cases, the organization will have to evolve from a public to a private system of ethics. This requires a new framework for managing new mechanisms for service training and monitoring of performance of individuals and organizations.

Devolved management

Significant efficiency gains have been achieved in many countries by devolved public service management giving additional powers to managers. Central regulations and control have been reduced, providing flexibility to manage people and resources in ways that are tailored to match particular business plans and to achieve the agreed outcomes. In many developed and some developing countries, both the central departments and the line units enjoy far more autonomy than in the past. Concerns have been expressed that if no efforts are made to maintain good systems of professional socialization—that is, the inculcation of public service values—the homogeneity of the public sector ethos and the coherence of government intervention would be jeopardized. The first question, however, is whether the traditional homogeneous ethos is still relevant to begin with. On the other hand, values and conduct depend partly on each organization's mission statements and objectives. For example, the ethical issues applying to an employee of a defense ministry may vary significantly from those applying to someone working in a social security department. On the other hand, there is a need to ensure an overall coherent public service ethos to prevent fragmentation. Thus, even where individual agencies are allowed to design their own agency-specific codes of conduct they must do so in the context of broad central guidelines. This is so even in countries, which have pushed public management changes farthest. For example, in New Zealand, the overall Public Service Code of Conduct is supplemented by department codes to fit operational requirements and circumstances.

A corollary of greater managerial autonomy is a reduction in detailed rules (as in the Reinventing Government program of the US), or a replacement of procedural rules normally incorporated in ad hoc legislation with more goal-oriented formulations concerning the performance that various units

are expected to achieve (as in Australia, New Zealand, or the Nordic countries). Therefore, the greater freedom of action implied by the principle of letting the managers manage also allows more space for irregularities. Some public officials may simply be confused about how to operate when detailed regulations have been reduced without an equally clear and reliable specification of performance indicators. But also, a single-minded stress or result places the manager under pressure to side-step ethical standards or procedural norms. This is why many countries have formulated codes of conduct in order to stimulate adherence to values.

The new public-private sector interface

The evolution of the role of the public sector has increased contacts with the private sector. Of course, the private sector itself is also concerned with fostering ethical behavior. Nevertheless, the evidence shows that the increased contacts have created new opportunities of wrongdoing in a number of areas. In France, for example, the decentralization process that removed traditional (and inefficient) *ex-ante* constraints on local government without providing sufficient *ex-post* oversight has opened the door to several damaging instances of public-private collusion and weakened to some extent the credibility of the necessary decentralization process.

In particular, public servants are increasingly involved in commercial operations with the private sector, which open up risk areas such as build-operate-transfer contracts, and management of privatization processes (see Chapter 13 for a discussion of contracting out). It may be in the area of information technology (IT), where contracting-out was extensive, that the most useful lessons could be learnt. In Norway, the IT investments of a number of large agencies have led to questions about both budgetary and managerial issues, concerning mainly lack of controls and of awareness of responsibility, as well as poor definition of oversight responsibilities between levels of government. In Germany, the most sensitive areas include the awarding of public contracts, allocation of subsidies, licensing, and levying fees. Poland was also concerned about privatization and cross-border transactions, and Greece about tax and customs revenues. The increasing interaction between the public and private sectors should not be discouraged but call for more attention on public service values and for requiring external partners to respect those same values. The consequences of a failure to do so were brought home dramatically by the Asian financial crisis of 1997-99, which was in large measure caused by the degradation of public-private cooperation into collusion and closed circles of influence and privilege.

One central aspect of the new public-private interface is the evolution of employment practices. Traditionally, public servants trade off the higher salaries of the private sector for the security of tenure and the social status associated with government service. The clarity of this trade-off has been blurred in many countries. Security of employment is weakened by the greater use of fixed-term contracts and, as mentioned earlier, respect for civil service has given way to lower regard. Also lateral recruitment from the private sector has taken place with greater frequency than in the past, requiring a corresponding increase in government wages in order to be effective. These developments may have positive effects with respect to improving management or introducing some private sector practices. However, there are concerns that the disappearing distinction between public and private employment may contribute to diluting standards in the public sector, as profit orientation and narrow quantitative measurements may override public sector values and norms.

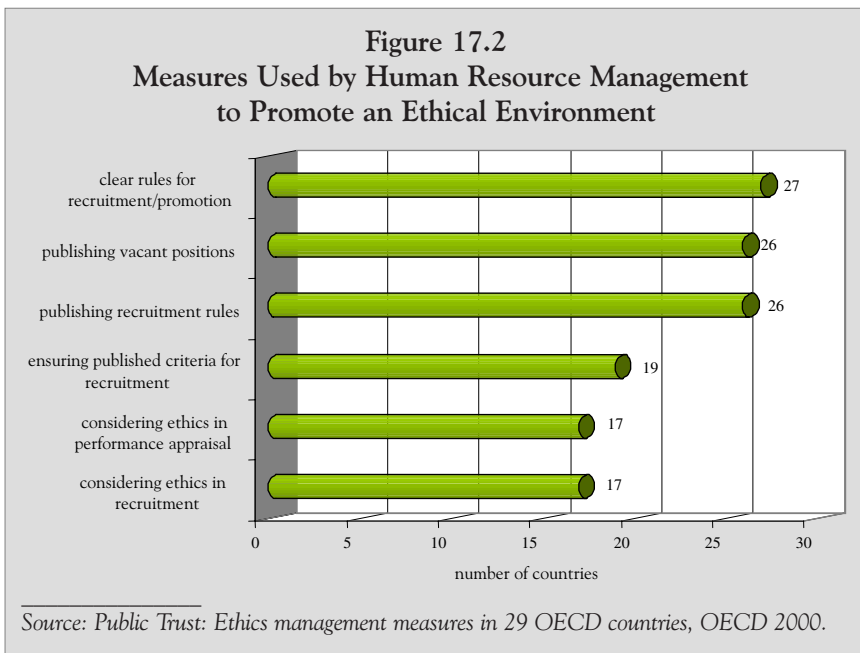
Finally, if government wages do not rise enough to offset the new insecurity and lower status, senior civil servants will be induced to look for private employment. Aside from reducing government efficiency, because it will inevitably be the abler persons who leave, this raises concerns about public servants using privileged information from their public employment to seek, or use in, subsequent employment in the private sector. Areas of particular sensitivity are tax administration and public procurement. This is only a transitional problem, as a new equilibrium would eventually be reached. It does require attention, however, and most developed countries have responded—normally with respect to only very senior staff levels—by tightening up postemployment regulation on public servants (e.g., France, Germany, Ireland, Italy, Japan, Republic of Korea, Norway, Poland, Spain, Sweden, Switzerland, and US).

Fostering an Ethics Infrastructure in OECD Countries

To be really effective corruption prevention measures must be paralleled by continuous efforts to sustain a sound “ethics infrastructure”. Drawing on the experience of its member countries, OECD has identified the institutions, systems, tools, and conditions that governments use to promote ethics in the public sector. This ethics infrastructure was translated into the set of principles developed in the 1998 OECD Recommendation on Improving Ethical Conduct in the Public Service, which provides a global approach to develop a coherent framework between the different elements of the infrastructure and also offers guidance for managers on how to review their ethics

management systems. This could be easily transferable to other countries outside the OECD area.

The key issue of the ethics infrastructure is how public servants can be given support in observing high standards of integrity in a rapidly changing public sector environment, without undermining the main thrust of the public management reforms which aim to enhance efficiency and effectiveness. Although there is no single method for constructing an ethics infrastructure in the public service, the various measures used to encourage professional standards of conduct are shown in Figure 17.2 and listed in Box 17.1.



Box 17.1
Main Elements of an Ethics Infrastructure

1. Political commitment

In the absence of sustained political commitment to ethical behavior in the administration, efforts to encourage such behavior will be in vain. The most recent examples show that attempts to improve public sector ethics in OECD countries have been sponsored at the highest political levels: for example, the President of the Republic of Korea requested the Government to elaborate a comprehensive anticorruption strategy and program in August 1999.

continued on next page

Box 17.1 (cont'd.)

2. Workable codes of conduct

Codes of conduct play an important role in stating the expected standards of behavior, particularly in countries that have reduced the rules applying to public servants and have adopted more managerial styles of public management. Some countries (e.g., Australia) chose a broad public service code of conduct from which individual agencies design a purpose-built code to reflect their particular objectives and mission. In other countries, codes of conduct are entirely agency-based.

3. Professional socialization mechanisms

However, codes of conduct or even legal provisions remain simply words on paper, if not adequately communicated and inculcated. Training (induction and ongoing) is essential to raise ethics awareness and develop skills capable of solving ethical dilemmas; good role models (especially managers) also serve this purpose. For example, ethics issues now constitute an integral part of the initial training of future managers in Belgium, while all senior private sector entrants to the civil service in the United Kingdom are required to focus on ethics issues in their mandatory induction training. In the Czech Republic, public servants' training integrated ethics as one module in the preservice and in-service training.

4. Ethics coordinating body

These take various forms—legislation committees, central agencies, or special bodies—and assume various functions: general promoter of public sector ethics, a role performed by Norway's Ministry of Labor and Government Administration and New Zealand's State Services Commission; counselor and advisor, such as the United States Office of Government Ethics and the Canadian Office of the Ethics Counselor for public office holders in the Executive Branch and the Office of Values and Ethics for the public service; standing oversight committee such as the Committee on Standards in Public Life in the United Kingdom or watchdog body, such as France's permanent anticorruption investigation commission or the New South Wales Independent Commission Against Corruption in Australia. The existence of an ethics office does not, however, absolve public managers of the responsibility for ensuring ethical conduct within their jurisdictions.

5. Supportive public service conditions

The high standards of ethical conduct expected of public officials are one side of the coin. The other side is decent working and living conditions for the servants of the public, consisting of sufficient job security, opportunities for promotion, fair remuneration, or social appreciation. If public servants are underpaid, overworked, and insecure, they are less likely to embrace initiatives to improve performance, including in the ethical domain.

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Box 17.1 (cont'd)

6. Effective legal framework

The legal framework is the “teeth” of the overall ethics infrastructure. Laws and regulations define the basic standards of behavior for public servants and enforce them through systems of investigation and prosecution. In reviewing its legal framework, a country must check that existing criminal codes and civil service laws, and conflict of interest statutes and other regulations that apply to public servants are clear and consistent. Several countries (e.g., Poland) adopted laws recently requiring all public officials to declare their assets.

7. Efficient accountability mechanisms

Accountability mechanisms should encourage ethical behavior by making unethical actions hard to commit and easy to detect. Accountability mechanisms include internal administrative procedures (e.g., requirements that requests be recorded in writing), audits and evaluations of an agency’s performance, whistleblowing (which encourages public servants to expose wrongdoing committed by others or to go public when asked to do something inappropriate), and legislative or other external oversight.

8. Active civil society

Ethics is everybody’s responsibility, including that of an assertive media, which through its probing reporting, helps citizens to act as watchdog over the actions of public officials. Freedom of information (FOI) laws may support public awareness and responsiveness. The United States passed its FOI act in 1967 and Denmark in 1970. Other OECD countries adopted it more recently (e.g., Czech Republic and Japan in 1999) and drafts are under consideration in the United Kingdom and Switzerland (see Chapter 16 for details).

PREVENTING CORRUPTION²

Background

Corruption has been one of the most enduring problems confronting governments throughout history. Although differences may exist in the nature and scope of corrupt behavior, and the extent to which anticorruption measures are enforced, the phenomenon can be found at all times in virtually every political system. It can also be found in the private sector, of course. Indeed, the linkage between public and private sector corruption is an area of particular concern for both developed and developing countries.

Historically, concern about corruption has tended to run in cycles, in which revelations of official abuses prompted anticorruption campaigns and administrative countermeasures that subsequently faded from view until

the next round of scandals provided further impetus for reform. The desire to reduce or eliminate corruption was at the core of many innovations for good governance. The major public administration reforms of the late 19th and early 20th centuries—such as the introduction of a meritocratic civil service system, and professional management of government ministries and departments, or the creation of more formalized budget, procurement, and audit processes and agencies—had their roots in the desire to stop graft and political patronage.

Recently, as mentioned in Chapter 1, the effort to combat corruption has moved to the center of the debate on good governance and economic growth. Pressure for more active measures against graft and corruption is no longer likely to be isolated and sporadic. In response to this pressure, many international organizations have adopted more robust anticorruption measures:

- At a Summit of the Americas in May 1994, the Organisation of American States (OAS) pledged to outlaw cross-border bribery and the “illicit enrichment” of officials in the hemisphere. In March 1996, 21 member states of the OAS signed the Caracas Convention, which calls for energetic collective action in four principal areas: preventive measures and international cooperation, transnational bribery, illicit enrichment, and extradition. The Caracas Convention is now in force between the countries that have ratified it: Bolivia, Costa Rica, Ecuador, Mexico, Paraguay, Peru, and Venezuela.
- The OECD Ministerial Council approved in May 1996 a resolution encouraging its member states to end the tax deductibility of foreign bribes and “commissions”. A year later, it approved a full set of recommendations for criminalizing transnational bribery, enacting stricter accounting requirements and external and audit controls, tighter public procurement, and enhanced international controls. In December 1997, OECD ratified a convention making the bribery of foreign officials a criminal offense, on a par with the bribery of local government officials in the country where the corporation is based. The convention entered in force for all OECD member countries in February 1999.³
- The International Chamber of Commerce recently approved revised rules of conduct that prohibit bribes and recommended that its member associations around the globe, and their member corporations, apply these tighter rules.

- In December 1996, the United Nations General Assembly passed the Declaration Against Corruption and Bribery in International Commercial Transactions.
- In September 1997, the World Bank introduced a formal anticorruption policy, and ADB adopted a similar policy in July 1998.
- A working group on anticorruption has been formed including all multilateral development organizations. Among several other international events to coordinate anticorruption efforts, a major ADB-OECD conference was held in Manila in September 1999.

Definitions of Corruption

The term corruption is used as a shorthand reference for a large range of illicit or illegal activities. Although there is no universal or comprehensive definition, all definitions share an emphasis upon the abuse of public power or position for personal advantage. *The Oxford Unabridged Dictionary* defines corruption as “perversion or destruction of integrity in the discharge of public duties by bribery or favor.” *Webster’s Collegiate Dictionary* defines it as “inducement to wrong by improper or unlawful means (as bribery).” The succinct definition utilized by the World Bank is “the abuse of public office for private gain.” OECD also defines it as “the misuse of public office, roles or resources for private benefit (OECD 1996:13). These definitions are similar to that employed by Transparency International (TI), the leading nongovernment organization (NGO) in the global anticorruption effort: “Corruption involves behavior on the part of officials in the public sector, whether politicians or civil servants, in which they improperly and unlawfully enrich themselves, or those close to them, by the misuse of the public power entrusted to them.”⁴ These definitions do not cover the problem of corruption in the private sector or cover only limited aspects of the role of the private sector in fostering corruption in government. Accordingly, ADB defines corruption as the *abuse* of public or *private* office for personal gain.

An illustrative list (not exhaustive) of illicit behavior typically referred to as corruption is presented in Box 17.2. It shows that some types of corruption are internal, in that they interfere with the ability of a government agency to recruit or manage its staff, make efficient use of its resources, or conduct impartial in-house investigations. Others are external, in that they involve efforts to manipulate or extort money from clients or suppliers, or to benefit from inside information. Still others involve unwarranted interference in market operations, such as the use of state power to artificially restrict competition and generate monopoly rents.

Box 17.2
An Illustrative List of Corrupt Behaviors

- The design or selection of uneconomical projects because of opportunities for financial kickbacks and political patronage;
- The illicit provision of undervalued foreign exchange;
- Procurement fraud, including collusion, overcharging, or the selection of contractors, suppliers, and consultants on criteria other than the lowest price and best quality service;
- Illicit payments of speed money to government officials to facilitate the timely delivery of goods and services to which the public is rightfully entitled, such as permits and licenses;
- Illicit payments to government officials to facilitate access to goods, services, and/or information to which the public is not entitled, or to deny the public access to goods and services to which it is legally entitled;
- Illicit payments to prevent the application of rules and regulations in a fair and consistent manner, particularly in areas concerning public safety, law enforcement, or revenue collection;
- Payments to government officials to foster or sustain monopolistic or oligopolistic access to markets in the absence of a compelling economic rationale for such restrictions;
- The misappropriation of confidential information for personal gain, such as using knowledge about public transportation routings to invest in real estate that is likely to appreciate;
- The deliberate disclosure of false or misleading information on the financial status of corporations that would prevent potential investors from accurately valuing their worth, such as the failure to disclose large contingent liabilities or the undervaluing of assets in enterprises slated for privatization;
- The theft or embezzlement of public property and monies;
- The sale of official posts, positions, or promotions; nepotism, or other actions that undermine the creation of a professional, meritocratic civil service;
- Extortion and the abuse of public office, such as using the threat of a tax audit or legal sanctions to extract personal favors; and
- Obstruction of justice and interference in the duties of agencies tasked with detecting, investigating, and prosecuting illicit behavior.

More narrow definitions of corruption are often necessary to address particular types of illicit behavior. In the area of procurement, for example, the World Bank defines corrupt practice as “the offering, giving, receiving, or soliciting of anything of value to influence the action of a public official in the procurement process or in contract execution,” and fraudulent practice as “a misrepresentation of facts in or to influence inappropriately a procurement process or the execution of a contract to the detriment of the Borrower, and includes collusive practices among bidders...designed to establish bid prices at artificial, noncompetitive levels and to deprive the Borrower of the benefits of free and open competition.”

It is often useful to differentiate between “grand corruption”, which typically involves senior officials, major decisions or contracts, and the exchange of large sums of money; and petty corruption, which involves low-level officials, the provision of routine services and goods, and small sums of money. It is also useful to differentiate between systemic corruption, which permeates an entire government or ministry, and individual corruption, which is more isolated and sporadic. Next, bribes given to induce public officials to deviate from their duties should be distinguished from “grease money”, i.e., bribes given to get them to do what they are supposed to do in any case, or to do it more expeditiously. Finally, it is useful to distinguish between syndicated corruption in which elaborate systems are devised for receiving and disseminating bribes, and nonsyndicated corruption, in which individual officials may seek or compete for bribes in an ad hoc and uncoordinated fashion. The policy and operational responses will vary according to the type of corruption problem being addressed.

The Costs of Corruption

Corruption has not always been perceived as having a negative impact upon development. In earlier decades, arguments were advanced that it could have beneficial effects. It was argued that bribes were a necessary supplement to very low civil service wages, with no fiscal cost to the government. It was alleged that corruption could advance economic efficiency by helping to raise administratively determined prices to market-clearing levels, or to channel resources to more efficient persons, with the means to pay greater bribes. Others maintained that corruption played a useful redistributive role, transferring resources from wealthy individuals and corporations to those of more modest means, or that it could serve as a tool of national integration by allowing ruling elites to entice or co-opt fractious political, ethnic, or religious groups. Finally, some scholars have

argued that corruption is a natural stage of development, noting that it was widespread in many advanced countries until recently, when it was reduced (but not eliminated) through the gradual imposition of public sector reforms over the last century.

None of these arguments is valid for the longer term and in a broader context; they refer to the benefits stemming from specific illicit acts and do not consider the systemic impact of corruption. However, first, although a given incident or transaction may have positive results, it may also generate negative externalities that degrade the performance of the system as a whole and compromise the economy's long-term efficiency (Klitgaard, 1998).

Second, many of the alleged benefits from corruption, such as streamlining government transactions or enhancing civil service pay, only appear beneficial against the background of a public sector that is failing to perform effectively. The experience of economies such as Singapore indicates that patient and persistent efforts toward improved public sector management, by streamlining customs procedures or by paying wages that are competitive with the private sector, for example, are likely to result in greater benefits over time than tolerating relatively high levels of corruption to compensate for these deficiencies.

Third, corruption encourages people to avoid compliance with regulations both good and bad without considering their content. There is no guarantee that an importer who bribes a customs official to expedite the clearance of badly needed medication one week will not bribe the official to expedite the clearance of illegal narcotics the next.

Fourth, bribes tend to channel resources not to those who are more efficient in economic activity, but to those who are more skilled at bribery. (Tanzi, in Schiavo-Campo, ed. 1999)

Although there are instances when illicit acts can improve the short-term economic rates of return, the bulk of the evidence indicates that corrupt actions typically generate far more costs than benefits. A study of corruption in one African country, for example, concluded that corruption intensified ethnic conflict, ruined the efficiency of municipal government and federal agencies, crippled the merit system of hiring and promotion, and generated an atmosphere of distrust which pervades all levels of administration. A study of an Asian country found that the money raised

through corruption was never “directly and productively invested.”⁵ Almost 20 years ago, an extensive study of corruption in another Asian country concluded:

Graft and corruption has strongly affected development efforts negatively, belying the so-called “revisionist hypothesis” prevalent in the West which considers corruption as either a necessary step in the development process or a means of speeding it up. Instead [our research] found that corruption leads to the favoring of inefficient producers, the unfair and inequitable distribution of scarce public resources, and the leakage of revenue from government coffers to private hands. Less directly, but no less perniciously, corruption leads to loss of confidence in government.⁶

Upon closer inspection, many of corruption’s alleged distributive, efficiency, and political benefits turn out to be illusory. Rather than enhancing a more equitable distribution of income, corruption distorts the allocation of social resources away from those who are legally entitled to them and toward the rich, the powerful, and the politically well connected. Rather than compensating civil servants for poor pay, corruption undermines the merit system, compromises service professionalism, and perpetuates the low pay structure. At times, it can even foster additional inefficiencies within the public sector. In one African country, for example, each imported container shipment is inspected three times by custom officers because of the opportunity for graft and speed payments, rather than conducting a spot check based upon the previous history of the importer, as is the practice in many other countries. And, instead of cementing political loyalties, corruption more often breeds public cynicism and resentment toward the political process and those associated with it.

Many studies of the cost of corruption in individual cases paint a picture of resources lost, squandered, or devoted to suboptimal uses:

- As much as \$30 billion in aid for Africa has ended up in illicit foreign bank accounts. This amount is twice the annual GDP of Ghana, Kenya, and Uganda combined.⁷
- Over the last 20 years, one East Asian country is estimated to have lost \$48 billion due to corruption, surpassing its entire foreign debt of \$40.6 billion.⁸
- An internal report of another Asian government found that over the past decade, state assets have fallen by more than \$50 billion, primarily

because corrupt officials have deliberately undervalued them in trading off big property stakes to private interests or to international investors in return for payoffs.⁹

- In one south Asian country, recent government reports indicate that \$50 million daily is misappropriated due to mismanagement and corruption. The Prime Minister stated publicly recently that the majority of bureaucrats and the administrative machinery from top to bottom are corrupt.¹⁰
- In one North American city, businesses were able to cut \$330 million from an annual waste disposal bill of \$1.5 billion by ridding the garbage industry of mafia domination. A particular problem was the permeation of regulatory bodies by organized crime.¹¹
- Studies of the impact of corruption upon government procurement policies in several Asian countries reveal that these governments have paid from 20 to 100 percent more for goods and services that they would have otherwise.¹²
- Corruption can cost many governments as much as 50 percent of their tax revenues. When customs officials in a Latin American country were allowed to receive a percentage of what they collected, there was a 60 percent increase in customs revenues within one year.¹³
- In a European country, corruption inflated total government debt by as much as 15 percent, or \$200 billion. In one city, anticorruption initiatives have reduced the cost of infrastructure by 40 percent, allowing the city to significantly increase its outlays for the maintenance of schools, roads, street lamps, and social services.¹⁴

Although impossible to value precisely, the indirect costs of corruption can often dwarf its direct costs. Scarce resources are squandered on uneconomical projects because of their potential to generate lucrative payoffs, and priority sectors such as education or health suffer disproportionately. Legitimate entrepreneurial activity is hindered or suppressed. Public safety is endangered by substandard products and construction. Individuals who would not otherwise engage in illicit behavior decide they have no alternative. Time and intellectual energy are diverted from more productive pursuits to figuring ways to get around the system. In many countries corruption of police forces, including border guards, have

dangerous and pervasive effects on public trust in the rule of law and encourage citizens to act illegally. In extreme cases, the legitimacy of the public sector itself is called into question, and governments may be confronted with political instability or collapse.

Although corruption is always costly, its impact upon economic growth is not uniform. Some countries can tolerate relatively high levels of bribery and graft and continue to maintain respectable rates of economic growth, whereas others cannot. Several factors influence the extent to which corruption serves as a brake upon the process of development. At the most basic level, a state's natural resource base and the sources of its comparative advantage play a critical role in its ability to attract investment. A second factor is the form in which corruption is practiced. In some countries, corruption is highly routinized. Payoffs are generally known in advance, uniform, and concentrated at the top in "one-stop" fashion. Such an approach may reduce transaction costs and add a measure of predictability to investment decisions, making the country inherently more attractive than other countries where many different officials can demand unspecified and unanticipated payments. Finally, the extent to which money remains in the country and is invested in productive economic activity, or flows abroad into foreign bank accounts, will also have an impact upon a nation's ability to tolerate relatively high levels of corruption and still enjoy decent rates of economic growth.

In spite of these caveats, the most recent empirical research demonstrates that—even correcting for differences in administrative efficiency—countries that tolerate relatively high levels of corruption are unlikely to perform economically as well as they would have otherwise. A study of over 70 countries during the late 1970s and early 1980s (Mauro 1995) found that corruption is strongly negatively associated with the investment rate, regardless of the amount of red tape, and that a reduction of corruption translates into a significant increase in both the investment-GDP ratio and economic growth.¹⁴ This finding is supported by other recent studies. Countries perceived to have relatively low levels of corruption were able to attract significantly more investment than those perceived to be more prone to corrupt or illicit activity. (This result held true for both countries where corruption was highly syndicated and predictable, and countries where it was not.) Asia is no different from any other region in this regard.¹⁶

THE INTERNATIONAL AND NATIONAL RESPONSE

The International Response

Many countries have criminalized corruption and a national response to corruption is crucial. However, the pervasive and trans-border nature of corruption calls for a more global approach.

The international response to the problem of corruption is intended to reduce the burden that widespread systemic corruption exacts upon the economies of developing countries, and should not involve interference in the political affairs of a country or be influenced by its political character. It is centered upon three basic objectives:

- (i) supporting competitive markets and sound public administration as part of the broader challenge of good governance;
- (ii) supporting promising anticorruption efforts on a case-by-case basis and improving the quality of the dialogue with developing countries on a range of governance issues, including corruption; and
- (iii) ensuring that externally-funded projects adhere to the highest financial and ethical standards.

ADB and other international development agencies have funded many projects with anticorruption components. A variety of measures have also been taken by ADB and other international development institutions to ensure integrity in their own operations, including strengthening procurement procedures (Chapter 9) and introducing independent internal reporting and oversight mechanisms.

OECD Countries' Experience

Echoing the international consensus concerning corruption, summarized above, a recent survey of OECD countries experiences¹⁶ suggests that corruption prevention should rely on a combination of mechanism rather than on any one single measure. Such mechanisms include law enforcement and independent investigation techniques, preventive management and financial controls, transparency mechanisms (e.g., declarations of assets, public exposure), raising the awareness and the skills of officials, and adequate remuneration of public officials.

Most country initiatives target financial impropriety. In addition to moves to strengthen penalties and investigative powers, efforts are made to increase transparency and public exposure of government activities mainly through asset registers, register of corrupt firms, declaration systems, and register of political lobbyists. Moreover, guidance and training for officials, the introduction of specialized bodies, and reviews of the broader environmental conditions influencing corruption are all under consideration or being developed.

Corruption prevention is more complex than just initiating new laws or establishing new anticorruption institutions. To be coherent, these measures must be integrated in the existing environment. Increasingly, countries seem to be looking at the way institutions and circumstances provide conditions that encourage or restrain the growth of corruption. Switzerland, for example, is developing plans to improve the effectiveness of existing provisions such as criminal, taxation, and competition law. Germany is examining the possibility of introducing risk analysis to identify the areas of the public sector most susceptible to corruption. Similarly, the range of policy areas seen as relevant to corruption prevention appears to be expanding. While in all countries anticorruption measures are linked with crime and justice administration, for some countries other policy areas are relevant for corruption prevention—such as competition policy (Belgium, Czech Republic, Greece, Hungary, Italy, Poland and Switzerland), public administration (France, Ireland, Italy, Japan, Mexico and Sweden), and regulatory reform policies (Italy, Republic of Korea, and Mexico). This multi-dimensional approach raises issues of policy coherence and coordination, in each country and between them.

The transparency mechanisms in OECD countries fall into three groups: measures that guarantee the openness of systems and the standardization of public processes; those that provide access, or scrutiny of public sector processes; and measures that facilitate reporting or exposure of wrongdoing. A recent innovation is the creation of monitoring bodies with special responsibility for administering transparency legislation: Greece established a special parliamentary committee; Italy established the office of guarantor of legality and transparency; and, reflecting a growing concern with the financing of political parties, Belgium established a parliamentary commission to oversee transparency of election campaign funding.

According to each country's traditions the continuum that ranges from illegal to inappropriate may vary and so will also legal provisions.

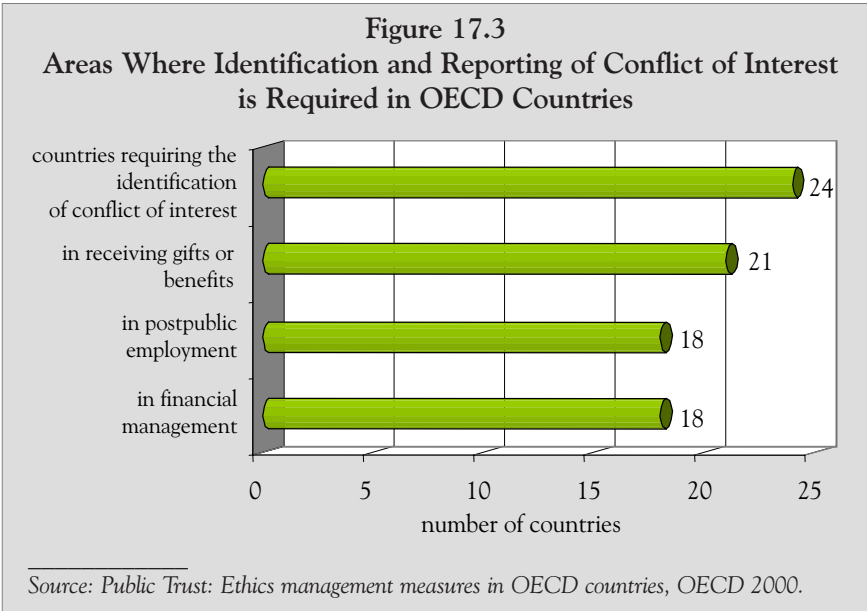
Prohibitions and restrictions imposed by law usually include bribery, maladministration and abuse, unauthorized use of confidential information, trading in influence, electoral fraud or interference, and inappropriate employment practices. Some countries have also initiated more specific legislation to prohibit or restrict certain practices. This is usually the case when there is a risk of endemic wrongdoing in a particularly sensitive area or when past tolerance needs to be reversed. Specific provisions include false statements to officials (Ireland, Mexico, and Switzerland), illicit enrichment (Czech Republic and Mexico), interfering or impeding public procurement (Belgium, France, Mexico, Sweden), taking reprisals against a person reporting wrongdoing (Hungary, Sweden), deserting office (Japan, Republic of Korea), and causing discredit to the public service (Japan).

Three types of legislation are most often used to prohibit wrong behavior: criminal provisions against specified types of corruption; civil service legislation that establishes obligations applying specifically to public officials; and general law provisions that have the effect of corruption prevention. Although legislation is an essential aspect, other instruments, such as sound procedures, good management, and well-functioning institutions are also needed.

Criminal legislation

To deal with serious illegal acts by public officials, countries typically apply their criminal codes. For example, in the UK bribery is a general criminal offence, regardless of whether the accused is a public servant or not. In some cases, criminal codes deal specifically with public offences as in the Netherlands where it is a criminal offence for a public servant to accept a gift or a promise. Some countries (e.g., the US) have established specific conflict-of-interests laws. Penalties are usually dismissal and either fines or even imprisonment. Before embarking in new legislation, a determination is needed whether a country's existing criminal code can sufficiently handle corrupt behavior in the public service.

Criminal codes usually specify the offence of bribery. The term bribery can be used to characterize a range of offences that cover active, passive, indirect, and attempted bribery. There is a discernible trend to strengthen bribery legislation and broaden the scope of the offence of bribery. The German Anti-Corruption Act of 1997, for example, has expanded the traditional definition of bribery—i.e., granting and acceptance of advantages—to include “attempts to persuade a civil servant into doing or



refraining from doing anything in his official capacity for a consideration,” and increased the penalties attached to the offence. In France the legislation applies to all persons performing public functions, not only to government personnel.

Bribery is only one visible aspect of misconduct. Effective sanctions should also criminalize related, and often more pervasive wrongdoing, such as fraud, abuse of authority, abuse of public office, abuse of public facilities, and abuse of public finances.

Other laws and procedures

The most significant are civil service and administrative laws, although in some cases broader areas of legislation are concerned: in Poland financial and commercial legislation has been introduced relating to commercialization and privatization of state enterprises or (as also in the Czech Republic) unfair competition.

To deal with less serious illegal acts that do not constitute a criminal offence, countries rely on their civil service laws. Most OECD countries have a legislation to establish the duties and obligations of public officials and allow for disciplinary action when they are breached. For example,

under the Finnish State Civil Servants Act, a public servant can be issued a written warning or dismissed. Often these laws also establish related mandatory procedures intended to prevent corruption such as declaration of interests and public procurement regulations. The most common requirements imposed by law on civil servants are embodied in:

- statement of general duties, obligations, and values of public office;
- requirements for public officials to disclose assets and financial interests;
- rules on conflict of interest, including receiving gifts, concurrent office holding, and financial and political activity; and
- general administrative procedure and specific procedures for public procurement.

Most of the provisions in criminal legislation are reinforced by administrative measures. Germany, Ireland, and Republic of Korea have, for example, provisions for the reduction of the pension of an official convicted of or dismissed for corruption. Poland introduced legislation to regulate payments made by police and other investigating authorities to informants in the course of official operations, and Swedish legislation requires sound recordkeeping by financial institutions and corporations as a preventive measure against bribery. Of course, all these measures can be effective only to the extent that they are enforced.

Institutions for investigation, prosecution, and control

Investigation and prosecution of misconduct should normally take place through a well functioning law enforcement system (including the judiciary) able to detect and sanction wrongdoing. But the legislature also performs a role for detecting misconduct, and legislative bodies have been created in many countries to deal with corruption: permanent parliamentary investigative bodies exist in Germany, Greece, Ireland, Italy, Mexico, Poland, and Sweden. In Belgium, Czech Republic, Germany, Hungary, Ireland, Italy, Republic of Korea and Mexico provisions also exist for setting up an ad hoc committee at any time. A recent example was the Italian Special Commission for the Prevention and Repression of Corruption. The most sophisticated example is when parliamentarians have added a system to review their own ethics, such as in Sweden through a parliamentary oversight committee, or in Japan through deliberative councils in both houses of parliament.

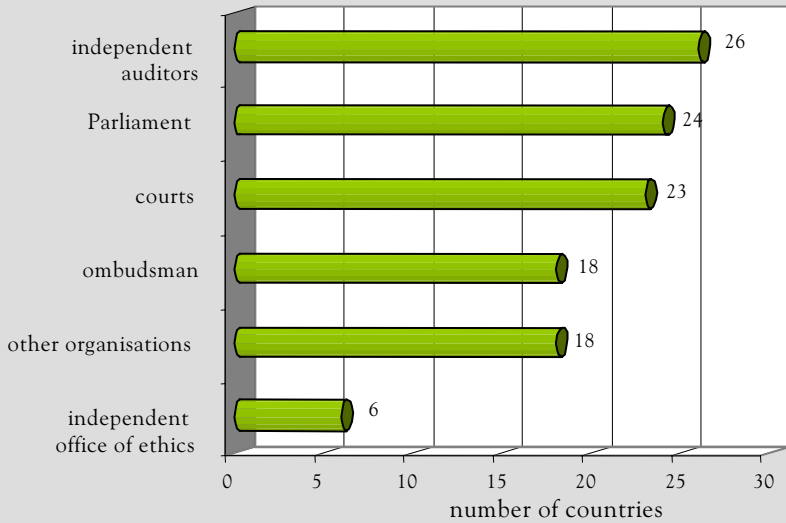
Within ministries and agencies, some internal investigative power for detecting corruption has also been given to the traditional internal inspectorates in France, Italy, Republic of Korea, Mexico, and Sweden. A number of relatively independent and specialized investigation services can also exist, as in Italy, where investigation is exercised by special judicial agencies, as well as the General Finance Inspectorate, the State Accounting Service, the Public Service Department Inspectorate, and administrative investigation institutions. Some countries have specialized units within police and judicial structures to prosecute corruption (Belgium, France), while in Italy a specialized anti-mafia judiciary has been set up to coordinate all activities to combat organized crime. In general, however, experience shows that anticorruption agencies should be independent of the police.

For serious cases of corruption committed by senior officials—usually restricted to elected officials—special trials may be conducted by the legislature according to constitutional provisions (e.g., France, Mexico).

External checks and investigations are unlikely to be effective in the absence of any internal control. Internal control is an integral part of the management of public organizations. It assists managers in monitoring the efficiency of the system and operations of the organization, and improving internal processes. Internal control is thus complementary with external control performed by independent authorities, such as a general audit office or ethics agencies with independent authority, e.g., the US Office of Government Ethics. The need for independent oversight is particularly true in the financial realm, where external auditors play an essential role for detecting misuse of public money.

The effectiveness of anticorruption efforts, however, does not depend on the number of investigative bodies. On the contrary, without a supportive climate and strong accountability institutions, a proliferation of investigative efforts can give the illusion of action without the substance. In certain circumstances, the investigative bodies themselves can become a source of corruption, which accomplish nothing for public integrity but adds to the unpredictability of the overall administrative and business climate.

Figure 17.4
Institutions Performing Independent Scrutiny Over the Administration



Source: *Public Trust: Ethics management measures in OECD countries*, OECD 2000.

KEY POINTS AND DIRECTIONS OF IMPROVEMENT

Key Points

Integrity is a fundamental condition for governments to provide a predictable and effective framework for the economic and social life of their citizens. While the increased use of private sector methods in the public sector can improve public sector efficiency, it can also lead to a fragmentation of public service values, standards, and ways of operating. This situation requires enhanced mechanisms to strengthen public servants' accountability for their new discretionary powers and to ensure that they adhere to standards of integrity as well as to citizens' expectations. As traditional central regulations and controls are reduced, the role of values—and the public interest concepts they embrace—becomes increasingly significant, both as a guide for individual civil servants' behavior and as the common reference point and unifying thread for the whole public service.

Although measures must be to some extent country-specific, the integrity framework should ensure in all countries that public servants'

behavior is in line with the purposes of the organization; public service operations are reliable; citizens receive impartial treatment on the basis of legality; and public resources are properly used. Transparency is a key incentive for civil servants to act ethically, and measures must be in place to permit public scrutiny and redress.

Governments should foster a culture in which the public servant and the citizen have a common understanding of the expected behavior of public office holders. The changing public sector environment requires regular updating of the rules, but impartiality, legality, and integrity remain the unchanging core values of public service. Within these values, specific standards should set boundaries for public servants' conduct—particularly in relation to the use of official information and public resources, receiving gifts or benefits, and working outside the public service. Specific professions entail specific standards, and special attention is needed for sensitive areas or where there is a high risk of conflict of interest, such as public procurement or tax administration.

Values and standards can be inculcated mainly through training the new recruits to the public service and through on-the-job training. In addition, public servants must have the possibility of turning to their superiors or (preferably) to an external entity to obtain advice on ethics-related questions.

Central institutions, such as public service commissions, as well as the supreme audit office should carry out and publish periodic reviews of the status of integrity in the public service.

Even in a system of sound ethics management corruption may occur. Corruption, defined as the misuse of public power for private gain, is harmful to economic efficiency and growth and particularly damages the poor and vulnerable groups. The main source of corruption is a complex opaque regulatory framework, but in general corruption is greater where accountability in government is weak. Taking actions against corruption is the shared responsibility of managers and external investigative bodies, with the active assistance of citizen groups, NGOs, and the media.

A sound legal framework to combat corruption is necessary but not sufficient. In addition to it, managers have a key role to play in monitoring compliance with standards, initiating disciplinary measures, and providing protection for whistleblowers.

There is a need to ensure that ethics promotion and anticorruption measures are consistent and complementary. Effective anticorruption efforts thus require a variety of interrelated initiatives, as well as strong political leadership from the top. Therefore, while a specialized anticorruption commission can make an essential contribution, it is useless or even counter-productive in the absence of the necessary complementary measures.

Attention is typically focused on punishing corrupt behavior. However, a balance must be struck between corruption prevention and enforcement. Reducing the openings for corruption (especially by streamlining regulations) can be as effective in fighting corruption as aggressive enforcement and harsh penalties. As a general criterion, the rules and the enforcement mechanisms should ensure that the expected benefits to the individual from corrupt behavior are smaller than the likely costs. This requires reducing the potential gains from corruption at the same time as any misbehavior is pursued swiftly and predictably.

Direction of Improvement

Efforts to foster ethics and prevent corruption are two sides of the same coin and must be combined. As a 1999 OECD survey of corruption prevention showed, many of the measures taken by countries have contributed to both build a sound ethics framework and combat corruption. One of the most effective preventive measures is the internalization of integrity standards into personal behavior. However, an incentive framework that raises the costs and risks of corrupt behavior above its potential benefit is essential as well. These two aspects are closely linked. In time, the internalization of integrity standards reduces the incidence of corruption and thus makes enforcement of anticorruption regulations all the more effective; conversely, the existence of high cost/risk for corrupt behavior is a powerful inducement for maintaining high personal standards. Thus, in addition to criminalizing corruption, governments need to elaborate and communicate the standards of appropriate behavior, e.g., the difference between a harmless gesture of appreciation for good service, an inappropriate gift, and an outright bribe.

Anticorruption is part and parcel of the good governance agenda and, as such, needs to be addressed in the context of the specific public management improvements outlined elsewhere in this book. Accordingly, the only general direction of improvement that can be recommended is to strengthen accountability, transparency, the rule of law and participation

in each individual area of public administration—focusing where corruption problems are greatest. In particular, stronger accountability assures the independent review of individual administrative actions; and transparency of decision-making criteria and prompt communication of administrative decisions exposes wrongdoing. Certain broad considerations, however, are relevant to efforts at improving the ethical climate and reducing corruption. In no particular order of importance:

- Make sure to expose and penalize misbehavior at the top of an organization or of the political system, rather than just catching a few “small fish” for public relations purposes.
- Asset disclosure and public exposure can be powerful means of disciplining corrupt behavior, even without criminal prosecutions, and at the same time they provide important information to the public in the exercise of its political choices.
- Good management is key. While ethical behavior is the responsibility of each individual civil servant, a climate of trust combined with effective oversight by the responsible manager provide the essential enabling environment. In the words of a Russian proverb: “Trust but verify.”
- Preventing corruption is far more effective, and cheaper, than punishing corruption after it occurs. Although prevention is automatically weakened if enforcement is known to be lax, restricting the opportunities for corruption is not only more effective, but also reduces the risk of creating a “witch-hunt” climate. Because the largest single source of corruption is an overcomplex and opaque regulatory framework, streamlining and clarifying the regulatory framework is the single best anticorruption measure, and in addition contributes to reducing transaction costs and improving economic efficiency.
- A distinction is needed between “grease money” (sometimes called “speed money”), i.e., gifts or favors given to induce the civil servant to do his job, and outright bribes to induce him to violate the rules, give preferential treatment, or not enforce the laws. Both forms are harmful, and both must be discouraged, but in a deeply corrupt system priority should first be given to forceful action against outright bribery. The practice of grease money can only be eradicated in the context of comprehensive civil service reform.

- Especially in developing countries, anticorruption efforts should focus at least as much on the private corruptor as on the government corrupted, including the pervasive bribe-giving from external agencies and companies.
- International aid organizations have an essential role to play, at a minimum in preventing corruption in their aid-financed projects, but more broadly in cooperating actively with each other and with the recipient country's efforts.
- As true in other areas, the swiftness and certainty of punishment are more effective than severe punishments with an extremely low probability of being imposed. In some developing countries, less than 1 percent of those indicted on corruption charges are eventually convicted *and* serve their sentence. As a general rule, attention should focus on the expected loss, i.e., the severity of the punishment for a certain action multiplied by the probability of being caught and actually receiving that punishment.
- In personnel procedures, ethics criteria should be introduced in the recruitment and advancement process. Although it is impossible to guarantee that only ethical persons will enter the public service, explicit consideration of this dimension will lead to winnowing out some high-risk candidates. It is also important to assure that whistleblowers are not only protected, but actually rewarded, while building in safeguards to punish destructive gossip and prevent the creation of a witch-hunt climate.
- Specialized anticorruption agencies can perform an important role. However, they should be genuinely independent—especially from the regular police—and accompanied by complementary measures on regulatory simplification, legislation, personnel procedures, judiciary efficiency, etc. In the absence of such complementary measures, anticorruption agencies have shown a record of ineptness and futility.

Annex VII

AN ACT ESTABLISHING A CODE OF CONDUCT AND
ETHICAL STANDARDS FOR PUBLIC OFFICIALS AND
EMPLOYEES IN THE PHILIPPINES

SECTION 1. *Title.* This Act shall be known as the “Code of Conduct and Ethical Standards for Public Officials and Employees.”

SECTION 2. *Declaration of Policy.* It is the policy of the State to promote a high standard of ethics in public service. Public officials and employees shall at all times be accountable to the people and shall discharge their duties with utmost responsibility, integrity, competence, and loyalty, act with patriotism and justice, lead modest lives, and uphold public interest over personal interest.

SECTION 3. *Definition of Terms.* As used in this Act, the term:

- (a) “Government” includes the National Government, local governments, and all other instrumentalities, agencies or branches of the Republic of the Philippines including government-owned or controlled corporations, and their subsidiaries.
- (b) “Public Officials” includes elective and appointive officials and employees, permanent or temporary, whether in the career or non-career service, including military and police personnel, whether or not they receive compensation, regardless of amount.
- (c) “Gift” refers to a thing or a right disposed of gratuitously, or any act of liberality, in favor of another who accepts it, and shall include a simulated sale or an ostensibly onerous disposition thereof. It shall not include an unsolicited gift of nominal or insignificant value not given in anticipation of, or in exchange for, a favor from a public officials or employees.
- (d) “Receiving any gift” includes the act of accepting, directly or indirectly, a gift from a person other than a member of his family or relative as defined in this Act, even on the occasion of a family celebration or national festivity like Christmas, if the value of the gift is neither nominal for insignificant, or if the gift is given in anticipation of, or in exchange for, a favor.
- (e) “Loan” covers both simple loan and *commodatum* as well as guarantees, financing arrangements or accommodations intended to ensure its approval.

- (f) “Substantial stockholder” means any person who owns, directly or indirectly, shares of stock sufficient to elect a director or a corporation. This term shall also apply to the parties to a voting trust.
- (g) “Family of public officials or employees” means their spouses and unmarried children under eighteen (18) years of age.
- (h) “Person” includes natural and juridical persons unless the context indicates otherwise.
- (i) “Conflict of interest” arises when a public official or employee is a member of a board, an officer, or a substantial stockholder of a private corporation or owner or has a substantial interest in a business, and the interest of such corporation or business, or his rights or duties therein, may be opposed to or affected by the faithful performance of official duty.
- (j) “Divestment” is the transfer of title or disposal of interest in property by voluntarily, completely and actually depriving or dispossessing oneself of his right or title to it in favor of a person or persons other than his spouse and relatives as defined in this Act.
- (k) “Relatives” refers to any and all persons related to a public official or employee within the fourth civil degree of consanguinity or affinity, including *bilas*, *inso*, and *balae*.

SECTION 4. *Norms of Conduct of Public Officials and Employees.* (A) Every public official and employee shall observe the following standards of personal conduct in the discharge and execution of official duties:

- (a) *Commitment to public interest.* Public officials and employees shall always uphold the public interest over and above personal interest. All government resources and powers of their respective offices must be employed and used efficiently, effectively, honestly, and economically, particularly to avoid wastage in public funds and revenues.
- (b) *Professionalism.* Public officials and employees shall perform and discharge their duties with the highest degree of excellence, professionalism, intelligence and skill. They shall enter public service with utmost devotion and dedication to duty. They shall endeavor to discourage wrong perceptions of their roles as dispensers or peddlers of undue patronage.
- (c) *Justness and sincerity.* Public officials and employees shall remain true to the people at all times. They must act in justness and sincerity and shall not discriminate against anyone, especially the poor and the underprivileged. They shall at all times respect the rights of others,

and shall refrain from doing acts contrary to law, good morals, food customs, public policy, public order, public safety, and public interest. They shall not dispense or extend undue favors on account of their office to their relatives whether by consanguinity or affinity except with respect to appointments of such relatives to positions considered strictly confidential or as members of their personal staff whose terms are coterminous with theirs.

- (d) *Political neutrality.* Public officials and employees shall provide service to everyone without unfair discrimination and regardless of party affiliation or preference.
 - (e) *Responsiveness to the public.* Public officials and employees shall extend prompt, courteous, and adequate service to the public. Unless otherwise provided by law, or when required by the public interest, public officials and employees shall provide information on their policies and procedures in clear and understandable language, ensure openness of information, public consultations and hearings whenever appropriate, encourage suggestions, simplify and systematize policy, rules and procedures, avoid red tape and develop an understanding and appreciation of the socioeconomic conditions prevailing in the country, especially in the depressed rural and urban areas.
 - (f) *Nationalism and patriotism.* Public officials and employees shall at all times be loyal to the Republic and to the Filipino people, promote the use of locally-produced goods, resources and technology and encourage appreciation and pride of country and people. They shall endeavor to maintain and defend Philippine sovereignty against intrusion.
 - (g) *Commitment to democracy.* Public officials and employees shall commit themselves to the democratic way of life and values, maintain the principle of accountability, and manifest by deeds the supremacy of civilian authority over the military. They shall at all times uphold the Constitution and put loyalty to country above loyalty to persons or party.
 - (h) *Simple living.* Public officials and employees and their families shall lead modest lives appropriate to their positions and income. They shall not indulge in extravagant or ostentatious display of wealth in any form.
- (B) The Civil Service Commission shall adopt positive measures to promote (1) observance of these standards including dissemination of information programs and workshops authorizing merit increases beyond regular progression steps, to a limited number of employees recognized by their office colleagues to be outstanding in their

observance of ethical standards; and (2) continuing research and experimentation on measures which provide positive motivation to public officials and employees in raising the general level of observance of these standards.

SECTION 5. *Duties of Public Officials and Employees.* In the performance of their duties, all public officials and employees are under obligation to:

- (a) *Act promptly to letters and requests.* All public officials and employees shall, within fifteen (15) working days from receipt thereof, respond to letters, telegrams or other means of communication sent by the public. The reply must contain the action taken on the request.
- (b) *Submit annual performance reports.* All heads or other responsible officers of offices and agencies of the government and of government-owned or controlled corporations shall within forty-five (45) working days from the end of the year, render a performance report of the agency or office or corporation concerned. Such report shall be open and available to the public within regular office hours.
- (c) *Process documents and papers expeditiously.* All official papers and documents must be processed and completed within a reasonable time from the preparation thereof, and must contain, as far as practicable, not more than three (3) signatories therein. In the absence of duly authorized signatories therein, the official next-in-rank, or officer-in-charge shall sign for and in their behalf.
- (d) *Act immediately on the public's personal transactions.* All public officials and employees must attend to anyone who wants to avail himself of the services of their offices, and must, at all times, act promptly and expeditiously.
- (e) *Make documents accessible to the public.* All public documents must be made accessible to, and readily available for inspection by, the public within reasonable working hours.

SECTION 6. *System of Incentives and Rewards.* A system of annual incentive and rewards is hereby established in order to motivate and inspire public servants to uphold the highest standards of ethics. For this purpose, a Committee on Awards to Outstanding Public Officials and Employees is hereby created composed of the following: The Ombudsman and Chairman of the Civil Service Commission as Co-Chairmen, and the Chairman of the Commission on Audit, and two government employees to be appointed by the President, as members.

It shall be the task of this Committee to conduct a periodic, continuing review of the performance of public officials and employees, in all the branches and agencies of Government and establish a system of annual incentives and rewards to the end that due recognition is given to public officials and employees of outstanding merit on the basis of the standards set forth in this Act.

The conferment of awards shall take into account, among other things, the following: the years of service and the quality and consistency of performance, the obscurity of the position, the level of salary, the unique and exemplary quality of a certain achievement, and the risks or temptations inherent in the work. Incentives and rewards to government officials and employees of the year to be announced in public ceremonies honoring them may take the form of bonuses, citations, directorships on government-owned or controlled corporations, local and foreign scholarship grants, paid vacations, and the like. They shall likewise be automatically promoted to the next higher position with the commensurate salary suitable to their qualifications. In case there is no next higher position or it is not vacant, said position shall be included in the budget of the office in the next General Appropriations Act. The Committee on Awards shall adopt its own rules to govern the conduct of its activities.

SECTION 7. *Prohibited Acts and Transactions.* In addition to acts and omissions of public officials and employees now prescribed in the Constitution and existing laws, the following shall constitute prohibited acts and transactions of any public official and employee and are hereby declared to be unlawful:

- (a) *Financial and material interest.* Public officials and employees shall not directly or indirectly have any financial or material interest in any transaction requiring the approval of their office.
- (b) *Outside employment and other activities related there to.* Public officials and employees during their incumbency shall not: (1) own, control, manage or accept employment as officer, employee, consultant, counsel, broker, agent, trustee or nominee in any private enterprise regulated, supervised, or licensed by their office unless expressly allowed by law; (2) engage in the private practice of their profession unless authorized by the Constitution or by law, provided that such practice will not conflict or tend to conflict with their official functions; or (3) recommend any person to any position in a private enterprise which has a regular or pending official transaction with their office.

These prohibitions shall continue to apply for a period of one (1) year after resignation, retirement, or separation from public office, except in the case of subparagraph (b) (2) above, but the professional concerned cannot practice his profession in connection with any matter before the office he used to be with, in which case the one-year prohibition shall likewise apply.

- (c) *Disclosure and/or misuse of confidential information.* Public officials and employees shall not use or divulge confidential or classified information officially known to them by reason of their office and not made available to the public, either: (1) to further their private interests, or give undue advantage to anyone; or (2) to prejudice the public interest.
- (d) *Solicitation or acceptance of gifts.* Public officials and employees shall not solicit or accept, directly or indirectly, any gift, gratuity, favor, entertainment, loan or anything of monetary value from any person in the course of their official duties or in connection with any operation being regulated by, or any transaction which may be affected by the functions of their office.

As to gifts or grants from foreign governments, the Congress consents to (i) the acceptance and retention by a public official or employee of a gift of nominal value tendered and received as a souvenir or mark of courtesy; (ii) the acceptance by a public official or employee of travel grants or express for travel taking place entirely outside the Philippines (such as allowances, transportation, food, and lodging) of more than nominal value if such acceptance is appropriate or consistent with the interests of the Philippines, and permitted by the head of office, branch or agency to which he belongs.

The Ombudsman shall prescribe such regulations as may be necessary to carry out the purpose of this subsection, including pertinent reporting and disclosure requirements.

Nothing in this Act shall be construed to restrict or prohibit any educational, scientific or cultural exchange programs subject to national security requirements.

SECTION 8. *Statement of Assets and Liabilities and Financial Disclosure.* All public officials and employees have an obligation to accomplish and submit declarations under oath of, and the public has the right to know, their assets, liabilities, net worth and financial and business interests including those of

their spouses and of unmarried children under eighteen (18) years of age in their households.

(A) *Statement of Assets and Liabilities and Financial Disclosure.* All public officials and employees, except those who serve in an honorary capacity, laborers and casual or temporary workers, shall file under oath their Statement of Assets, Liabilities and Net Worth and a Disclosure of Business Interests and Financial Connections and those of their spouses and unmarried children under eighteen (18) years of age living in their households.

The two documents shall contain information on the following: (a) real property, its improvements, acquisition costs, assessed value and current fair market value; (b) personal property and acquisition; (c) all other assets such as investments, cash on hand or on banks, stocks, bonds, and the like; (d) liabilities; and (e) all business interests and financial connections.

The documents shall be filed: (a) within thirty (30) days after assumption to office; (b) on or before April 30, of every year thereafter; and (c) within thirty (30) days after separation from the service.

All public officials and employees required under this section to file the aforementioned documents shall also execute, within thirty (30) days from the date of their assumption of office, the necessary authority in favor of the Ombudsman to obtain from all appropriate government agencies, including the Bureau of Internal Revenue, such documents as may show their assets, liabilities, net worth, and also their business interests and financial connections in previous years, including, if possible, the year when they first assumed any office in the Government.

Husband and wife who are both public officials or employees may file the required statements jointly or separately.

The Statements of Assets, Liabilities and Net Worth and the Disclosure of Business Interests and Financial Connections shall be filed by: (1) Constitutional and national elective officials, with the national office of the Ombudsman; (2) Senators and Congressmen, with the Secretaries of the Senate and the House of Representatives, respectively; Justices, with the Clerk of Court of the Supreme Court;

Judges, with the Court Administrator; and all national executive officials with the Office of the President; (3) Regional and local officials and employees, with the Deputy Ombudsman in their respective regions; (4) officers of the armed forces from the rank of colonel or naval captain, with the Office of the President, and those below said ranks, with the Deputy Ombudsman in their respective regions; and (5) All other public officials and employees, defined in Republic Act 3019, as amended, with the Civil Service Commission.

(B) *Identification and disclosure of relatives.* It shall be the duty of every public official or employee to identify and disclose, to the best of his knowledge and information, his relatives in the Government in the form, manner and frequency prescribed by the Civil Service Commission.

(C) *Accessibility of documents.* (1) Any and all statements filed under this Act, shall be made available for inspection at reasonable hours. (2) such statements shall be made available for copying or reproduction after ten (10) working days from the time they are filed as required by law. (3) any person requesting a copy of a statement shall be required to pay a reasonable fee to cover the cost of reproduction and mailing of such statement, as well as the cost of certification. (4) any statement filed under this Act shall be available to the public for a period of ten (10) years after receipt of the statement. After such period, the statement may be destroyed unless needed in an ongoing investigation.

(D) *Prohibited acts.* It shall be unlawful for any person to obtain or use any statement filed under this Act for (a) any purpose contrary to morals or public policy; and (b) any commercial purpose other than by news and communications media for dissemination to the general public.

SECTION 9. *Divestment.* A public official or employee shall avoid conflicts of interest at all times. When a conflict of interest arises, he shall resign from his position in any private business enterprise within thirty (30) days from his assumption of office and/or divest himself of his shareholdings or interest within sixty (60) days from such assumption.

The same rule shall apply where the public official or employee is a partner in a partnership.

The requirement of divestment shall not apply to those who serve the Government in an honorary capacity nor to laborers and casual or temporary workers.

SECTION 10. *Review and compliance procedure.*

- (a) The designated Committees of both Houses of the Congress shall establish procedures for the review of statements to determine whether said statements have been submitted on time, are complete, and are in proper form. In the event a determination is made that a statement is not so filed, the appropriate Committee shall so inform the reporting individual and direct him to take the necessary corrective action.
- (b) In order to carry out their responsibilities under this Act, the designated Committees of both Houses of the Congress shall have the power, within respective jurisdictions, to render any opinion interpreting this Act, in writing, to persons covered by this Act, subject in each instance to the approval by affirmative vote of the majority of the particular House concerned.

The individual to whom an opinion is rendered, and any other individual involved in similar factual situation, and who after issuance of the opinion acts in good faith in accordance with it shall not be subject to any sanction provided in this Act.

- (c) The heads of other offices shall perform the duties stated in subsections (a) and (b) hereof insofar as their respective offices are concerned, subject to the approval of the Secretary of Justice, in the case of the Executive Department and the Chief Justice of the Supreme Court, in the case of the Judicial Department.

SECTION 11. *Penalties.*

- (a) Any public official or employee, regardless of whether or not he holds office or employment in a casual, temporary, holdover, permanent or regular capacity, committing any violation of this Act shall be punished with a fine not exceeding the equivalent of six (6) months' salary or suspension not exceeding one (1) year, or removal depending on the gravity of the offense after due notice and hearing by the appropriate body or agency. If the violation is punishable by a heavier penalty under another law, he shall be prosecuted under the latter statute. Violations of sections 7, 8, or 9 of this Act shall be punishable with imprisonment not exceeding five (5) years, or a

fine not exceeding five thousand pesos (₱5,000.00), or both, and in the discretion of the court of competent jurisdiction, disqualification to hold public office.

- (b) Any violation hereof proven in a proper administrative proceeding shall be sufficient cause for removal or dismissal of a public official or employee, even if no criminal prosecution is instituted against him.
- (c) Private individuals who participate in conspiracy as co-principals, accomplices or accessories, with public officials or employees, in violation of this Act, shall be subject to the same penal liabilities as the public officials or employees and shall be tried jointly with them.
- (d) The official or employee concerned may bring an action against any person who obtains or uses a report for any purpose prohibited by Section 8 (D) of this Act. The Court in which such action is brought may assess against such person a penalty in any amount not to exceed twenty-five thousand pesos (₱25, 000.00). If another sanction hereunder or under any other law is heavier, the latter shall apply.

SECTION 12. *Promulgation of rules and regulations, administration and enforcement of this Act.* The Civil Service Commission shall have the primary responsibility for the administration and enforcement of this Act. It shall transmit all cases for prosecution arising from violations of this Act to the proper authorities for appropriate action: *Provided, however,* That it may institute such administrative actions and disciplinary measures as may be warranted in accordance with law. Nothing in this provision shall be construed as a deprivation of the right of each House of Congress to discipline its Members for disorderly behavior.

The Civil Service Commission is hereby authorized to promulgate rules and regulations necessary to carry out the provisions of this Act, including guidelines for individuals who render free voluntary service to the Government. The Ombudsman shall likewise take steps to protect citizens who denounce acts or omissions of public officials and employees which are in violation of this Act.

SECTION 13. *Provisions for more stringent standards.* Nothing in this Act shall be construed to derogate from any law, or any regulation prescribed by any body or agency, which provides for more stringent standards for its officials and employees.

SECTION 14. *Appropriations.* The sum necessary for the effective implementation of this Act shall be taken from the appropriations of the Civil Service Commission. Thereafter, such as may be needed for its continued implementation shall be included in the annual General Appropriations Act.

SECTION 15. *Separability Clause.* If any provision of this Act or the application of such provision to any person or circumstance is declared invalid, the remainder of the Act or the application of such provision to other persons or circumstances shall not be affected by such declaration.

SECTION 16. *Repealing Clause.* All laws, decrees, and orders or parts thereof inconsistent herewith, are deemed repealed or modified accordingly, unless the same provide for a heavier penalty.

SECTION 17. *Effectivity.* This Act shall take effect after thirty (30) days following the completion of its publication in the Official Gazette or in two (2) national newspapers of general circulation.

NOTES

- ¹ This is a major reason why the OECD Anti-Bribery Treaty, discussed later in this chapter, does not cover “political” corruption.
- ² Adapted from ADB 1998. See also Schiavo-Campo, ed. (1999), and the chapter by Vito Tanzi therein.
- ³ The OECD antibribery convention does not cover “grease money” or “political” corruption, including that from the financing of political parties.
- ⁴ See World Bank 1997, p. 8. See also Transparency International 1996. *The TI Sourcebook*, edited by Jeremy Pope. Berlin: TI, p. 1. The World Bank definition includes the activities of private agents who subvert public policies and processes for competitive advantage.
- ⁵ The African citation is from Herbert Werlin 1979. “The Consequences of Corruption: The Consequences of Corruption: The Ghanaian Experience,” in Monday U. Ekpo, ed. *Bureaucratic Corruption in Sub-Saharan Africa: Toward a Search for Causes and Consequences*, Washington, D.C.: University Press of America, p. 253. The second citation is from Kang Sintaek 1978. “Conclusion and Recommendations,” in a paper prepared for the Fourth Working Meeting on Bureaucratic Behavior and Development, Hong Kong, China.

- ⁶ Ledivina V. Carino and Josie H. de Leon 1983. "Final Report for the Study of Graft and Corruption, Red Tape and Inefficiency in Government," cited in Klitgaard 1988. p. 38.
- ⁷ P.E. Pedersen (1996). "The Search for the Smoking Gun," *Euromoney* (September): 49.
- ⁸ Philippine Government estimate, cited from *Reuter Newswire* 1997. "Philippines Corruption a 'Nightmare'—Ramos," 11 January. See also *Philippine Star* 1997. "Commission on Audit: ₱1.2 B Lost to Graft Each Year," 12 June.
- ⁹ Internal report, cited from *Business Week* 1993. "The Destructive Costs of Greasing Palms," 6 December, p. 133.
- ¹⁰ *The News* (1997). 28 March.
- ¹¹ *The Financial Times* (1997). 6 June.
- ¹² Thinapan Nakata. 1978. "Corruption in the Thai Bureaucracy: Who Gets What, How and Why in its Public Expenditures," *Thai Journal of Public Administration* 18 (January): 102-28; Clive Gray. 1979. "Civil Service Compensation in Indonesia." *Bulletin of Indonesian Economic Studies* 15 (March): 85-113; and Robert Wade. 1982. "The System of Administrative and Political Corruption: Canal Irrigation in India." *Journal of Development Studies* 18 (April): 287-328. Cited in Klitgaard. 1988. Pp. 39-40.
- ¹³ *Business Week* (1993). "The Destructive Costs of Greasing Palms," 6 December, pp. 134-35.
- ¹⁴ *Business Week* (1993). "The Destructive Costs of Greasing Palms," 6 December, p. 135.
- ¹⁵ It should be noted that these studies are based on levels of perceived (versus actual) corruption, and also that they can have problems in separating corruption's effects from those of other variables related to the quality of governance.
- ¹⁶ The analysis was conducted by Jose Eduardo Campos and Sanjay Pradhan in conjunction with the *1997 World Development Report*. Washington D.C.: World Bank, pp. 102-109.
- ¹⁷ *Public Sector Corruption, An International Survey of Prevention Measures*, OECD 1999.

Chapter 18

Performance Measurement in Public Administration*

Success can be a great liar. —Friedrich Nietzsche

INTRODUCTION

“Performance” is one of those seductive terms whose meaning appears self-evident but is not. The introduction of performance indicators into public management has gathered steam recently, carrying both a potential for greater effectiveness and substantial risk, especially in developing countries. It is thus necessary to unbundle the concept of performance, and review the country- and sector-specific conditions that make for reform success, failure, or disaster. This chapter begins by stressing that performance is inherently relative and culture-specific—not as justification for inaction, but as prerequisite for moving to a more efficient set of performance rules. A recapitulation of performance indicators then suggests an “accountability tradeoff,” by which accountability can be either tight or broad but not both, and the resulting need to use a combination of indicators. Next, we list ten caveats and risks, from actual international experience. The major risks stem from proceeding as if performance indicators were easy to define, implement, and monitor; neglecting costs, including transaction costs; and disregarding due process in the name of results, which leads in time to bad process and bad results. The chapter goes on to outline steps for a realistic and sustainable strengthening of performance orientation in the public sector, and concludes with the customary synthesis of key points and directions for reform.

In recent years, several developed countries and some developing countries have made increasing use of performance concepts and results

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indicators, both in their managerial practices and in the formulation and execution of public programs, assisted—and often pushed—by external aid agencies. Occasionally (e.g., in Singapore), the results have justified the substantial investment in time, effort, and stress; typically, they have not. The key determinant of success or failure—as argued throughout this book—is whether the changes were realistic, introduced gradually, and consistent with both the methodological complexity of the topic and the specific country realities (especially administrative capacity and the governance regime).

Several factors have led to the recent focus on performance. The main ones are the pervasive dissatisfaction with government employees' unresponsiveness to the public; the dynamics of Wagner's Law, which systematically increases the relative size of government, and hence puts pressure on the public finances;¹ and the New Public Management (NPM) paradigm. As previewed in chapter 1, the genesis of the NPM can be dated to the early 1980s (essentially starting from the Thatcher reforms in the United Kingdom), and its heyday was marked by the completion in the early 1990s of the public-sector revolution implemented in New Zealand.²

Clearly, to forget the real purpose of spending monies obtained from the people eventually generates a culture of means rather than ends, disregard for the public, and the legendary bureaucratic mentality that considers it a success to formulate tight and internally consistent controls—regardless of whether they are necessary or even helpful in executing the functions assigned to the government. Thus, a focus on policy and performance is highly appropriate—*provided* that it does not lead to forgetting the importance of integrity and of due process. (This is a real risk, which has already materialized in some countries, with serious costs in terms of corruption and government credibility).

But what *is* performance? The reforms that have introduced performance-based management mechanisms (usually assisted by aid in developing countries) have only rarely been mindful of the country context and circumstances (including administrative capacity). In some countries, however, they have been introduced mechanically, without any regard for the need to adapt to local circumstances or even correctly identify the real problems. Not surprisingly, the result has been to waste time and resources and create unnecessary new problems without solving the existing ones.

The first basic requirement is to be clear about the terms and the complexity of the performance issue. The intent is not in any way to discourage attempts to inject a stronger performance orientation. Quite the contrary: to present up-front the full complexity of the performance issue helps lead to clear-eyed adoption of those performance-oriented reforms that have a good chance to last and be effective. Instead, experience shows that it is the introduction of performance-based systems as if they were very easy, simple, and self-evident that is likely to be unsustainable and destroys the credibility of the concept itself.

THE MEANING OF “PERFORMANCE”

Performance: In Terms of What?

Dictionary definitions of “performance” include such alternative terms as “accomplishment,” “achievement,” “realization,” and “fulfillment.” Most of these terms have to do with the *objective* effect of public actions, but some relate to the *subjective* sense of satisfaction experienced as a result of one’s action. Naturally, the economic and public management literature emphasizes the former meaning, not only because of its direct implications for the population, but because subjective satisfaction is extremely difficult to measure and impossible to aggregate.

Accordingly, performance may be defined in terms of *effort* or in terms of *results*. To pay attention to individual effort is often looked at as a “soft and gentle” approach to salve human feelings. It is that. But it is also an eminently practical proposition. Consider what happens if you completely neglect the subjective dimension of performance and focus *only* on objective results. The brighter though lazier persons will be rewarded for their better results, and the less capable but harder workers will be penalized. The former will therefore receive the clear message that underachieving carries no negative consequences; the latter will get the equally clear message that working hard carries no rewards. Both groups being composed of rational individuals, the level of effort will decline across the board and, in time, the entire organization will be populated by underachievers.

Recognizing (even if not rewarding) genuine individual effort can do much for morale and also serve as a demonstrator for others, thus fostering the effectiveness of the organizational unit. More fundamentally, most human beings consider a sense of accomplishment (what Thorstein Veblen called the “instinct of workmanship”) as a strong motivator of their action—

independent of salaries, penalties, or other material incentives. Thus, if public reforms inadvertently remove that motivation, the efficiency of personnel is likely to decline, and the effectiveness of public action along with it.³ The normal human drive to do things right should be harnessed, not disregarded or depreciated. (This is certainly recognized in the more efficient private corporations.) Nonetheless, while we should keep these factors in mind, in order to introduce stronger performance orientation *it is advisable to rely mainly on results, among many reasons, because effort is less easily measurable and is an excellent alibi for lack of results.*

In any event, it is critical to realize that *performance is a relative and culture-specific concept.* Government employees are considered well-performing if they stick to the letter of the rules, in a system where rule compliance is the dominant goal; if they account for every cent of public funds, in a system where rule compliance is the dominant goal; if they obey without question their superiors' instructions, in a strictly hierarchical system; if they compete vigorously for individual influence and resources, in a system where such competition is viewed positively; if they cooperate harmoniously for group influence and cohesion, in a system where conflict is discouraged; and so on.

Must we then infer that all the diverse administrative cultures are equally efficient? Certainly not. Indeed, the objective of institutional reform in public administration is to move from a less efficient to a more efficient set of behavioral rules. But we must recognize that administrative cultures do not come from Mars. They evolve in response to man-made incentive structures and concrete problems. Even when an administrative culture has become obsolete or dysfunctional it is *still* necessary to understand its institutional roots if one wishes to help improve it in a durable way. For example, the practice of advancement by seniority has come under fire as preventing the recognition of individual merit. This is generally true but, as noted in Chapter 10, it must not be forgotten that the seniority principle was originally introduced in public administration largely *as a reform* to insulate the system from the vagaries of political pressures on government employees. Correspondingly, depending on the quality of governance in a country, a change to a "merit-based" system may carry the risk of reopening the door to such pressures. The change may still be desirable, but the reform should also address that risk.

It is an unfortunate reality that many aid-assisted public administration reform programs never took the trouble to assess how and from where today's

problems arose in the first place; it is an unfortunate corollary of that reality that these programs have produced no lasting improvement.

What Sort of “Results”?

The measurement of “objective” performance rests on inputs or on one or more of the following results, or both.⁴ Let’s recapitulate, using the example of law enforcement:

- *Inputs* are the resources used to produce the service—e.g., policemen, prisons, police cars, handcuffs. The social value of inputs is measured by their cost. The performance criterion corresponding to inputs is *economy*, i.e., the timely acquisition of good-quality inputs at lowest cost.
- *Output* is the service itself—e.g., number of arrests. The social value of outputs is approximated by the market price for the same or the closest equivalent service (or, in its absence, by total unit cost). The performance criterion corresponding to outputs is *efficiency*, i.e., minimizing total input cost per unit of output (or maximizing the quantity of output in relation to a given total cost of inputs).
- *Outcome* is the purpose that is achieved by producing the service—e.g., reduction in crime. The social value of outcomes is difficult to assess, except as revealed by public reaction in the political arena. The performance criterion corresponding to outcomes is *effectiveness*, i.e., maximizing outcomes in relation to the outputs produced.⁵
- *Process* is the *manner* in which inputs are procured, outputs produced, or outcomes achieved. The value of good process is high but undetermined. For inputs, good process consists of intelligent compliance with input acquisition and utilization rules and, of course, integrity. In some areas of public activity, as in our example of law enforcement, “due process” has its own independent validity and is a key element of good governance. An increase in arrests achieved by violating civil rights would surely not constitute “good performance.” In other areas, process indicators are a useful proxy for performance when outputs or (more often) outcomes cannot be defined with clarity (e.g., “bedside manner” in health services, “rules for free debate” in policy formulation). Process indicators can be quantitative (e.g., percentage of class time dedicated to student questions) but are usually

qualitative. Even then, they can frequently be transformed into quantitative indicators by feedback from users: e.g., hospital patient satisfaction can be numerically assessed through a patient survey.⁶

Table 18.1 below gives examples of input, output, outcome, and process indicators in various sectors. Some are good indicators; others are bad and likely to reduce or distort performance rather than improve it. The reader should decide which is which and imagine the likely consequences of using one or another indicator. In any case, it is best to avoid relying on any single indicator: a fuller understanding of performance can be gained by using a *combination* of indicators. This means that performance should be evaluated through a dialogue, and not by mechanistic rankings of individual performance indicators.

Table 18.1
Examples of Performance Indicators

Sector	Input	Output	Outcome	Process
<i>General Administration</i>	Number of staff	Number of policy papers	Better decisions	Openness of debate
<i>Education</i>	Student-teacher ratio	Retention rates	Higher literacy	Encouragement of student expression
<i>Judicial system</i>	Budget	Cases heard	Low appeal rate	Assistance for indigent defendants
<i>Police</i>	Number of police cars	Number of arrests	Decline in crime rate	Respect for rights
<i>Corrections</i>	Cost/prisoner	Number of prisoners	Recidivism rate	Prevention of abuse
<i>Health</i>	Nurse-population ratio	Number of vaccinations	Lower morbidity	Bedside manner
<i>Social welfare</i>	Number of social workers	Number of persons assisted	Exits from the system	Dignified treatment

The Link to Accountability

The whole point of measuring results is to improve performance, through the intermediate process of making individuals more accountable for the results of their actions. The hierarchy of results given above suggests a sort of complex production function of public services, whereby the *outcome* of one stage is an *output* of the next stage. Accordingly, in “downstream” activities close to the ultimate user (e.g., urban transport) the output-outcome link is clear and immediate enough to permit using output indicators as a good proxy for outcomes. In “upstream” activities this is not so (e.g., in rule making, where “maximizing” public rules is hardly a desirable measure of public performance).

The above implies an “accountability chain”—with accountability clearest and most immediate by the narrowest performance criterion (i.e., compliance with input allocations), and most ambiguous and diffuse by the broadest performance criterion (i.e., net impact).⁷ For example, it is fairly easy to hold a village nurse strictly accountable for the output of vaccinations, and to reward or penalize him accordingly; it is difficult to hold him responsible for the outcome of improving the health of village children. Yet, his affirmative involvement in household sanitary conditions or nutrition or other health factors may have more influence on the outcome of improving children’s health than a greater number of vaccinations—but *such involvement will not be motivated by an incentive system that focuses only on the outputs.*

Moreover, in the absence of close supervision, it is difficult to prevent immunizations from being performed with less than the recommended quantity of vaccine (the remaining vaccine “leaking” out of the health delivery system). Therefore, abandoning input and quality controls in favor of output indicators may carry substantial practical risks. (Easy “insurance” can be obtained by retaining input and quality controls alongside the output indicators, for as long as may be needed to shake the bugs out of the results-oriented system.)

These considerations are not meant to suggest that outcome indicators are “better” than output indicators, or vice versa. Other things being equal, output indicators are closer to the desired outcomes, and hence more realistic, the closer the activity is to the final user. However, the greater specificity associated with output indicators comes with a loss of relevance, and conversely, it would be difficult to hold public servants strictly

accountable for outcomes; the measurement problem becomes more complex as one proceeds along the scale from input measures through outputs, outcomes, and finally process indicators. Although the quality issue is ever present, there is no great methodological difficulty in defining and measuring outputs (and even less so, inputs): *the issue with output indicators is their relevance*. Similarly, the interpretation of outcomes is rarely in doubt: *the issue with outcome indicators is their feasibility* as a spur to better performance. Outcome indicators are almost always more meaningful, and output indicators almost always more feasible. Combining these two considerations, performance measurement is most appropriate for those government activities where there is a direct and immediate relationship between the government agency's outputs and the desired public outcomes.

The selection of output or outcome indicators (in cases where the introduction of noninput-based performance indicators is appropriate to begin with) is also heavily influenced by data availability and information technology. First, good data and good monitoring permit better definition of outputs and thus justify greater reliance on them as a measure of performance. Conversely, when data are lacking or unreliable (or monitoring is weak), measuring performance by outputs generates only game playing and self-delusion. In such cases, the priority must be to strengthen compliance and responsibility for input use, and to improve the relevant data and monitoring capability—before even considering the introduction of results-based performance elements.

Moreover, data collection costs and, more generally, the transaction costs of introducing performance indicators in a systematic manner can be enormous. These costs must be assessed realistically and weighed against the benefits expected. It is simply wrong to limit a debate on whether to introduce performance indicators only to the benefits expected from doing so. Yet, this is often the case, and performance-based systems have been introduced on the basis of a reasonable expectation that they would improve performance—*but at what cost?*

Finally, as noted earlier, the appropriate choice of performance indicators differs for different countries, times, and sectors. The only valid *general* rule therefore is: *when results measurement is appropriate and cost-effective, performance should be assessed according to that combination of output, outcome, and process indicators that is realistic and suitable for the specific activity, sector, country, and time.*

TEN RULES FOR INTRODUCING PERFORMANCE REFORMS

The above discussion underlined the care, common sense, and direct sectoral knowledge needed to introduce performance indicators successfully. Indeed, the careless introduction of performance indicators has often generated unintended consequences so serious as to provoke a general backlash against all performance measurement. (This explains the apparent paradox of why some officials in developing countries who stand to lose from a new and robust focus on performance generally support the introduction of simplistic performance indicators.) This section offers a variety of analogies, metaphors, and anecdotes to illustrate the issues. The intent is not to add analytical content, but to provide “memory aids” to anchor the issues, and incidentally to take some of the dryness out of the topic of public-sector performance.

The Patton Premise (*Know Where You’re Going Before You Get Moving*)

In the 1970 movie *Patton*, the actor playing General George Patton stumbles on a sleeping soldier while inspecting the sorry state of the US Army after the disastrous defeat in their first battle against the Germans at Kasserine Pass in Tunisia in 1942. The soldier says: “Hey! I am trying to sleep!” then, realizing it’s the new commanding general, mumbles some apology. Patton replies: “Don’t worry, son, you’re the only one in this army who knows what he’s trying to do.”

The first, and most obvious, requirement for strengthening performance is to be crystal clear about the objective of the activity being performed. Yet, often because of the force of fashion, in many countries performance indicators were introduced without defined goals, and in some countries weakened control and accountability systems that had been working reasonably well before.

The Stepsisters’ Predicament (*If the Shoe Doesn’t Fit, Get Another*)

In the original version of the Cinderella story, one of her stepsisters cut off her toe to fit in the glass shoe; the other cut off part of her heel. Both ended up with mutilated feet and—of course—got neither the shoe nor the Prince.

We have stressed throughout the book that all institutional innovations must be viewed in the light of the local cultural, social, and

historical context and—above all—administrative capacity. In some countries, instead of carefully designing the reform to fit local conditions, the approach to improving performance has ignored administrative capacity limitations and other institutional constraints and then—when the approach failed—blamed the very same capacity limitations for the failure. But *administrative capacity, too, is relative—relative to the complexity and ambition of the reform* envisaged. Failing to assess realistically the local context, and designing the reforms without reference to it, will invariably produce a more severe capacity constraint than had existed at the start of the process. To then use this problem as an excuse for the design failure adds, literally, insult to injury.

Regrettably, this is sometimes deliberate. The local capacity constraint engendered by overly complex reforms recommended by external consultants is then used to justify the continued need for the consultants themselves. The eventual outcome is not only a relatively more severe local capacity constraint, but a greater dependence on external advisers—which is the best single tip-off of the failure of the initial institutional innovations.

The Accountability Trade-off (*There's No Free Lunch Here Either*)

In statistical inference, there is an inverse correlation between precision and probability (given the size of the sample). A “point estimate” is highly precise but carries near-zero probability of being right, i.e., corresponding to the true value of the variable. Conversely, a very wide band estimate is highly likely to comprise the true value but is too broad to be useful. Similarly, in the domain of performance there is an accountability trade-off: *accountability can be broad or tight, but not both*. Tight and immediate accountability is by definition narrow accountability; conversely, the link between action and results becomes more ambiguous the broader and the more meaningful the results.

We can either measure very accurately the performance of specific things (and then we can hold those in charge strictly accountable for those specific things), or resign ourselves to getting a rough idea of the important results (and then tolerate the resulting vagueness in attributing responsibility). In practice, it is advisable to do both, in order to get a more rounded sense of the overall results. It follows from the accountability trade-off that performance monitoring through outputs is least appropriate for complex tasks (e.g., mental health services) but can be very effective for simple processes (e.g., trash collection).⁸

The Titanic Warning (*It's What You Can't See That Can Sink You*)

The great ship *Titanic*, which was considered unsinkable, sank in its maiden voyage in 1912 after its below-water compartments struck an iceberg in the North Atlantic. There are two lessons here. The first is that it is not sensible ever to believe that any particular institutional reform is “unsinkable” and bound to succeed. The second lesson, of course, is that the *Titanic* was sunk by the unexposed portion of the iceberg.

The total stock of institutional rules in any society is always much greater than the portion visible as formal rules. Indeed, sometimes the visible formal rules are simply not operative. For example, the Soviet Constitution of 1936 was considered as a model document, protecting individual rights at the same time as it facilitated the achievement of social objectives. In reality, anyone who was foolish enough to act as if this were really so quickly found himself in serious trouble. In reforms intended to encourage stronger performance orientation in government, a design failure to recognize and take into account the key informal rules (which are generally below the surface) is likely to lead to a failure of the reform itself. This does not mean that reforms or external donor agencies are supposed to acquire their own expertise in the inner workings of society, because this would be presumptuous and unrealistic. It does mean that they have a responsibility to identify those who do know and understand the local informal rules, and to get them to participate in the design of the institutional reform—or at least to “kick the tires” before the reform is introduced.

The Heisenberg Dilemma (*Beware the Law of Unintended Consequences*)

In physics, the well-known Heisenberg uncertainty principle states that the actions required to observe a phenomenon themselves alter it. In the context of performance measurement, it is not advisable to be too sure that the actions undertaken will have the effects intended, and *only* the effects intended. Introducing new ways of evaluating the results of human action always leads to changes in behavior (*if* the evaluation is attached to concrete changes in incentives). Of course, it is precisely a change in public servants' behavior—toward the ends rather than the means—that performance indicators are intended to generate. However, attempts to modify behavior often produce unintended behavior that may be at odds with the objective or even defeat it altogether and worsen the initial situation.

Some examples, all from real life, follow:

- When police performance is measured by the number of police officers “on the beat,” important statistical and analytical functions are neglected, with adverse consequences for law and order. If the measure is the overall crime rate, the implicit incentive is for policemen to underreport all crimes. If performance is assessed on the basis of a specific crime, underreporting of that crime and neglect of crime prevention in general are likely.
- If hospital subsidies are based on the length of patients’ waiting lists, hospital managers and doctors will keep noncritical cases waiting as long as possible and will spend inordinate amounts of time on other cases (higher-quality care for some, none for others). If performance is assessed instead on the basis of the number of patients treated, the quality of care may suffer (Williams 1996).
- When an aboriginal tribe in Australia was informed that its sanitation and other subsidies would depend on their performance in keeping sanitary facilities clean, they did so most effectively by thoroughly cleaning the toilets, and then closing them to the public.

The Turkish Evasion (*If It Ain’t Worth Doing, It Ain’t Worth Doing Well*)

A traditional Turkish folk story tells of a man who searched diligently for his purse on the main street because, he said, it was too dark in the back alley where he had lost it. To be sure, it is very difficult to measure performance in meaningful ways, but this can never justify measuring performance in easy but meaningless ways. The “tyranny of the measurable” is in evidence here. Let’s elaborate.

According to a well-known management consulting rule, “what gets measured, gets done”. This may be valid in private sector activity, where the bottom line of profit (or sales, or return on investment, etc.) is both measurable and meaningful. It is much more doubtful in the public sector. There are three obvious conditions for this rule to make sense: (i) the right thing must be measured; (ii) the thing must be measured right; and (iii) there must be consequences if it does not get done. As we have seen earlier, none of these conditions is easy to meet.

Even more of a complication is the obvious corollary of the rule: what does *not* get measured, does *not* get done. The Turkish Evasion warns us that, in the public sector, the least measurable activities may be the most

important ones (e.g., equity or social peace). Finally, as noted, it is never enough to assess the short-term consequences of changes in organization or in incentives, which are usually positive (nor, as stressed earlier, to limit attention to the benefits expected without considering the costs). Both the expected costs and benefits of introducing performance measurement must be considered, and in a long-term rather than immediate perspective.

The Dreedle Illusion (*Better About Right than Exactly Wrong*)

In Joseph Heller's classic antiwar satirical novel, *Catch-22*, the commanding general Dreedle, enamored of "tight bombing patterns," praises a pilot whose raid produced an orderly set of bomb craters in an empty field, and scolds another who destroyed the assigned target with bomb hits scattered all over it.

Clean spreadsheets with neat indicators of clear results and timely monitoring do nothing to stimulate performance if the indicators are not relevant to the outcome sought (or, even worse, if the data themselves are phony). In fact, this false accuracy can result in channeling civil servants' energies toward presenting the data better, or even manipulating the data to make them appear to fit an orderly pattern. Either way, their energies are channeled away from the real objective of their work—which is to improve public service.

The Mechanic's Principle (*If It Ain't Broke, Don't Fix it*)

If the public management function under consideration is performing tolerably well, reformers should be particularly mindful of the risk that changes may worsen the situation. This does not imply the need for passive acceptance of mediocre performance, but simply the need to assess downside risks and address them properly. Symmetrically, however, if the process is dysfunctional or thoroughly corrupt, radical changes may be the only way to improve it.

The Gym Prescription (*Stretch Before Exercise*)

In basic economics, the production possibilities concept makes a distinction between getting actual production closer to the ceiling set by resource and technological constraints, on the one hand, and raising the ceiling itself, on the other. By analogy, it is advisable to first stimulate all improvements possible under the existing regulatory and incentive

framework before introducing new results-based performance indicators and incentives. Second, when the time is right and the right indicators of performance have been chosen, the specific levels to be achieved need to be set. The general principle for setting any performance target is that it must be challenging but achievable. *Both* overambitious and easy targets lead to underachievement. Overambitious targets discourage effort; easy ones don't stimulate better performance. In turn, targets may be set by reference to norms and standards prevailing elsewhere or, better still, by reference to earlier performance in the same country and sector. ("Benchmarking", discussed in the next section, is often used for this purpose; the method has its uses and limitations—see, for example, Powers 1998.)

The Missouri Test (*He Who Lives by the Sword Must Be Willing to Duel*)

The motto of the US state of Missouri, seen among other things on its automobile license plates, is: "Show me". It is inherent in the logic of any performance-based system that *the system*, too, must be subject to a reality test.

Operationally, therefore, it is essential to build into public sector reforms specific provisions for the systematic assessment of the *performance of the performance system itself*. But even before the reforms are introduced, government officials in developing countries, or their public and the media, should demand that the proponent of the reform take the plain but powerful Missouri Test. The test calls for a *demonstration* that the concrete benefits are likely to outweigh the costs, and that there is a good answer to the simple question: How and when will one know whether the model has performed well or badly in this particular country? If the advice is good and the experts are right, they will be able to pass the Missouri Test, and the performance-based reform should be vigorously pursued. If not—inverting the slogan of a well-known athletic shoe company—the only sensible course of action is: Just Don't Do It.

THE "CREAM" OF GOOD PERFORMANCE

Keeping the above warnings in mind, a good performance indicator must be:

- Clear—i.e., precise and unambiguous (not necessarily quantitative);
- Relevant—i.e., appropriate to the objective at hand (not used simply because it is readily available);

- Economic—the data required should be available at reasonable cost;
- Adequate—by itself or in combination with others, the measure must provide a *sufficient* basis for the assessment of performance; and
- Monitorable—in addition to clarity and availability of information, the indicator must be amenable to independent scrutiny.⁹

If any one of these five criteria is not met, formal performance measurement should not be introduced, and other ways of assessing and stimulating good performance are needed—including the old-fashioned method of open dialogue with competent and honest managers. At the same time, however, work should be done toward meeting the CREAM criteria, in order to permit the introduction of good performance measures in the future. In developing countries, data problems and other circumstances are often inimical to the successful introduction of results-based performance indicators. However, it is still possible to assess performance in the delivery of basic social services, through opinion surveys and other means of feedback from those who know the situation best: the users of the services.

SETTING THE TARGETS: BENCHMARKING¹⁰

Benchmarking and performance measurement are closely linked. Performance measurement can be the first step toward improving the performance of a public-sector organization, and, if backed by an appropriate incentive system, it can help shift organizational focus from inputs to outputs and outcomes and thus improve efficiency and effectiveness. However, the real benefits come from using the performance measures as the basis for internal or external comparisons, with the objective of improving the performance of an organization. This is called benchmarking, the technique of comparing business practices and performance levels between organizations to identify opportunities for making improvements in the economy, efficiency, or effectiveness of an organization's activities.

There are two main approaches to benchmarking, i.e., metrics and process benchmarking. Metrics benchmarking focuses on the calculation of numerical performance indicators such as unit costs, response time, and number of customer complaints, which can then be compared with similar data from other organizations in the same field. Metrics benchmarking is a useful diagnostic tool, as it can help an organization to identify the less efficient areas and provide targets it can aim at. However, the performance rankings shown in the so-called "league tables" are of limited use and even misleading, as different organizations are subject to different external

constraints, or which they have little control. More useful is the method of benchmarking the performance of an organization against performance of the *same* organization in the past. Even this, however, does not indicate what improvements can be made and how. For that purpose one has to turn to process benchmarking, which focuses on the comparison of the processes and activities underlying the performance of a function. Thus, metrics allow to identify the problem areas, and process benchmarking help to find ways to deal with the problem.

The first steps in a process benchmarking exercise involve preparing “process maps” for the activities in the selected area of focus, collecting information on resources consumed by those activities, and analyzing the practices, working methods, and policies that determine the performance of those activities. Generally, this stage reveals many obvious inefficiencies in processes, which, if eliminated, can yield significant performance improvements. The next steps are to obtain comparator data, compare the processes, develop recommendations, and implement change. After the changes have been introduced, the new values of the performance indicators provide a measure of the improvements achieved and the basis for starting the next round of benchmarking. Therefore, this technique is often referred to in the literature as benchmarking and continuous improvement.

For the purposes of benchmarking, comparators can be either internal or external. The former refers to a situation where comparisons are made between separate divisions of the same organization where similar processes are performed (e.g., multi-site organizations such as the tax, health, or education department can compare the performance of their offices, hospitals, or schools in different cities). External comparators can be direct competitors, i.e., organizations providing the same product or service. For example, the public sector could benchmark schools or hospitals it runs against those run by the private sector or NGOs in the same area; or by other public-sector bodies performing similar processes, such as land registration and vehicle registration agencies; or by the best organization around, public or private, in the case of similar business processes, such as in the areas of accounting, information systems, procurement, payroll, or customer service. These are the so-called league tables. However, it is often helpful to start with internal benchmarking, i.e., comparing performance measures between different offices or sites, understanding the processes and methods that explain the differences in the measures, and deciding what is the best internal practice, before going to outside comparators.

Benchmarking can yield additional benefits in the public sector by introducing a form of competition. If the results are publicized and general recognition, promotions, and career opportunities of public-sector managers are linked to the relative performance of their offices, divisions, or ministries, it can be a powerful force for improvement in the public sector. However, the league table approach can be demotivating for those at the bottom of the league. Motivation is better fostered by focusing on the gap between the individual unit and the best unit, and, as noted, the changes over time. Benchmarking also enables meaningful and realistic performance targets to be set, and can help to increase the client-orientation of the organization.

Some of the problems encountered in the application of the benchmarking techniques are necessarily the same as those for performance measurement, i.e., capturing the important attributes of the product in question, agreeing on what is to be measured and how to measure it, and ensuring the comparability of performance between organizations. In addition, because benchmarking is a resource-intensive technique, the scope of any single benchmarking exercise must be restricted to the key areas, i.e., those that account for the largest component of costs or where the performance gaps are widest, or both. It is also important to avoid excessive detail in collecting data or mapping processes as it could divert effort from the primary purpose of benchmarking, i.e., identifying better practices and implementing the lessons learned. Finally, a critical success factor in benchmarking is the commitment of the senior management to improving the performance of the organization. (Box 18.1 gives highlights of Hong Kong, China's experience with benchmarking.)

Box 18.1

Benchmarking in Hong Kong, China: Mass Transit Railway Excels in Worldwide Industry Study

The Mass Transit Railway Corporation (MTRC) carries 2.4 million customers daily throughout Hong Kong, China. The organization is consistently rated as one of the best in Hong Kong, China.

MTRC conducts performance benchmarking annually through its three-year-old benchmarking project, Community of Metros (CoMET). The benchmarking group spent considerable time defining the 18 key performance indicators listed below. In half of the indicators, MTRC was classified as best in class but weak in staff efficiency and incident management. To improve these areas, MTRC set up special task forces that met regularly, and made site visits to the best performers. However, it was seen that some industry challenges still stand in the way of certain improvements, and factors like social system, culture, and purchasing power make it difficult to adopt lessons learned from the study.

Category	Key Performance Indicator	Best Practice	MTRC's Score	MTRC's Ranking
Financial	1. Total cost per passenger	0.16	0.42	2
Performance	2. Operating cost per passenger	0.09	0.24	2
	3. Maintenance cost per revenue car operating km	0.59	1.30	5
(expressed in BCU)	4. Fare revenue per passenger	1.15	0.61	4
	5. Total commercial revenue/Operating cost (including maintenance)	6.19	6.19	1
	6. Operating cost/Revenue car operating km	0.20	1.05	3
	7. Total cost/Revenue car operating km	0.77	4.12	2
Efficiency	8. Passenger journey/Total staff + contractor hours	64	62	2
	9. Revenue capacity km/Total staff + contractor hours	2,253	1,960	2
	10. Revenue car km/Total staff hours	14	6	7
Asset Utilization	11. Passenger km/Capacity km	34.07%	23.64%	3
Reliability	12. Capacity km/Track km	596,583,750	596,583,750	1
	13. Revenue car operating hours between incidents	12,074	12,074	1
	14. Car operating hours/Total hours' delay	50,978	50,978	1
	15. Trains on time/Total trains	99.79%	99.79%	1
	16. Revenue car operating km/Total incidents	361,718	361,718	1
Service Quality	17. Total passenger-hours' delay per 1,000 passenger journeys	2.38 min	2.38 min	1
	18. Passenger journeys on time/Total passenger journeys	99.80%	99.80%	1

continued on next page

Box 18.1 (cont'd.)

On the basis of the benchmarking findings, among other actions MTRC redeveloped its supplier selection criteria and created a fully computerized purchase ordering system. These changes achieved substantial cost savings. MTRC has also cut in half its damage/shortage/rejection rate in the past two years and received better pricing because of quantity discounts and better shipping arrangements.

Source: Powers (1998).

KEY POINTS AND DIRECTIONS OF IMPROVEMENT

Key Points

Introducing a stronger performance orientation in public administration is important in most countries. However, this task is neither simple nor self-evident. Experience shows that mistakes and counterproductive results in this area have usually originated from neglect of the complexity and implementation difficulties of performance measurement. Many of these mistakes could have been avoided by identifying the real administrative problem, defining correctly the objective of intervention, and being realistic about actual monitoring and implementation.

Performance is a complex issue partly because the concept itself is not simple—with a subjective dimension in terms of individual effort and an objective dimension in terms of results. While it is important not to neglect entirely the subjective effort, and recognize it in appropriate ways, performance should be measured mainly in terms of results. However, the results themselves need to be defined carefully. They can be specified in terms of inputs (the resources used to produce a public service); or outputs (the service itself); or outcomes (the purpose achieved by producing the service); or good process. The performance criteria for inputs, outputs and outcomes are, respectively, economy, efficiency, and effectiveness.

Each of these performance indicators has advantages and disadvantages. Exclusive focus on good procurement and utilization of inputs leads to a means mentality that neglects the purposes for which the resources are obtained. Output indicators are more appropriate for activities close to the ultimate user but not for upstream public activities such as policy analysis.

Outcome indicators are generally more relevant, but also less useful for allocating responsibility. And attention to due process, which is essential for the long term, becomes sterile formalism if it is viewed as an end in itself.

Because outputs are more quantifiable but more narrow, while outcomes are broader but also influenced by factors outside the control of the civil servant or organization in charge, there is an accountability trade-off—by which accountability can be either tight but narrow (through output indicators) or broad but loose (through outcome indicators). Consequently, it is important to use a combination of indicators of performance, and never to rely exclusively on any single indicator. In general, a good performance indicator must meet the “CREAM” criterion—that is, be Clear, Relevant, Economic, Adequate and Monitorable. If any of these conditions is not met, formal performance measurement should not be introduced, and other ways of assessing and stimulating good performance should be considered.

If and when performance indicators are introduced, appropriate target levels need to be set. Targets that are too easy or too ambitious both lead to underperformance. The setting of challenging but achievable targets can be helped by benchmarking, i.e., comparison with standards of performance in similar organizations or for the same organization at different times. In general, comparisons with other organizations or other countries are problematic because the circumstances are rarely the same. For example, when evaluated by student achievement, schools in poor neighborhoods typically compare unfavorably with schools in rich neighborhoods, but for reasons that are not necessarily related to the performance of teachers or administrators. More reliable are time comparisons, provided that resources and other basic parameters have not changed between the two periods being compared. Finally, an interesting option is process benchmarking, which compares the performance of similar organizations in terms not of outputs but of the soundness of the procedures followed.

Directions of Improvement

Injecting formal performance-related elements into public management requires extreme care, both because better performance orientation is critical for improving public administration and because there are many wrong ways of pushing it and only a few ways of doing it right. The suitability of performance measurement and the specific indicators themselves depend among other things on the sector in question.

Concerning the overall approach to fostering better administrative performance, the lessons of international experience are the following:

- Never confuse the end of better performance orientation with any one of the specific means for achieving it. There are many ways to foster performance. Depending on circumstances, performance improvements may justify the use of quantitative indicators; or call for qualitative indicators; or rely on dialogue, moral suasion, peer pressure, and other means that do not entail overt performance indicators of any sort. When performance indicators are appropriate, they should normally be introduced without wholesale changes in administrative or budgetary systems.
- Consider the probable impact of introducing performance indicators on individuals' behavior, especially in multi-ethnic societies and very small economies, and take compensatory or "insurance" measures.
- Understand the different uses and limitations of input, output, outcome and process indicators of performance, and tailor the use of each to the specific sector and issue in question. Whenever possible, use a combination of indicators to assess performance, rather than any single one.
- Assure robust monitoring of performance, with swift and predictable consequences.
- Performance indicators can be used in the dialogue between the line ministries and the central ministries (or the public), but direct and mechanical links to procedures, personnel, or budgetary appropriations should generally be avoided in developing countries.
- Build-in provisions for the systematic assessment of *performance of the performance system itself*. It is inherent in the logic of any performance management system that it, too, must be subject to a reality check, and to periodic proof that its concrete benefits outweigh the cost.

Beyond the above caveats, it is important to constantly be on the lookout for any possibility to expand the service awareness of government administration; raise the rewards (not necessarily monetary) for good performance and the sanctions for unsatisfactory performance; and keep

under constant review the possibility of introducing the various tools for measuring and monitoring performance. In all these tasks, systematic feedback from the employees, the service users, and the public at large is invaluable, and so is an informed and aggressive free media.

The actual process of introducing performance indicators into the public administration can consist of the following stages:

- pick one or two government departments that provide services directly to the public;
- introduce simple performance measures at an acceptable cost (including transactions cost);
- monitor closely the functioning and impact of the measures;
- debug the measures and adjust as needed;
- gradually expand the application of performance measures to other governmental areas as and when appropriate; and, most importantly,
- stop upon reaching the point of diminishing returns.

NOTES

- ¹ See Bird (1971). There is evidence that Wagner's Law may have ceased to be operative in developed countries in the early 1990s, but it is still very much in evidence in developing countries, where the size of government is closely related to the country's per capita income (Schiavo-Campo, 1998).
- ² See Hood (1991) for an exposition of the NPM, and Borins (1995) and Savoie (1995) for a summary of the arguments for and against the NPM approach, respectively.
- ³ In the ancient adage: Man does not live by bread alone. A reductionist view of human nature risks, in time, sharply reducing public sector effectiveness, and increasing the risk of corruption.
- ⁴ These measures are discussed in a variety of sources, e.g., Beeton, ed. (1988) and Fédération des Experts Comptables Européens (1991).
- ⁵ *Impact*, often used as a synonym for outcome, is more properly defined as the *value added* from the activity, i.e., the gross outcome minus the contribution from other entities or activities. The notion is important in that it takes some account of favorable or unfavorable circumstances beyond the control of those responsible. However, impact (in this sense of value added) is nearly impossible to measure, and is not discussed further in this chapter.
- ⁶ Note that not all useful data concerning a public service are necessarily performance indicators. For example, the percentage of arrests stemming from citizens' direct complaints is a useful statistic for law enforcement, but says little, if anything, about the performance of the law enforcement apparatus.

- ⁷ For process indicators, accountability can be stronger or weaker depending on the nature of the public activity.
- ⁸ Perrow (1986), quoted in Laking (1998).
- ⁹ Shand (1998) lists many more requirements for performance indicators. However, several are desirable but not mandatory, and others are in fact different dimensions of the five requirements listed above.
- ¹⁰ We are indebted to Naved Hamid and Gie Villareal for this section.

Chapter 19

The Role of Information and Communication Technology in Improving Public Administration

▪ By Clay Wescott, Marilyn Pizarro, and Salvatore Schiavo-Campo¹

The technological triumphs of the past few years have not solved as many problems as we thought, and have brought us new problems we did not foresee.

— Henry Ford

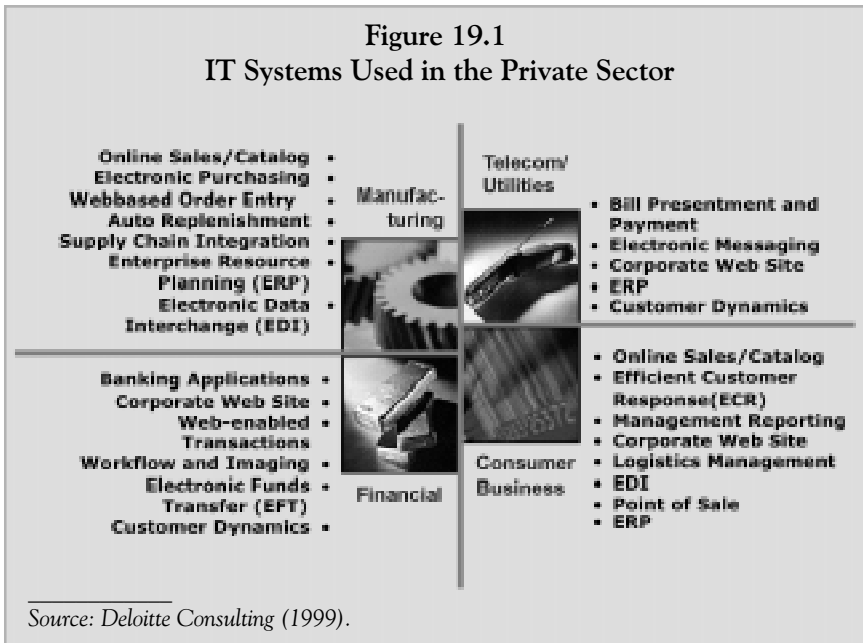
It is impossible to provide a good overview of public administration without some reference to the revolution in informatics. The monumental change wrought in every field by the new information and communication technology (ICT) is still only in its initial phase in governance and public-sector management, and has not even begun in the administrations of most developing countries. The subject of information and communication technology is too vast to be adequately discussed in this book. But a few general considerations, illustrations, and possibilities should be raised here.

ICT IN THE PRIVATE SECTOR

During the 1960s, in developed countries it was the public sector that led in the use of computers in support of business functions, including management information, payroll, and accounting applications. Subsequently, governments have tended to fall behind private industry in electronic service delivery (ESD) systems that give direct access to information and services.

Figure 19.1 below shows the variety of ICT systems used in the private sector of developed countries and some developing countries to illustrate the long lead taken by the sector. In manufacturing, the most commonly used IT systems are on-line sales catalog, electronic purchasing, Web-based

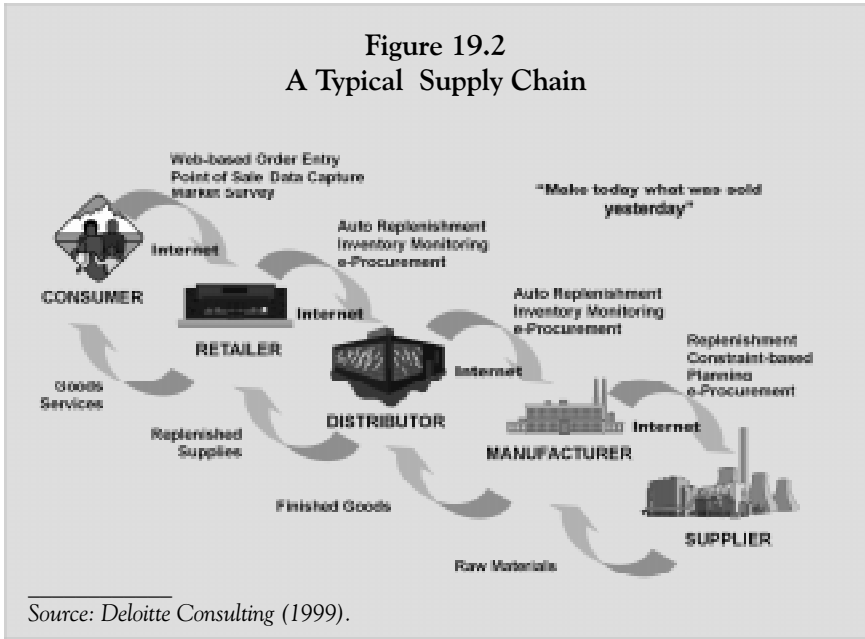
order entry, auto replenishment, supply chain integration, enterprise resource planning (ERP), and electronic data interchange. In the telecommunications/utilities sector, the following IT systems are used: bill presentment and payment, electronic messaging, corporate Web site, ERP, and customer dynamics. The financial sector uses: banking applications, corporate Web site, Web-enabled transactions, workflow and imaging, electronic funds transfer, and customer dynamics. The consumer business sector uses a combination of these systems in the production and delivery of its services.



To illustrate how IT systems interact with the major players in a business, Figure 19.2 gives a high-level view of a typical supply chain.

The fast-expanding use of the Internet is helping some companies implement fully integrated value changes to create partnerships with suppliers and customers, together with whom they can find ways to cut costs, improve quality, expand markets, and share the benefits. This is changing the old idea of a freestanding business. Internet-enabled companies are bringing suppliers and customers much deeper into their business practices and systems, and need a common understanding with their partners. This in turn is forcing greater openness and transparency among all partners than in the past. Also, customized services, products, and pricing

Figure 19.2
A Typical Supply Chain



are becoming more the rule than the exception. Increasingly, noncore business processes are contracted out to other providers. Just-in-time inventory systems are becoming common. An unprecedented amount of collaboration is possible, when management skills are up to the task.

THE ROLE OF ICT IN THE PUBLIC SECTOR

Benefits and Opportunities for Public Sector Management

Over the last five years or so, many governments of ADB's developing member countries have published ambitious proposals for recasting government with the help of ICT. Plans for Online Government have also featured prominently in proposals for the Information Society drawn up in such international forums as the European Information Society and the G7 group of industrial nations.

While these initiatives differ considerably in scope and emphasis, they also reflect a broad consensus about the possibilities offered by ICT. The growing synergy between information technology and telecommunications will enable governments to be much more flexible in the way they capture and exploit information. In turn, these new flexibilities will offer important new opportunities for designing business processes and

configuring organizations, based on vastly expanded possibilities for human connectivity. In particular, such factors as time, geography, organizational boundaries, and national jurisdictions will become less significant in the conduct of human affairs.

New ways of handling and communicating information can allow governments to escape the dilemma between cutting costs and increasing quality, creating government that works better and costs less. More importantly, new channels of interaction can open up between governments and citizens, enhancing transparency, increasing accountability, and making government more accessible to new forms of participation.²

In the last decade, innovative local and national government agencies, largely in developed countries, have started applying ICT to a growing range of public services. These applications focus on two objectives: to achieve major improvements in speed of response, efficiency, and accessibility of public services; and to bring government closer to the citizens.

The potential benefits of new information and communications capabilities for the services produced by public agencies are the following:³

- Lower administrative costs. ICT allows a significant reduction of information handling costs, and compliance costs. In particular, ICT enables more data (e.g., changes of address) to be shared between different information systems, thereby reducing the number of times the data have to be collected.
- Faster and more accurate response to requests and queries, including outside normal office hours. ICT allows direct access to transaction or customer accounts held in different parts of government, especially for street-level public services.
- Access to all departments and levels of government from any location. ICT supports the development of more flexible, convenient ways for citizens to access public services. For example, some governments are developing on-line round-the-clock facilities for transacting business such as welfare claims, tax assessment, visa applications, and license renewals. The use of “smart cards” is also being developed to allow access to an increasing range of government services—a kind of electronic one-stop shop. These could prevent fraud or misuse of public services and benefits, resulting in increased public confidence in welfare and taxation services.

- Better governance capability. ICT enables governments to harvest more data from operational systems, thus increasing the quality of feedback to managerial and policy levels. Governments are also able to make more information available to citizens and support new kinds of on-line communication between policymakers, elected representatives, individual citizens, or organized lobbies. In these ways, ICT could enhance the steering capability of modern governance. These possibilities exist even in very small developing countries, although, of course, they require a realistic approach suited to their small size and extremely limited administrative capacity (Box 19.1).
- Assistance to local and national economies by facilitating the government-to-business interface. This could result in improved services to remote rural areas and enhanced emergency support services.
- Additional means of public feedback.

Box 19.1
Information Technology in the Pacific Islands

In the Pacific Islands, new capabilities associated with ICT could help to:

- *Simplify government bureaucracy.* For example, a United Nations virtual meeting in January 1998 linked governments and NGOs in 10 countries with a listserv. A productive exchange took place, saving over US\$25,000 in travel costs, and cutting out wasted travel time by busy officials.
- *Break down barriers between functional domains.* The Fiji Public Service Commission is introducing a personnel management system to facilitate, among many things, more effective training and monitoring of the performance of participants in the newly established senior executive service.
- *Allow public services to be reoriented to solving problems for clients.* The Federated States of Micronesia uses a Web-based system linked with Hawaii for medical advice on difficult cases. A listserv links over 100 doctors in the Pacific Islands, serving as an early-warning system on outbreaks of disease.
- *Open up government, making it more transparent and accountable.* The Solomon Islands used the Web in 1998 to help it assess the prior experience of an international contractor bidding on a government contract for preshipment

continued on next page

Box 19.1 (cont'd.)

inspection of logging exports. Previously, the Government approved contracts with unqualified firms. In Vanuatu, the Ombudsman's Office set up a listserv in 1997 to get legal advice on how to defend itself before the High Court against a suit by the Council of Ministers (many of whom were accused in the Ombudsman's reports of misconduct) seeking to abolish the office. The Ombudsman's Office succeeded in its legal defense, although the Ombudsman Act was subsequently repealed by Parliament.

- *Develop new forms of citizen participation.* Web-based chat sites such as the Tonga Kava Bowl and Niugini.com facilitate freewheeling political discussion that would be difficult to sustain in regulated print media. They also allow the diaspora in Australia, New Zealand, and the United States to participate in the political debates in their countries.

Source: <http://www.undp.org.fj/governance/Index3.htm>; Yvan Soures, "PACNET: The Pacific Islands Tuned Into the XXIst Century," Pacific Health Dialog, 1998.

ICT is not yet widely used by developing-country governments to address problems in inter- and intra-agency record sharing; paper trail required for approval processing; paper form filing done over the counter; difficult access to public information; difficulty for citizens in giving feedback to public officials and getting timely responses; cumbersome document archiving; delays in getting public census results, etc.

The "paper chase" legacy is still alive and well. In most public sectors, the telephone is used primarily to prompt action, and paper is still king. Several copies of a single document are usually required, even within a single department. The in-box and out-box system still prevails.

Some current observations regarding ICT use in the public sector are:

- Only a small proportion of the public has their own computers or has access to the Internet. However, the numbers are growing.
- Citizens and employees may lack the computer skills needed to fully appreciate ICT.
- Some countries may need to develop first the basic infrastructure to support ICT use.

There are several reasons for slower adoption of ICT by public sector institutions, particularly in developing countries. These include some or most of the following:

- higher costs of ICT introduction due to the scale of public organizations;
- the inertia of existing options and habits;
- security and confidentiality concerns;
- obsolete regulations and laws; and
- lack of understanding and computer skills.

Information as a Public Good

Governments are the biggest single collectors and producer of information, and the way in which they manage the information has wide-ranging consequences. Wide dissemination of government information can improve the relationship between the government and the people. In the commercial sector, the efficient availability of government information can promote information-related business activities. As governments realize that the information collected is a valuable asset, they may wish to use it commercially and turn it into a traded commodity.

Different governments have different views about the nature of information (and, hence, its tradability) (Heeks 1999):

- *Information is a public asset.* Everyone owns public sector information since it has been gathered about and from everyone, often compulsorily. Therefore, information should, in general, be made available either for free or at a charge that reflects merely the cost of information transmission.⁴
- *Information is a private asset.* Public sector information is owned by the government agency that owns (or pays for) the computer on which that information resides. Since the government has invested money in producing information that often has considerable commercial value, it may sell information at whatever price the market will bear.
- *Information is not an asset.* Government information is not seen as important enough to raise issues of ownership, value, and charging. Where used, information is virtually a personal asset of particular government employee. Information is not generally made available and individuals do not have rights of access, except perhaps through “under the counter” payments.

Increasingly, government departments are in fact commercializing information and seeking to sell it. There is also an increase in private sector participation in government information marketing programs.

The increasing willingness of governments to use ICT to sell information to the users has raised a number of questions. The issue of ownership of data once it is sold requires clear guidelines from the government. In the United Kingdom (UK), guidelines are being implemented for government agencies in supplying information to private companies. Since some parties may misuse government information, there must be controls to regulate the use of this information. Finally, as governments become key information suppliers in the market, the extent to which they should compete with private companies and the manner in which information should be traded become important considerations. Clear government policy is therefore important for the development of a good government information trading service.

It is frequently assumed that the introduction of more advanced ICT reduces opportunities for corruption. The reality is more complex. While ICT does sometimes detect and remove corruption, it can also have no effect, or even provide for new corruption opportunities. Computerization creates changes in one or more of the following related aspects:

- *Skills.* Computerization is often associated with an “upskilling” of corruption, providing new corruption opportunities for those with ICT skills, and removing opportunities from those without ICT skills.
- *Confidence.* With computer systems being regarded as an objective, all-seeing, and all-knowing, corrupt staff members lose confidence and refrain from corrupt practices.
- *Access.* Computerization of records often closes down access to some staff members but opens up access to others who operate the ICT systems. Depending on relative integrity, corruption may increase or decrease.
- *Control.* Data quality and computer omnipotence make some managers assume that ICT removes the opportunities for corruption. They may therefore fail to institute controls on computerized systems. And this last is probably the most dangerous tendency, for

the lack of controls will be evident to precisely those in a position to take advantage of it.

In all cases, corruption comes from a combination of two sets of factors. At the microlevel, the factors are the individual's circumstances, skills, access, and autonomy. At the macrolevel, the main factors are organization and national management systems, politics, and culture. Management decisions about computerized information systems may affect skills, access, confidence, and autonomy. However, they are most unlikely to affect the personal circumstances or the environmental factors of corruption. Corruption is rooted in the cultural, political, and economic circumstances of those involved (Chapter 17). ICT does little to affect these root causes, and has a potential role that is limited and forms only a part of a much larger picture.

RECENT ICT DEVELOPMENTS AND OPPORTUNITIES IN THE PUBLIC SECTOR

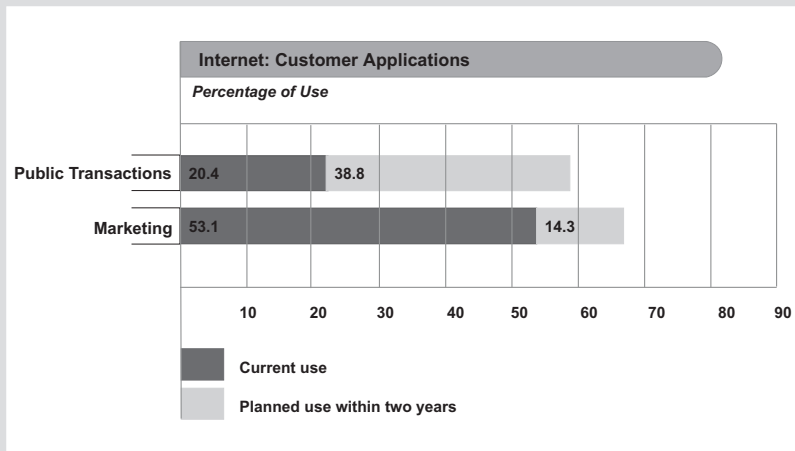
The Internet

Exploitation of the Internet by the public sector has been held back for many of the constraints mentioned above. For example, budgetary constraints can arise not only from the high costs of hardware, software, and systems integration but also from country-specific factors. (In the Fiji Islands, for example, a 64K Internet circuit from the publicly owned telephone company costs US\$10,000 per month, nine times the cost in Jamaica.)

ICT capability has always been associated with depth of understanding and skills, and most developing countries do not usually have access to sufficient training. Individuals with the needed skills often cannot be attracted on standard government salaries. To address this concern, an initiative of the United Nations Development Programme (UNDP) has started assisting the countries in the Asian and Pacific region by providing ICT training and other technical solutions.⁵

An important step is the development of a culture of information management, to ensure that information systems fit the task for which they are intended. Figure 19.3 below shows the changes that governments should undergo to adopt ICT.

Figure 19.3
Public Sector Use of the Internet



Source: Deloitte Consulting's Chief Information Executives Survey, 1998.

Despite the constraints, government use of the Internet is increasing and in developed countries, it is expected to triple in the next two years, from an estimated 20 percent of public transactions to 59 percent. Meanwhile, the use of the Internet for marketing purposes is already more than 50 percent, and will reach about 65 percent in the next two years. Clearly, the use of the Internet for public transactions has just begun.

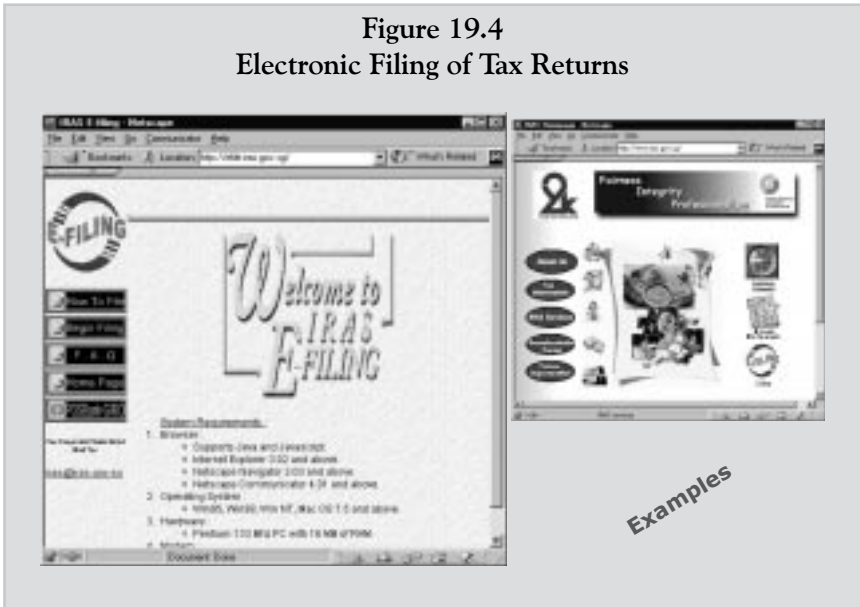
In developed countries, several factors are propelling the Internet to the forefront of popular demand. These factors are the following:

- increasing computer literacy and use;
- falling communication costs;
- easy-to-use and “hot” interface multimedia Web browsers;
- demand for “mass personalization” and instant gratification;
- telecommuting; and
- the globalized economy.

The Internet did not cause these trends, but it is a catalyst that is bringing them together, accelerating their progress, and making the result greater than the sum of its parts.

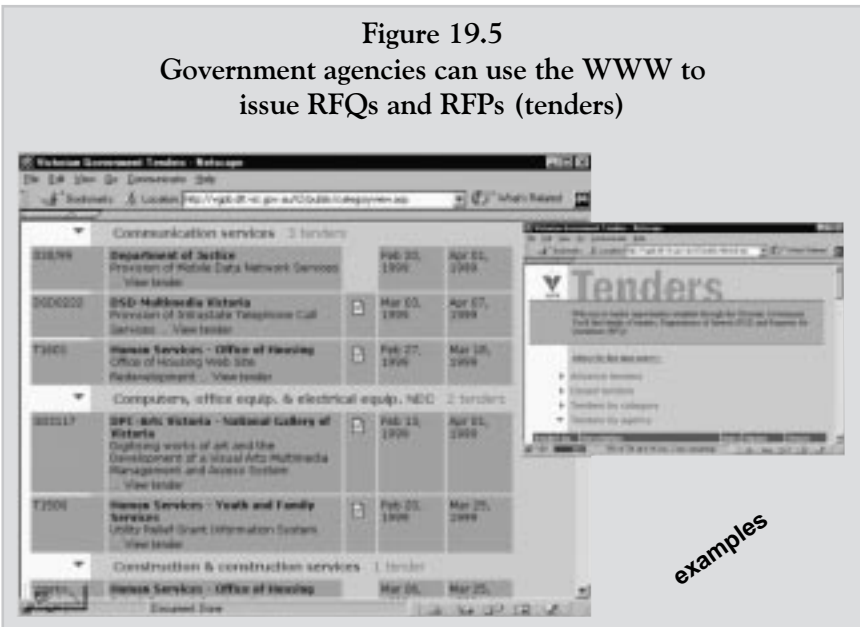
Figures 19.4, 19.5, and 19.6 below show examples of how the Internet is being used in the public sector, and how it is promoting self-help among citizens.

Figure 19.4
Electronic Filing of Tax Returns



Examples

Figure 19.5
Government agencies can use the WWW to issue RFQs and RFPs (tenders)



examples

Figure 19.6
The public can provide feedback to the government via web-based form or use e-mail to contact government officials



Other Opportunities

Electronic service delivery (ESD)

In the 1990s, several ESD applications started to be widely implemented, as shown in Table 19.1

The use of ESD innovations is already beginning to change the way government operates in response to these constituent mandates.⁶ As stated earlier, these innovations are relevant even in poor developing countries. A single phone line can make the Internet accessible to rural people so that they can access information on local varieties of trees, crop prices, etc. Solar-powered or battery-operated systems can democratize the access to knowledge.

The government's use of the Internet can help it to provide better government service. As reported in the *PIPER Letter*:

When government delivers information, in many cases it is delivering the government service itself. This new interactive medium, with its built-in measurements and feedback loops, allows government to relate to individual constituents with a new depth and frequency. It can add an entirely new dimension to government relationship to its stakeholders (de Conti 1998)

Table 19.1
Types of Electronic Service Delivery Applications

ICT Task	Sample Application	Possible System
Narrowcasting	Public expenditure meetings; education; up-to-date information (including multilingual)	Cable and satellite networks; the Internet; multimedia kiosks; CD-ROM; bulletin boards; videotext
Transactions	Welfare benefits advice, electronic benefits transfer, and payments for services, licenses, transport, etc.; voting, referenda, public opinion polling, and criminal parole checking; electronic tax returns; road charging systems	Multimedia kiosks; expert systems; smart cards; automatic tellers; electronic funds transfers
Information retrieval	Access to government information; response to routine queries; support for public officials and professionals in service delivery	The Internet; on-line databases; voice response; electronic mail; executive information services; expert systems
Remote communication	Forums on public expenditure issues; help for voluntary and professional groups; citizens' complaints, requests; emergency support; intercommunity meetings; consultation with voters; parent-teacher interaction	The Internet; computer conferencing; bulletin boards; low-cost access to ICT networks; kiosks; voice mail; video and audio conferencing; videophones; local cable networks

Source: Dutton (1996).

The Internet can also be used as a public space for citizens to take greater control of their own agenda for deliberation. Examples are the UK Communities Online, the North Brabant land use consultation of the Dutch Government, and the prelegislative on-line public consultation by the UK Cabinet on its Freedom of Information (Right to Know) White Paper.⁷

Barriers of language, literacy, and localism can be overcome. Farmers neither have to learn only from local people, nor do they have to learn in textual form and from those who speak their language. Multimedia technology can help people get closer to each other. Databases of innovations, with the names and addresses of the innovators and communicators, can be kept and shared. Among the many other possibilities, discussion groups may be set up in the local language so that specific innovations or grievances may be taken up for collective improvements in design and scope, given the willingness of innovators as well as their peers to engage in such collaborative learning exercises. Such a system can also be used to provide organized feedback on the quality of government services and investment projects.

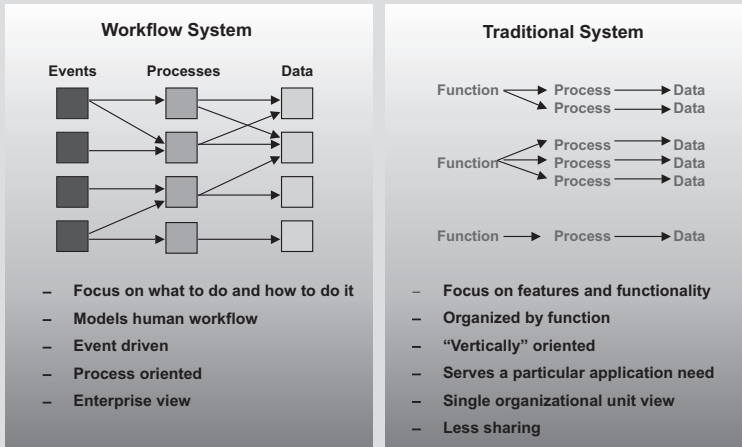
Workflow system

Workflow is a general term applied to the ability to move images, files, documents, etc., from workstation to workstation, using specific business rules for review, authorization, data entry, data editing, and task assignment. Business processes that are accomplished by moving paper can now be managed electronically—from the very beginning to final disposition. The delays normally associated with hard-copy documents and manual processing can be minimized with workflow systems.

A workflow system is fundamentally different from a traditional system. As shown in Figure 19.7, a workflow system focuses on what to do and how to do it, and is event-driven, process-oriented, and modeled after human workflow. In contrast, a traditional system focuses on features and functionality, is organized by function, is vertically oriented, and serves a specific application need.

The major components of a workflow are procedures, tasks, events, and workers. A procedure is a series of interrelated tasks required to complete an instance of work. An event is an occurrence that triggers the start of a procedure or task. A task is a discrete element of work that can be assigned to an individual worker; it can be defined in terms of the information required

Figure 19.7
Workflow-based System



Source: Deloitte Consulting (1999).

to complete it, the application used, the workers who can perform the task, and the timeframe and priority that should be assigned to it.

Promising ICT applications in public sector workflow systems include, among others:

- claims processing and management;
- bid and proposal routing and tracking;
- handling of customer service and complaints;
- grant and scholarship award, approval, and processing; and
- human resource recruitment and hiring.

Enterprise resource planning

Enterprise resource planning (ERP) is an integrated business system that ties all of the various functions of an enterprise (finance, human resource management, etc.) into a cohesive system on a common database. ERP systems may be integrated with the Internet (e-mail, messaging), electronic commerce, and workflow. ERP presents opportunities to the public sector in the areas of financial management—treasury/cash management; human resource management, including payroll, records management, and benefits

administration; and facilities/resource management, including procurement, forecasting, and materials management. Although these systems were initially proprietary and client/server-based, the latest versions are increasingly Internet-based, allowing information to be accessed by anyone who needs it, and reducing training and other costs. Unlike many other ICT innovations, the applicability of such sophisticated systems in most developing countries is extremely limited, however.

Knowledge management

Governments need to improve their knowledge of development trends and policy outcomes. Global and regional changes in trade and aid flows, labor migration, technology, climate, and investment can have fast and profound changes on countries in an interconnected world. Governments need to monitor these changes in order to determine appropriate responses. In particular, governments need to measure the social impact of economic trends and policy responses to ensure that the conditions of disadvantaged groups are not made worse.

ICT can help in many ways. With the help of ICT systems, information on global trends can be gathered through the Internet, virtual conferences can bring together experts in different locations, and national economic and survey data can be better organized and analyzed. Governments can use the same systems to facilitate the timely dissemination of these data, so that investors and other stakeholders have accurate information on risks and opportunities.

Illustrations of Public Sector ICT Programs

IT in India

Many developments in information and communications technology have occurred in India to implement information-age reform. The city of Bangalore, in particular, has become India's Silicon Valley. India has continued to pursue its goal of "IT for All Indians by 2008."

The Prime Minister has called on India to become an information technology superpower and one of the largest generators and exporters of software in the world within 10 years. A high-powered National Task Force on IT and Software Development was set up on May 1998 as a first step toward this goal. The national IT policy entails the creation of a

government-wide information infrastructure to simplify service delivery, reduce duplication, and improve the level and speed of service to the public. This will provide the public (business and individuals) with the opportunity to send and receive, over electronic terminals, the information that currently passes between them and the Government on paper. The Government will encourage the establishment of Internet service providers to provide access to even the most remote locations in the country. It will collaborate with the private sector to put in place secure electronic fund transfer (EFT) systems, since this is critical to the successful implementation of electronic commerce, as well as direct service delivery to citizens.

To increase ICT accessibility, computers will be made cheaper. Computers and the Internet will be made available in every school, polytechnic, college, and university and in all public hospitals in the country by the year 2003. Likewise, government processes and procedures will be reengineered to bring about transparency at work, reduce constraints, increase efficiency and productivity, and reduce the cost of service delivery, among other benefits. Projects will be integrated across departments to provide a single point of contact for the electronic delivery of services to citizens. Maximal transparency in governance through citizens' charters for every government department and public body will be available to citizens over the Net.

In Andhra Pradesh, for instance, efforts at e-governance over the years are beginning to yield good results. Connectivity has already been established and is operational between Hyderabad and all the district headquarters, plus two other major towns. This connectivity will be taken to the mandal and village levels next year and is proposed to be optimally used by the government departments and agencies to translate e-governance into reality. A video-conferencing facility between Hyderabad and the 25 cities/towns has been operational since January 1999 and will eventually be extended to all major departments.

The Computer-aided Administration of Registration Department (CARD) is one of the major success stories of e-governance in India. About 214 registration offices have been completely computerized since April 1998. Deeds are registered in one hour and other services like the issue of encumbrance certificates and valuation certificates are accomplished in 15 minutes. As of February 2000, about 700,000 documents had been registered under CARD.⁸

Web site for the Philippine budget

In the Philippines, the Department of Budget and Management (DBM) has started posting on the Internet its major budgetary releases to government agencies in a bid to make transactions more transparent to the public. The Web site includes information on the Government's accounts payable and the amount released by the DBM as payment for these accounts. Through this scheme, private contractors can check the veracity of the department officials' pronouncements against the DBM budgetary releases. The details of all accounts payable and releases for each government agency are posted on the Web site each month, along with the names of the contractors and the amount of payment they are supposed to receive monthly.

The DBM also plans to post the budget for the coming year on the Internet after its passage by Congress and approval by the President.

New initiative in Information Society policy in Finland

The progress of the Information Society is among the most important goals of the Finnish Government. The public sector will open its services massively on the Internet in the coming years. One important element is an easy-to-use service interface that resembles the use of television today. Many government agencies have already opened their services on the information network. The goal is to provide front-office services from one window. The target is to distribute documents and information, such as tax reports, in electronic form. The goal in the long term is to promote teleworking.

Current initiatives in Finnish Information Society policy seek to achieve computer literacy for all citizens through education. To this end, the Government has already started investing in Information Society training programs and schools. There is a risk of polarizing society into A and B citizens, but when the network services become widely available in libraries and public facilities, most people will be able to benefit from the networks. The new interesting services and easy user interfaces create demand for networks.

Digital documentation in the Italian public administration

The Italian Parliament is considering legislation that establishes principles and procedures for authenticating electronic documents. The

proposal, which originates from the work of the Authority for Informatics in the Public Administration, contains new rules for private transactions, notarial deeds, and electronic signatures with asymmetric keys. These rules will not only have a big impact on the restructuring of the Italian public administration to regain efficiency and transparency, but will also act as a laboratory for the other European countries in the construction of the Trans-European Public Administration Network.

Information Society 2000 in Denmark

A strategy that can bring Denmark to the forefront of development toward the Information Society will be based on the Danish model, which involves market forces. This strategy must secure the following special values:

- provide free access to information and interchange of information;
- support democracy and individual access to influence;
- contribute to personal development, e.g., by supporting the individual at work and at leisure;
- open up the public sector, make it more transparent, and facilitate the delivery of better service;
- support the weaker sectors of society; and
- strengthen the international competitiveness of Danish companies as the basis for the Danish welfare system.

Access initiatives in the US

The National Information Infrastructure, or Information Super Highway, Project launched in 1996 envisages a large-scale effort, where federal authorities become the leading force in the use of ICT in legislation and special projects. For example, Internet users can now find electronic Social Security Administration (SSA) forms and transmit these directly to the SSA. A printed statement is then mailed back to the user. Passport applications can be downloaded at the same site. Visitors to the site can also apply for government jobs. The electronic benefits transfer (EBT) system, on the other hand, is aimed at delivering government benefits electronically. With a single plastic card, cash and food benefits can be accessed at automated teller machines and point-of-sale terminals. In addition to increased convenience and preserving the dignity of beneficiaries, EBT will dramatically reduce theft, fraud, and abuse in the delivery of benefits because there are fewer steps in the process and patterns of abuse can be detected electronically.

In 1995, the US Government Printing Office (GPO) announced the free use of its award-winning GPO Access on-line service. All Internet and dial-in users can now receive electronically, at no charge, the *Congressional Record*, the *Federal Register*, congressional bills, and a growing list of other important government documents on the same day they are published.

MAKING IT HAPPEN

Barriers to ICT Innovations and Implementation

Failures in government policies are often one of the reasons why public benefits from ICT are wasted. The US Office of Technology Assessment (OTA) identified the following main problems: inadequate attention to the human element in systems development; insufficient priority given to the need for affordable, accessible, user-friendly applications; widening gap between the educated, technically proficient citizens and the less advantaged; and failure to forge effective partnerships between government agencies and the private sector. Among the barriers to innovation in the provision of public services are the following (Dutton 1996):

- defense of functional organizational boundaries by agency “barons”;
- fragmentation caused when departments or agencies develop systems exclusively for their own clients, although integrative multifunctional and cross-departmental “one-stop-shop” applications have greater long-term potential;
- constraints and demotivation faced by champions of innovation in the risk-averse bureaucratic cultures that typify many public agencies;
- overcentralization of government, leading to the weakening of local government and fewer opportunities for local innovation;
- anxieties among staff members caused by fears of employment cuts, job reorganization, and geographic redistribution;
- perception among many staff members and citizens that cost cutting is the overriding objective of ICT initiatives and that claims about improving services fulfill a primarily rhetorical role;
- a narrowly focused “business case” for ICT investment that fails to identify as key priorities the kinds of benefits that will build a broad constituency to support the continuing introduction and use of new applications;
- negative reactions from citizens who do not want to be treated purely as customers or clients and who might see ICT as a wedge for the introduction of inappropriate business methods into public services;

- experiences of past ICT failures, making users reluctant to be involved in new ventures;
- difficulties in scaling up to larger operational systems from small pilot projects;
- practical incompatibilities when communicating between systems in different departments, local authorities, levels of government, and private enterprises; and
- failure to enact the needed complementary changes in organization and procedures.

Policies to Promote Successful Innovations⁹

A political climate that supports risk taking

For any innovation to be successful there must be willingness to take risks. However, traditional public-service cultures are “risk-averse,” in part because scarce public funds are at stake. While various ICT experiments in the 1990s show that there are many entrepreneurs and innovators in public agencies, change is likely to evolve only incrementally unless a political climate that promotes and rewards risk taking is created.

Top-level encouragement is important in creating this environment and in giving legitimacy to innovative ideas. In 1993, for instance, the United States (US) launched the development of a standard nationwide system to deliver government benefits electronically.

Encouraging local initiatives

Local agencies can more easily nourish innovations related to their communities because they are closer to the public, community groups, and businesses. Likewise, the large number and diversity of local governments in many countries can greatly facilitate the emergence of innovative ideas, provided a political climate and organizational arrangements are established to nurture them. Moreover, reorganizations of local government structures can offer a “window of opportunity” for authorities to rethink and change the way they do things, including how to deploy ICT.

As noted, a problem that commonly hampers local innovation is the budgetary constraint: available resources are too small to support investment in long-term programs. One way around this problem is to develop joint ventures and multiple funding sources involving a mix of public agencies at

the local, national, and international levels and private investments. Establishing a common fund for the promotion of innovations in the development of ICT applications could also be feasible.

Making a case for the business goals of public service

Although financial goals for public services must be set, the focus of appraisals of public sector ICT applications should be broadened so that genuine priority is given to identifying and meeting the needs of users and stakeholders. This vision should be reinforced by a shift in the focus of ICT projects from “backroom” administrative support to direct improvements in the quality of front-line services offered to customers and clients.

A new approach to justifying public sector investment is to combine traditional, financial, appraisal criteria with the need to take account of enhancing service quality, including the provision of tangible solutions to citizens’ problems. For instance, electronic support for one-stop services in welfare benefits administration should be appraised not only for its capacity to produce savings in costs associated with maintaining clients’ files, but also in terms of intangibles related to improvements in customer service.

Institutional Development

Changes in public management systems are more likely to succeed if transformations are seen as long-term processes. ICT should be used to create a readiness for organizational innovation through the development of information and knowledge resources in ways that are sensitive to the needs of knowledge workers. In turn, public-service staff should be trained to understand and communicate the nature of the new services they are providing and of the logic of the organizational changes made to support them. Box 19.2 presents Mongolia’s initial move toward the use of ICT in the public sector.

Box 19.2
ICT Seminar for Mongolia

The Asia-Pacific Development Information Programme (APDIP) held a seminar on ICT policies and infrastructure development for Mongolia in Kuala Lumpur, Malaysia, on 23–26 March 1998. The curriculum was tailored to the specific needs of government officials from Mongolia and was intended to provide professional expertise in the development of ICT policies for their country.

The seminar introduced broad issues that need to be addressed in determining and implementing ICT policies. The focus was on specific global ICT frameworks, the establishment of infrastructure, national information services, quality of service, financial mechanisms, taxation, Internet regulation, and legislation. Practical applications of the Internet, such as electronic government, electronic commerce, telemedicine, distance education, and teleworking, were emphasized.

The government Intranet was demonstrated as a means of extending administrative reach and information distribution throughout the organization. Concrete examples were provided of how useful information for country advancement can be disseminated through a CountryNet. A CountryNet unites the public face of activities and organizations within a country. An application facilitating electrocardiogram readings over the information systems network was also presented to illustrate the significance of using telemedicine to extend specialist medical care (usually concentrated in urban areas) to less developed areas. APDIP Programme Manager Gabriel Accascina discussed several applications to improve governance. He showed how citizens can be empowered with on-demand information such as current laws on women's rights. Accascina described the benefits of providing relevant and timely information more efficiently to business, then gave an example of how tourism can be promoted over the Internet.

The seminar resulted in two proposed actions for Mongolia: the establishment of a national ICT agenda for Mongolia, under the direction of the prime minister; and the strengthening of public awareness of ICT and its benefits to the country.

Source: APDIP Web site, 1998.

The private sector is a crucial influence on the electronic delivery of public services, as it acts to create a familiarity with similar capabilities in daily life. These everyday experiences with electronic services establish benchmarks against which citizens may judge public sector ESD. Furthermore, the introduction to public services of competitive tendering, privatization, and outsourcing has meant that business ICT know-how is being applied directly to public services.

To ensure that diverse ICT capabilities are effectively harnessed, there is a need to establish a coherent strategy. This strategic framework would coordinate ICT policies with closely related areas such as regionalism, industrial development, employment, privacy, data protection, and regulation of the mass media. For instance, policies that will enable citizens to gain access to vital facilities are crucial to gaining widespread commitment to innovations. The framework would also seek to develop a user charges policy and provision for subsidized services. In addition, appropriate legislation and regulations are needed in areas such as editorial control over networked information, public access to information, privacy and data protection, and intellectual property rights. Finally, an ICT strategy should make a clear distinction between the provider of ICT infrastructure and the suppliers of information and services.

Box 19.3
ICT and Education in Malaysia

In a move to boost information and communication (ICT) literacy in Malaysia, the Education Ministry has proposed plans to ensure that all Malaysian schools will be fully equipped with computers by the end of the Seventh Malaysia Plan (which began in April 1998). The Ministry also attached importance to the availability of adequate software support in the form of computer-assisted learning packages for mathematics, Bahasa Malaysia, and English. Malaysian primary schools will be the first to use such packages once the network is fully established.

Currently, one secondary school per state is equipped with network facilities that link it to the Education Ministry's technology education division. Both e-mail and Internet services are also available on this network, which was set up by Telekom Malaysia at a cost of M\$3.8 million.

Source: The Ethos Home page, Internet, December 1998.

A key element in effective management of ICT projects is the establishment of working partnerships among citizens, community groups, business enterprises, ICT vendors, and public agencies at all levels and across all functions. This has been particularly evident in the US, where local agencies have taken a strong role in leading innovation. The Office of Technology Assessment has identified, on the basis of experience, the following important guidelines for building a political climate that motivates effective grassroots partnerships:¹⁰

- Involve the grassroots: local citizens, community groups and other nonprofit organizations, national and local government agencies, business enterprises, and all others that are significantly affected by ICT innovation.
- Develop a community infrastructure to facilitate the use of new electronic facilities, including adequate training, education, and implementation support through schools, libraries, community centers, town halls, and other means.
- Set up a planning task force and explore ideas and alternative possibilities using techniques like community workshops and technology demonstrations.
- In the preparation phase, ensure cooperation and resolve key issues, such as how costs and risks are to be shared. Pilot projects and demonstrations can also be valuable at this point.
- At the operational stage, scale up resources and clarify the roles and responsibilities of lead agencies and participants.
- Establish directories and other information about relevant public agency and electronic democracy services.
- Ensure that budgets are allocated specifically to support the above activities.

In practice, however, the forging of level partnerships along these lines can be difficult. Some ideas generated at the grassroots may not coincide with the aims of senior policymakers, and vice versa. If original intentions are not satisfied, problems may likely ensue. Thus, it is important that senior management communicate openly with all constituencies to ensure that goals and commitments to achieving successful outcomes for public expenditure ICT developments are well represented.

KEY POINTS AND DIRECTIONS OF IMPROVEMENT

Key Points

During the 1960s, in developed countries it was the government that led in the introduction of ICT in support of business functions. With falling ICT costs in the 1970s, private industry went into the lead, where it remains today in most sectors.

There are several reasons for the slower adoption of ICT by public-sector institutions, particularly in developing countries. These include:

- higher costs of ICT introduction due to the large scale of public organizations;
- the inertia of existing options and habits;
- paper trail required for approval processing;
- security concerns;
- confidentiality of information;
- obsolete regulations and laws; and
- lack of understanding of ICT and of computer skills.

In the last decade, innovative local and national government agencies, largely in developed countries, have started applying ICT to a growing range of public services. The potential benefits of the new information and communications capabilities for the services provided by public agencies include:

- lower administrative costs, through a significant reduction of information handling to meet compliance requirements;
- faster and more accurate response to requests and queries, including outside normal office hours;
- access to all departments and levels of government from any location;
- better enabling governments to harvest data from operational systems, thus increasing the quality of feedback to managerial and policy levels;
- facilitating the government-to-business interface; and
- expanding public feedback.

An important aspect of the current innovations is the sharing of information about the progress being made in improving government activities. In time, and as appropriate in the local context, successful initiatives will revolutionize the way governments operate and provide services.

With the growing demand for information, governments are increasingly selling information to users. Difficult issues are at stake here, and clear policies should be established for the development of good practices in government information trading.

Successful ICT innovation by public agencies requires a willingness to take risks and top-level support. The large number and diversity of local governments in many countries can greatly facilitate the emergence of innovative ideas, provided that a political climate and organizational arrangements are established to nurture them. The focus of public sector ICT applications should be broadened to include not just more efficient administration, but also improved quality of front-line services offered to customers and clients. ICT should be used to create a readiness for organizational innovation through the development of information and knowledge resources in ways that are sensitive to the needs of knowledge workers. In turn, public-service staff should be trained to understand and communicate the nature of the new services they are providing and of the logic of the organizational changes made to support them. Finally, working partnerships should be set up among citizens, community groups, business enterprises, ICT vendors, and public agencies at all levels and across all functions.

Directions of Improvement

Developing countries' governments are only in the initial phases of adopting ICT to improve financial management, streamline the delivery of government services, enhance communication with the citizenry, and serve as a catalyst for empowering citizens to interact with the government. Specific initiatives must fit the country's context and priorities, but certain principles are important to avoid waste and mistakes while seizing on opportunities.

First, *ICT is a tool*, immensely powerful yet essentially no different from a photocopier or a car, in the sense that user needs and requirements must come first and dictate whether and how the ICT tool should be used. For certain functions, pencil and paper, a telephone, a face-to-face meeting, or a visit to the library is far more effective than computers or the Internet. This obvious point must be stressed because governments, consultants, or donor agencies often encourage computerizing anything in sight. Indeed, it could be argued that ICT innovation is now largely supply- and marketing-driven rather than dictated by the needs and requirements of the users.

Thus, as for any tool, it is essential to assess realistically and compare the costs of a given ICT change with the actual benefits expected from it.

Second, the ICT “techie” and the “public manager” should not work in isolation from one another. Improvements in public-sector effectiveness stem largely from better rules and procedures in the sector concerned. To apply advanced ICT to obsolete or inefficient rules and processes means in effect to computerize inefficiency. Doing the wrong thing faster is not progress. On the other hand, the absence of relevant ICT knowledge risks either costly mistakes or missed opportunities for dramatic service improvements.

Third, ICT cannot substitute for good public management and internal controls. Indeed, the introduction of computers can give a false illusion of tighter expenditure control in cases where a large part of the expenditure cycle occurs in parallel and in “black boxes” outside the computerized system.

Fourth, faster and integrated public information systems carry correspondingly greater risks for the integrity of the data, and can even jeopardize the entire information database if developed carelessly and without sufficient checks, controls, security, and virus protection. Governments moving from a manual public accounting and recording system to a computerized one, or from paper personnel files to e-files, should keep the manual accounts going alongside the new system until the new system is working well and is secure and free of risk.

Fifth, it is often argued that the introduction of ICT reduces corruption. Unfortunately, this is not true. Computer technology eliminates many opportunities for corruption for those who do not understand fully the new technology, but opens up new corruption vistas for those who understand the new systems well enough to manipulate them. In a sense, ICT permits an intergenerational shift in corruption and rent seeking.

That said, ICT’s wonderful potential has been hardly used in most developing countries to increase government accountability, transparency, and participation; improve the efficiency and effectiveness of public-sector operations; widen access to public services; and disseminate information to the public and get feedback from relevant stakeholders and service users. Among other things, ICT can help solve the centralization/decentralization dilemma by making relevant data easily available at all government levels.

NOTES

- ¹ Grateful acknowledgment is given for permission to draw from a presentation prepared by the Deloitte & Touche Consulting Group, Singapore, for a workshop in March 1999 sponsored by the Asia-Pacific Development Information Program, UNDP. This chapter also draws in part from Schiavo-Campo and Tommasi (1999).
- ² Taken from the opening remarks of Chris Bellamy at the E-conference on Governance and Public Services In the Information Age, Internet, 1998.
- ³ Drawn from Dutton (1996).
- ⁴ Following this line of argument, Brin (1999) recommends that images from rapidly increasing surveillance cameras in public places (including government offices) should be freely available to citizens over the Internet, as a check against possible abuse by authorities.
- ⁵ See <http://www.apdip.net>.
- ⁶ Taken from issues of the *Honey Bee Newsletter*, June–September 1998.
- ⁷ Coleman (1998).
- ⁸ For more detail, see <http://it-taskforce.nic.in>.
- ⁹ This is discussed further in Dutton, ed. (1996).
- ¹⁰ Derived from OTA (1993a, pp. 105–132), as published in chapter 5 of Dutton et. al. (1996).

Chapter 20

Public Administration Improvements in OECD Countries

▪ Frédéric Boudier

We must take from an experience only the wisdom that is in it, and stop there. Lest we be like the cat who sat on a hot stove one day and never sat on a stove again, hot or cold.

—Mark Twain

BACKGROUND

Countries in the Organisation for Economic Co-operation and Development (OECD) have implemented a succession of public administration reforms, which eventually succeeded or failed, providing us with a fruitful source of learning. This chapter focuses on the common trends and lessons that can be gathered from the experience of these countries.¹ Broadly speaking, reforms occurred in two waves from the 1970s to the late 1990s. First came reforms to control government spending. They were followed by reforms to improve services and relations with citizens.

The idea that government should “do more with less” in a context of tight budgets led to “first wave” administrative reforms. (Calling them “first wave” does not imply that they are over, since fiscal restraint is continuing in most countries). Between the end of World War II and the early 1970s, public spending had mushroomed; governments became too costly, too big, and too intrusive; debts spiraled out of control; and citizens felt they were getting poor services for their money. The mid-1970s to the late 1980s consequently witnessed a multitude of budget reductions, public sector downsizing, and privatization, particularly where there was a feeling that government spending was both too high and ineffective, as in Australia, New Zealand, and the United Kingdom (UK). These reforms often took place, when the constitutional structure of the state allowed it, by strong

direction and control from the “center”: owing to the emphasis on reducing the fiscal deficit, the reform process in most cases was led and monitored by the ministry of finance.

From the late 1980s to the 1990s, after fiscal deficits had been significantly reduced in most OECD countries, the goal became “better government.” This meant mainly improvements in service delivery, higher-quality regulation, devolution of responsibilities to lower levels of government closer to the citizens, better access to government information, and greater transparency. In addition, this second wave of reforms, which in a few countries started early in the overall reform process, was also intended to consolidate and develop some key aspects of the first wave, such as providing more flexibility to achieve greater efficiency and effectiveness. Both waves began at once in a few countries that did not initiate ambitious first-wave reforms in the 1980s, such as Finland, which in the early 1990s had to adapt quickly to the changes resulting from the collapse of the former Soviet Union. Italy, for its part, is now implementing comprehensive reform to substantially reduce the public deficit and to modernize government activities.

At the turn of the century, some countries that have been through both phases have begun what could be called third wave reforms. Particularly in some of the countries that led in reducing functions and introducing private management practices, the aim is now mainly to counter some of the negative side effects of past changes, such as fragmentation and ethical tensions.

The various policies and initiatives were driven in each country primarily by domestic concerns tied to specific historical and cultural realities. Therefore, public sector reform in OECD countries does not lend itself to easy generalizations. The shape, speed, and success of the reforms were unique to each country. Some countries tried a “big bang” approach to achieve quick fundamental changes in the roles and functions of government. Others adopted more incremental policies in the effort to improve the running of government or to stretch major changes over a longer time. But all had the same objective of adapting government to contemporary conditions to improve cost-effectiveness and service quality.

THE “FIRST WAVE”: CONTROLLING GOVERNMENT EXPENDITURE

Less Government

More selective government activity

As mentioned, by the late 1970s government was clearly perceived in most OECD countries to have become both overextended and unaffordable. The high level of government expenditure had generated large fiscal deficits, crowding out private investment and jeopardizing external competitiveness. At the same time, public service quality and accessibility had not visibly improved. The success of the ensuing steps to reduce and control public expenditure was substantial. Most countries reduced their fiscal deficit considerably and by the end of the century nine OECD countries (Australia, Canada, Denmark, Finland, Iceland, Ireland, Norway, Sweden, and the United States [US]) were even generating fiscal surpluses.²

However, it is still widely believed that, for sustained economic growth and financial stability over the long term, fiscal discipline must be maintained. The public debt remains too high. The opening of financial markets and the resulting “globalization,” too, are generating new pressures: more than ever before, governments must compete with one another for foreign investments, and to be competitive they must have low inflation and stable exchange rates, and, hence, fiscal discipline. In most OECD countries “regionalization” played a major role in achieving budget stability. The rise of regional economic entities such as the European Monetary Union, for one, requires strict budget control among countries in the European Union (EU). For OECD countries that hope to join the EU—the Czech Republic, Hungary, and Poland—fiscal and economic discipline is central to the success of their integration.

Obviously, reducing government expenditure meant that government had to either withdraw from certain areas of intervention (i.e., do less), function more efficiently (i.e., do the same at less cost), or a combination of both. The expanded welfare programs and commercial activities of public enterprises offered opportunities for reducing the role of the state. Establishing a single market led to a major privatization of commercial public sector activities in EU. Trading in most OECD countries is now largely done by the private sector.

A few OECD countries (New Zealand and, less radically, Australia) went as far as to reexamine systematically the roles and functions of government. Most countries have been reviewing their institutional makeup and devising ways of reshaping the traditional features of the public sector. Among the various approaches, they have split policy making from service delivery (Chapter 6); merged or otherwise rationalized organizations that used to perform similar tasks separately; downsized and reallocated services within government organizations; and devolved responsibilities to line units or subnational governments (Chapter 5). In Canada, for example, as a result of functional and program reviews of all ministries, some ministries shrank by more than half while others faced slower growth in resources despite large spending pressures.

That said, with few exceptions, most of the essential features of the social protection system—pensions, universal medical care, etc.—were not questioned in most OECD countries. Instead, they were modified to ensure their survival. For example, Germany has reformed its public health system quite successfully to keep health expenditures under control, and France is looking for ways to add a capitalized component to its pay-as-you-go pension system to lighten the burden on the economy and improve long-term sustainability. Moreover, some countries with limited welfare provisions have tried to build social programs on the positive public savings achieved in certain other areas, particularly defense expenditure that was significantly reduced in the 1990s (Chapter 1).

Downsizing

Among the various aspects of state withdrawal, downsizing and staff cutbacks have the most direct human implications (Chapter 10). Programs to reduce overall numbers of employees have begun in most OECD countries in the 1980s and early 1990s, in connection with privatization and the restructuring of certain public agencies. In most cases, there have been no outright dismissals and, except in North America (Canada, Mexico, and US), cash payments have rarely been offered as an incentive for resigning from the public service. According to critics, such incentives are not cost-effective and encourage the best people to leave the public service. Indeed, long-established career civil service structures in most continental European countries, as well as Japan and Republic of Korea, prohibit the dismissal of civil servants for financial reasons. In other OECD countries, strict rules and often agreements with labor unions also limit the ability of governments to dismiss redundant staff (Chapter 11). In the Netherlands, for example, a

collective agreement between the central government and the labor unions obliges the Government to look for suitable vacancies for the redundant employee during an 18-month period. Moreover, redundancy programs apply to very few categories of Dutch civil servants, generally those with more than 34 years of service, who can benefit from favorable conditions.

In most OECD countries, the public still holds the view that government should guarantee job protection to its employees. Like the Netherlands, Sweden, for example, makes the home agency responsible for ensuring an effective redundancy process, thus limiting top-down attempts by the central government to reduce the number of staff. Therefore, OECD countries commonly use other tools of workforce reduction over time, mainly attrition combined with recruitment freezes and early retirement.

Some countries, however, have felt that recruitment freezes would adversely affect the adaptability and renewal of the workforce, and that early retirement incentives would be too costly in economic and human terms, particularly in aging societies. Efforts were therefore made to improve the employment prospects of government employees in the private sector. Redundant staff were allowed to engage in a variety of training and development programs, some of them government-run (as Australia), to improve their professional or job search skills. Payments for retraining surplus staff were also an option, as in New Zealand, but without a clear measurement of the outcomes. Even in these cases, however, priority was generally given to redeploying redundant employees within the public service.

It is difficult to assess the impact of downsizing in OECD countries for a number of reasons. First, programs vary a lot from country to country (Box 20.1). Sometimes cuts are made across the board; at other times specific sectors are the targets. Second, the term public employee is defined differently in different countries and data on public employment are difficult to compare. Public employment levels appear to vary from country to country but the differences can be misleading. Also, countries were able to reduce the size of the central civil service either through active downsizing or by shifting employees to subnational government or to public enterprises.³ In countries like Japan or the Republic of Korea where government employment was very low to start with, there was naturally no need for deliberate staff reductions.

Box 20.1**Downsizing in the OECD: Selected Experiences****Canada**

A program review indicated the programs and services to be eliminated. About 45,000 employees were removed from public service over a three-year period (1995–1998) as a result. Priority was given to ensuring employment security and minimizing involuntary reductions.

Finland

The goal was to maintain or reduce personnel levels as part of an overall strict budget policy. Starting in 1997, each agency set staff size within overall budget limits. Government employment declined from 212,000 in 1989 to 120,000 in 1996. However, only 9,000 of this reduction was due to staff cuts; the rest was due mainly to the conversion of government agencies into public enterprises or private companies. Thus, while government employees were downsized, overall public employment did not decline.

Mexico

Since the early 1980s, the Government has made it a policy to limit employment growth as part of its efforts to modernize government, restructure the central public administration, and divest and privatize public sector enterprises. The Central Government staff has been reduced significantly through layoffs and emphasis on transferring services from state agencies to lower levels of Government and to public enterprises. In December 1994, the economic emergency led to new limits on public expenditures, which included programs to reduce, rationalize, and modernize the public service to increase cost-effectiveness. The initial target was a reduction by 10,142 positions (3.1 percent), including vacancies.

More Efficient Government

The public has come to expect better-quality and more accessible public services from government. Because of these higher expectations and the fact that there are simply not enough resources, government is challenged to do more with less by allocating the resources more suitably and making better use of them.

Reviewing the modalities of government intervention

The fiscal problems had a decisive impact on the perceived role of the state. As noted, in a context of tighter budgets, social services and

benefits can be maintained (an essential part of the mission of government, in the view of most OECD countries) only through cost-effective interventions.

More attention must be paid to the efficiency of traditional interventions such as regulation and authorization procedures. Administrative decision making often has to be simplified to ease the burden on the citizens and on business.⁴ Italy, for example, has eliminated unnecessary administrative procedures, replacing permits and authorizations with self-declarations, and streamlining administrative procedures. Most OECD countries are now striving to assess more thoroughly the potential impact of new regulations before issuing them, and then to monitor their impact. Although as recently as 1994 fewer than half of the OECD countries did regulatory impact analysis; by 1999 only Belgium, Czech Republic, Greece, Japan, and Luxembourg had failed to adopt the practice.

Governments withdrawing from commercial activities must also pay greater attention to the efficiency of the public enterprises. Fully privatized activities are outside the public sector (although the choice of activities to be privatized and the manner of their privatization are central issues), but the corporate governance of public enterprises has acquired new importance as government reform has progressed (Chapter 6). Corporatization is meant to balance the public interest with the advantages of autonomy for the public enterprise. Most OECD countries, however, report that corporatization has succeeded in producing more efficient public enterprises only when markets were made competitive and contestable.⁵

Governments have also increasingly contracted out activities to the private sector. Other measures such as vouchers or property rights' markets are more country-specific or limited to certain sectors of government activity—vouchers in education and social housing, and property rights markets in fisheries, for example. Contracting out has been common for many years in simple and low-risk activities such as maintenance or catering. In France, for example, where the contractual approach between the public and private sectors is well developed, the practice of *concessions de service public* (public service concessions) has been in place for a century, especially in water supply. What is new in recent years is the extent to which countries have been prepared to contract out more complex and more central government activities such as information technology, education, and even, in some countries, prison management. A number of countries have made it obligatory for government entities to explicitly consider external supply options for many services.

Contracting out is discussed at some length in Chapter 13. The OECD experience with contracting out suggests several preconditions, even for relatively simple activities, including the following: the existence of a competitive market among suppliers; open and verifiable procurement procedures; and the availability in government of solid technical and legal skills in contract management. These preconditions, along with the high transition costs involved, may set practical limits on contracting out complex activities. As in all institutional changes, if implementation issues are not given enough attention the potential benefits of contracting out can be dissipated and the costs can turn out to be higher. A specific consideration is the costing method used by internal and external bidders. Because costs are difficult to calculate precisely, there is a danger that short-term gains may be paid for by reduced long-term performance. Accordingly, the usefulness of contracting out is not easy to assess. The US experience with contracting out, for example, showed that without an audit and baseline data for effective comparison and given the differences in accounting procedures and the controversy over costs the true net benefits of contracting out are difficult to calculate.

Reviewing public management systems

Two main aspects—personnel management and performance management systems—should be considered. The following should be read in conjunction with the more extensive discussion of personnel management in Chapter 11 and of performance in Chapter 18.

It is often assumed that more flexible management of people can lead to more effective and efficient public service organizations. In OECD countries this assumption is subject to debate. While about half of the countries have started making personnel management changes with that goal in mind, the other half, mainly in continental Europe and Japan, retain some features of the traditional system of a career civil service. Increasingly common in OECD countries, however, is recruitment based on merit. Moreover, governments, such as that of France, are giving greater attention to job content than to salary-scale positions, and greater emphasis to devolution of authority, training, and mobility.

OECD countries that have implemented personnel management reforms in recent years have focused mainly on giving more responsibilities to managers for managing their staff and improving the performance of the workforce. In a few cases, the government agency “manager” is now

responsible for recruitment and dismissal, as in New Zealand, where a private sector–like system exists.⁶ Often, however, the authority given to managers is accompanied by new specific guarantees to protect civil servants in their new working environment. The new system that Switzerland will introduce in 2001 (Box 20.2) gives a greater role to public service unions, and similar trends are observed in Nordic countries. Also, labor practices can be subject to oversight by a public service commission, which sets broad guidelines for personnel management throughout the government, while leaving much more autonomy than in the past to line managers to negotiate specific arrangements and make individual personnel decisions (Chapter 11).

Box 20.2
Recent Civil Service Reforms in OECD Countries

Italy offers a comprehensive example of civil service reforms in operation. Since 1993 the country has been heading toward the privatization of the civil service. This means that the employment terms and pay of civil servants, which used to be set by administrative law, are now covered by contracts under the labor law. The duties of politicians are more clearly separated from those of public managers, and managers are now paid based on performance. Public managers have fixed-term, two- to seven-year contracts and are no longer appointed for life, as they were in the old system.

The Republic of Korea is introducing the open personnel system (OPS) throughout the Government. Under the former closed personnel system, vacancies in higher grades (director level and above) were filled mostly through promotion within the Government. Much importance was placed on job security, somewhat to the detriment of competition among individual members. The OPS brings the element of competition into the civil service and makes administrative services more transparent. More than 130 out of 758 senior positions (20 percent) in 52 central agencies (excluding those related to public security such as the National Intelligence Service and public prosecutors) will be open to outside candidates. Professionals from the private sector, especially in law, accounting, construction, etc., are expected to be drawn into the public service. Contracts will define the specific terms of employment, including salaries. This flexibility is also intended to promote more varied personnel management practices among the ministries and agencies, and to develop the capability to tailor those practices more closely to specific programmatic needs.

In Switzerland, the civil servant status established in 1927 will be abolished in 2001. The focus is on a “cultural change” in Federal Government. The new recruitment process will be aligned with private sector recruitment. One aspect of the change is a shift in the onus of protection from the laws to stronger participation by personnel representatives and collective bargaining.

The opportunity to recruit from the private labor market is an important aspect of this evolution. In Japan, this was underlined in the report of the 1999 Council on the Public Service Personnel System, which recommended midcareer recruitment from outside the administration as a concrete measure to promote openness, diversity, and flexibility in the civil service. Other models go further and consider the public sector as a vast enterprise that hires and manages its staff in conditions analogous to those of private enterprises. In this open structure system, wages and working conditions would be determined more by the labor market for the various kinds of jobs than by the grade occupied in a hierarchy or a given length of service at that grade.

Some countries also recruit senior officials based on fixed-term contracts. This has been the case, for example, in New Zealand, where all senior civil servants are now under fixed-term contracts with precise performance targets. Fixed-term contracts are also being used for certain senior executives in Australia (at the federal level), Sweden, and more recently in Italy, Republic of Korea, and United Kingdom (UK). The contract can be renewed if necessary, but renewal is not automatic. However, other countries that have initiated human resource management reforms prefer to retain indefinite-duration contracts except for very specific assignments. This is the case in Canada and the Netherlands.

The new style of human resource management makes itself felt at the individual level primarily through new classification systems. The classification system must be flexible enough to promote the career development goals of public employees while at the same time addressing the needs of the organization, for which the focus is naturally on positions rather than individuals. Career development must be managed accordingly: individuals must make progress and acquire new competencies and new skills. Mobility, both horizontal and vertical, is usually promoted. In Finland, New Zealand, and UK, each agency is free to use its own system of job classification.

Devolved management and increased flexibility can, however, be perceived as a challenge to public service homogeneity, and particularly to equity between agencies and cohesion between civil servants. To deal with such issues, some countries like Australia have kept employment conditions essentially the same for all agencies. Still, whatever their management choices may be, all countries must address the important need for flexibility. France, for example, did not reform its job classification systems but introduced allowances to answer the needs of specific categories of employees (like nurses) that could not be taken into account within the traditional, homogeneous, and rigid pay system (*nouvelles bonifications indiciaires*).

Flexibility of personnel is sometimes a costly investment (profitable only over the medium term) and generates internal tensions between the personnel management agency and the budget entities. Also central is the relationship with the labor unions, which generally criticize these new forms of management as giving too much discretion to middle-rank managers. The reforms are likely to generate tensions as well from the point of view of recruiting and keeping a highly skilled civil service staff. In an open system, to attract and keep the best is an enormous challenge, particularly considering the lack of statutory protection to balance the relatively lower salaries in the public sector. For those who do choose to stay in government service, motivation will be an issue since the government, with its limited resources, will be hard-pressed to provide good career opportunities.

Performance has been a conventional requirement of bureaucracies, although a number of OECD countries feel that government was performance-oriented only in theory and not in fact. New challenges require a stronger performance orientation within government. This calls for a shift from traditional compliance-based controls to a system where performance is assessed in terms of efficiency and effectiveness.

There is an increasing focus on both the performance of civil servants and the performance of public services. Italy, for example, is introducing strategic planning and the measurement of program and policy effectiveness, and many other countries are also interested in developing benchmarks and indicators. The Austrian Government, in November 1999, issued its second Performance Report of the Federal Administration on 11 out of 12 ministries in an effort to show high efficiency in spending taxpayers' money and to build up an overall performance indicators system.

Performance contracting is emerging as a key tool of public sector reform in OECD countries (Box 20.3). It is often viewed as a useful vehicle for clarifying objectives and supporting new management monitoring and control methods, while leaving the day-to-day management to the managers themselves. By the commonly accepted definition, performance contracting is the range of management instruments used to define responsibilities and expectations between parties to achieve mutually agreed results. Yet there is considerable dissimilarity among the uses and forms of quasi-contractual arrangements, and the degrees to which parties are bound by the agreements (Box 20.3).

Box 20.3

Performance Contracting in OECD Countries

Seven broad types of performance contracting are used in the public sectors of OECD countries.

- *Framework agreements* cover overarching strategies and priorities for a department or agency and are made between a minister and a chief executive (e.g., framework documents for “Next Step” agencies in the United Kingdom (UK), and letters of allocation in Norway).
- *Budget contracts and resource agreements* set budget levels between the central budget office or finance ministry and the chief executive of a department or agency (e.g., Danish budget contracts, which originally offered budget guarantees for a multi-year budget period).
- *Organizational performance agreements*, are made between a minister and chief executive or between a chief executive and senior managers, breaking down overall strategic goals into program elements and setting specific, often detailed, operational, process, and output targets in exchange for increased operational autonomy (e.g., French tax administration and performance-based organizations in the United States [US]). These agreements are also used by the management of state-owned enterprises in many OECD countries.
- *Chief executive performance agreements* between ministers and chief executives often complement organizational performance agreements. These are also made between senior management and staff at various levels (such as those used in agencies in Australia, Denmark, New Zealand, Norway, and UK).
- *Funder-provider agreements* clarify responsibilities by separating the role of the funder from that of the provider of the services. Purchaser-provider agreements based on a purchase-provider model can be found in Australia (on a limited basis) and New Zealand.
- *Intergovernmental performance contracts and partnership agreements* are often linked to the devolution of programs or funding from national to subnational government. They provide state and local governments with funding in exchange for specified levels and quality of service. Such contracts are more common in the education, health care, and labor market services areas, where the national government retains formal responsibility and accountability for service provision but finds that programs are more effectively implemented by local authorities. Partnership agreements between levels of government can be found in Canada, France, Germany, Norway, Spain, Sweden, and Switzerland
- *Customer service agreements* are statements of service standards provided by a program or service to its clients to specify the quality and level of services to be expected and, in some cases, the avenues of redress and compensation if services fail to meet standards. Customer service agreements can be found in Australia, Belgium, Denmark, France, Italy, UK, and US.

Although performance contracting generally rates a favorable assessment from the countries (clearer objectives being the most commonly mentioned achievement), lessons are difficult to draw from the various practices, since implementation should always be tailor-made to the country. A case study on the French Directorate General for Taxes nonetheless described several factors that must be considered before performance contracting is adopted.

- As a management tool, it should be applied throughout the organization and tailored to the needs of each division.
- It should be flexible enough to be linked to other management processes such as strategic planning and the performance management system for senior managers.
- It should provide a framework for exchanging accountability for the results of devolving management authority. The relational aspects of performance contracting were also seen as important to gaining management and staff involvement and support for modernization and reform.

THE “SECOND WAVE”: IMPROVING SERVICE AND RELATIONS WITH THE CITIZENS

Although, as we have seen, the chief aim of public management reforms was first to stabilize or reduce expenditure, most countries were under increasing pressure from the public. This is primarily due to developments in technology and communication (citizens are better informed and expect quicker services); education (citizens are more discerning); secularization (citizens are more individualistic and critical); and wealth accumulation (citizens have the means to exact the level of service they feel they deserve, as well as to pursue alternative service delivery options). Citizens want to have their say in the way the public administration is run and expect the best services at the lowest prices. These pressures create major tensions when reform is put into practice: governments must cope with more diverse needs and preferences while striving to maintain some policy cohesion. Longer-term structural factors like demography also exert additional pressure on the economy and society. Further improvements in governance are thus called for.

Moving Closer to Citizens

Improving responsiveness and quality

In the past, many have criticized government as being more concerned with meeting its own needs rather than those of its citizens. Reforms acquire legitimacy to the extent that they are able to deal with this perceived failing. But what citizens expect is less easy to define. They want more efficient and effective service delivery, certainly, and this puts the administration and the citizens in a provider-consumer relationship. But they also demand freedom and equity, which presupposes that the government will protect “the public interest”.

Service delivery thus gains a central role. Some common elements have been identified as essential to sustained, responsive service delivery.

- *Transparency.* Citizens should be informed about how the administration works, what constraints public servants face, who is responsible for what, and what remedies are available if things go wrong.
- *Participation.* Citizens now resent being treated as passive recipients of whatever the administration dishes out. In many cases, as in tax administration, the government needs their cooperation to perform its task.
- *Satisfaction of “client” requirements.* As far as possible, citizens should be offered services that correspond to their particular situation. The “one size fits all” approach to service delivery is no longer appropriate, neither is it necessary as the new technologies and flexibility in the public sector allow services to be matched to requirements.
- *Accessibility.* Citizens should have easy physical access to administration at convenient hours and be offered information in plain language.

Efforts to be more responsive to citizens have led several countries to set service standards, which were sometimes given particular prominence in high-profile documents such as public service or citizens’ charters, e.g., in Belgium, France, Italy, Portugal, and UK (see Chapter 13 for a detailed discussion of citizens’ charters and country illustrations.)

A reduced administrative burden is another central aspect of better-quality service to citizens, particularly for the business community. This

often entails simplified requirements and standardized forms (e.g., those of customs), sound use of information from clients, (e.g., preprinting of entries on forms), the use of information technology (e.g., electronic data interchange, electronic payment of taxes), and an increasing awareness of the costs involved (e.g., the cost of statistical inquiries). Tax payment through the Internet, which considerably diminishes the cost of tax collection, is now developing in the US and other countries (such as France) are also moving in that direction. (See Chapter 19 for further discussion of the use of informatics in government.)

Most OECD countries have initiated so-called one-stop shops—central entry points into the administration for citizens dealing with specific matters, mostly business. One-stop shop systems often presuppose preliminary negotiations between the departments concerned and sometimes across levels of government. The most recent initiatives have been implemented in Italy, Portugal, and Spain. In Italy, a one-stop shop at the local level has been given the responsibility for granting authorizations for new industrial plants. It unifies the 40 different procedures, involving many different government agencies, which were previously necessary. This is expected to reduce the time needed to process authorizations. Spain has similarly created a one-stop shop for businesses dealing with the Government.

Decentralizing responsibilities

Better service delivery is increasingly seen as bringing the government closer to the citizens to better identify their needs and tailor the service to these needs.

In the UK, for instance, local governments underwent reorganization in the 1980s and 1990s to offer the taxpayer better value for money (although political influence may have driven these reforms). Thus, there was a discernible movement of power upward to Central Government, and most services that were not “marketized” were performed by nonelected central government organizations (quasi-nongovernment organizations or *quangos*) rather than by elected local governments. But the feeling that the changes had produced democratic and accountability deficits was growing, and this was one of the factors that motivated current efforts to decentralize power.

In traditionally centralized countries like France or Spain, the decentralization that occurred mainly through the 1980s was seen as a

fundamental element of democratic governance (Box 20.4). This is also true of OECD countries that have recently applied for membership in EU, i.e., Czech Republic, Hungary, and Poland. The implementation of the *acquis communautaire* in their domestic systems also has major implications for their institutional arrangements and administrative apparatus, decentralization being one major challenge.

Box 20.4

Decentralizing Responsibilities: The Experience of France and Spain

In France, the decentralization laws of 1982 devolved authority to the regions and the *départements* in a wide range of areas such as urban development, economic support measures, and local transportation. They also gave the regions and *départements* responsibility for constructing and maintaining secondary schools (similar to the responsibility of the communes for primary schools, which had been in place for a century), while retaining responsibility for most other education policies at the central level.

In Spain, the creation of autonomous communities has brought about significant transfers of responsibility, including the decentralization of health and education systems, as well as of public works, agriculture, environmental protection, regional development, and social assistance. The process is continuing as new sets of functions evolve.

Even in countries where subnational government traditionally enjoys a relatively high degree of autonomy, the feeling that regional and local levels of government should carry out more functions is driven partly by financial considerations and partly by the need to manage closer to the citizens. In the US, the National Performance Review endorsed the empowerment of states and localities as a way of unraveling complex program requirements and allowing program managers, frontline workers, and community leaders to redesign programs around performance objectives, such as changes in income, employment, or quality of life. Such a decentralized federal system encourages diversity, which can be seen as a strength of the system despite the enormous complexity that it also brings.

The experience of OECD countries shows that, to be effective, decentralization of authority to lower levels of government should be accompanied by a decentralization of resources to perform the new tasks. One other important aspect of devolving resources is replacing traditional oversight with new accountability mechanisms, such as robust ex-post controls (e.g., regional courts of account in France) to make up for the resulting increase of corruption opportunities for local officials.

Enhancing Accountability

Enhanced accountability, both political and financial, is the counterpart of providing more freedom and flexibility to managers. Where authority is devolved to line managers, there arises a concern that the increased managerial autonomy will cloud or diminish ministerial responsibility and, thus, public accountability overall. In most OECD countries, only ministers report regularly to the legislature. Should senior civil servants be made directly accountable to the legislature? This remains a matter for debate.

A key issue is the ability of oversight bodies, such as parliamentary committees and audit institutions, to adapt to the new management approach, and their preparedness to focus on larger strategic issues. It is clear from the experience of OECD countries that many legislators and auditors have yet to make this adjustment. Adding to the traditional concerns on financial and compliance issues, the new focus on outputs and outcomes is most challenging. Legislatures and audit bodies are often hampered by inadequate systems and staff, and the management reforms are bringing this old problem into sharper relief.

While there is no single solution, some countries feel that one way of providing more effective accountability while giving more discretion to managers may be to separate accountability for administration (operational management) from that for policy (strategic management—see Chapter 6 for a fuller discussion.) Sometimes the focus is laid on improving information to the legislature and auditors through regular performance and financial reporting. But this also calls for additional capacities and resources.

A related issue is the need to exercise adequate control over activities and practices of semiautonomous units that are deliberately placed at arm's length from the government. For example, traditional parliamentary control mechanisms for the crown entities in New Zealand do not necessarily fit the new relationships that have been established. Moreover, moving significant services from the center to semiautonomous entities may risk increasing political patronage.

Another issue is financial. When giving more discretion to managers to manage their budget—one should ensure that financial control is effective. Most OECD countries feel that traditional *ex-ante* controls, budget procedures, and accounting systems may not suit the current context. It is

argued that devolving power to line units and measuring performance by results calls for adopting private-like mechanisms, i.e., accrual budgeting and accrual accounting. The use of these techniques has sometimes been presented as a trend among OECD countries. But in fact, accrual accounting and accrual budgeting have been introduced only in Australia, New Zealand, and Iceland, and the UK has announced plans that have not yet been fully implemented. Accrual budgeting has been considered but not adopted by the other OECD countries. However, accrual accounting is taking place throughout the government in Canada, Finland, Sweden, and US; pilot projects have begun in the Germany, Ireland, and Netherlands; and France is considering the matter.⁷ Given the relatively limited and recent experience in this field, accrual accounting innovations should be described as a promising practice for OECD countries rather than as a transferable model. Otherwise, attention might shift from more vital challenges to a costly and time-consuming innovation that may not be a true priority.

In addition, one should keep in mind that accrual accounting has been introduced in countries where a number of prerequisites were in place, and that these circumstances may not be present elsewhere, e.g.:

- a pool of well-trained high-level and middle-rank managers;
- a well-developed accounting industry, able to put the system in place and train the civil servants; and
- a high degree of computerization of all government agencies.

METHODS OF REFORM

Varying Speed and Scope of Reform

The speed and scope of reforms have varied among OECD countries. It is possible, however, to identify three broad models that reveal different attitudes toward change, although they have in common the main goal of balancing financial savings with more responsive service to citizens.

Private sector orientation

This has been initiated primarily by Westminster-type countries (and to some extent the US). Introducing greater competition and choice has been attractive from the point of view of both gains in economy and efficiency and improvements in quality and choice. One of the traditional criticisms of the public sector was the lack of creativity and adaptability compared with

the private sector. This led to the conclusion that performance could be improved by exposing public service to market discipline. Common reforms include breaking up public monopoly power (through privatization or other means) and introducing market-type mechanisms (through more competition, better pricing, dispersed decision making, monetary incentives, and deregulation).

Among private-like management techniques, the use of internal markets has been applied to particular sectors such as the health sector, e.g., in the UK. These initiatives have led to uneven results. The benefits traditionally expected of markets are greater choice, lower prices, and better performance and quality. However, it is not clear how these market-type practices affect total resource use in the sector. Also, experience has shown that these market-type practices need to be adapted to the overall public management objectives. One risk is to create false markets with more perverse disadvantages than traditional public monopoly. The reluctance of some countries to use such mechanisms has been partly due to concerns about fair competition.

Building new solutions in existing models

The Nordic countries have focused instead on making better use, on the one hand, of the traditional well-developed third sector and local governments to which many tasks were devolved, and, on the other hand, of the flexibility of the strong autonomous agencies that were central to implementing the performance systems. In Denmark, for example, associations have greatly benefited from the “marketization” of the housing sector.

The chief characteristic of the Swedish approach is a significant decentralization both to local authorities and to line agencies within a still large public sector. The choice has been to maintain a modestly reduced but still major welfare commitment between government and citizens. The Government has therefore focused on performance, modernization, and citizens’ satisfaction while retaining its essential roles in the social arena.

Pragmatic approaches

Continental European countries, as well as Japan and the Republic of Korea, have generally preferred an ad hoc approach. As we underlined earlier in this chapter, some of the key characteristics of traditional bureaucracies were maintained—including personnel management—while radical changes were introduced in other areas of public administration. These experiences

vary from country to country, and the only possible generalization is their incremental nature.

The most promising efforts currently being developed include communication strategies, working methods, and transparency in government. Republic of Korea, for example, is implementing a comprehensive effort applied at various levels of government, to use information technology in a way that provides greater transparency, in particular for issuing licenses.

Common Issues

One general issue that has emerged from past reforms is that structural change has side effects and costs. Merging entities or creating new structures is not always the most efficient way to achieve real change; close attention should be paid to introducing the right incentives and adapting management practices. Some specific problems that occurred in connection with the reforms in OECD countries are also worth highlighting.

Performance measurement difficulties

Rewarding individual performance is in principle a very good thing, but is difficult to apply in practice. In particular, measuring individual productivity for nonmarket products is highly problematic. This leads to difficulties in establishing quantitative public sector performance criteria and individual performance measurement. None of the attempts to provide performance-based special reward systems for civil servants has been successful. Additionally, in most cases, such attempts have had a negative impact on the morale of civil servants. Many OECD countries have therefore abandoned special mechanisms to reward individual performance and have focused instead on team performance at the level of organizations or units. Of course, performance was and remains a key consideration for individual promotion and career development.

Program evaluation

Also problematic is program evaluation, i.e., an in-depth assessment of results that goes beyond indicators and seeks to identify cause-effect relationships and the reasons for a particular level of performance. Evaluation is important because it could provide a good alternative to traditional controls in a context of devolved management: if an organization continuously evaluates itself, control ceases to be exceptional and loses any inquisitorial

character. In Australia, for example, all departments have been required to evaluate each of their programs every three to five years since 1987. But the experience of Canada and the US suggests that, however valuable such evaluations may be for assessing policy changes, they are of more limited use in annual budgeting and expenditure control. Difficulties arise for several reasons: the complexity of the information analyzed, problems of timing between the evaluation and the budget cycle, and a focus on reducing expenditure—all limit the frequency and the quality of the evaluation.

Ethical tensions

Governments must be alert to the implications of making radical changes in a period of adaptation and instability as this can create new opportunities for less integrity and more corruption (Chapter 17). Public procurement and contracting out create new partnerships between the public and the for-profit sector, while at the same time the new devolved environment removes traditional controls. Only a strong tradition of public integrity allied with the commitment to sustain an ethical infrastructure can prevent major failure.

Fragmentation and confusion

Fragmentation and confusion are also significant risks when giving more autonomy to managers or to lower levels of government. In the US, for instance, efforts to give greater flexibility to states and localities have not resulted in greater harmony between levels of government. Instead, the necessary parallel expansion of federal mandates has heightened intergovernmental tension. Similarly, the extensive use of the private sector in service delivery, sometimes in competition with public institutions, has led in some countries to a degree of confusion on who is in charge of what, and citizens can find it hard to find their way in the complexity created by the multiplicity of service providers. This is mentioned as an emerging problem in the social sectors in the UK, for instance.

Low morale and reform fatigue

Low morale and reform fatigue are a risk when comprehensive change is taking place, and civil servants are constantly required to do more with less, while at the same time their jobs are threatened. The potential negative implications of decentralized personnel management

for staff morale have often been underestimated. For many countries this would mean internal conflict and increased uncertainty, which could lead to the opposition of the civil service to reform. This is why Australia, Canada, Netherlands, and the Nordic countries have maintained mechanisms for ensuring the cohesion of their civil service through the close involvement of the employee unions in the reform process (e.g., in the Nordic countries) or the maintenance of some central systems of job classification (e.g., in Australia). Governments can avoid reform fatigue by gaining stakeholder buy-in, rewarding innovative and responsive behavior, and communicating successful outcomes. Instead of continuous reform, governments need to evolve organizations that can *adapt to change*.

After almost 20 years' experience with various reforms, OECD countries felt that they should meet to compare their experiences and discuss potential improvements and new challenges for the future. In a symposium organized by the OECD (Government of the Future: Getting from Here to There, 14–15 September 1999), the Public Management Service of the OECD (PUMA) used nine country case studies and presentations by academics and practitioners in public reform.⁸ The following general lessons can be drawn, and provide the basis necessary to elaborate third wave reforms.

Need to think strategically

The challenge to government is to move away from opportunistic reform toward more strategic reform. Strategic reform involves developing a clear vision, building a constituency, planning tactics to achieve outcomes, and communicating the vision and anticipated outcomes to stakeholders and the public at large.

Need to consult with citizens

A common vision serves to unify political leaders, senior officials, frontline workers, and the general public. It also provides a guideline for choosing goals, for developing strategies to achieve those goals, and for measuring results. To articulate a common vision, government must consult with stakeholders and bring together their many, varied visions. The task of consultation is not an easy one. Government needs to gain support for reform from other centers of power, especially political leaders, and to work with them to identify a public agenda out of diverse interests. It also needs to educate its citizens about the stakes of reform. The public is interested

in the results of reform, not necessarily in the process. Gaining public support for reform means not only choosing an agenda that the public cares about, but also earning the public's trust that government actions will lead to positive results.

Need to communicate to the public

Communicating the need for reform involves transmitting the values and goals that underlie the reform vision and identifying and addressing the public's fears. A compelling statement of values creates an emotional connection with the public by reflecting its own desires, and helps government workers overcome bureaucratic self-interest to change behavior. Communicating the process of reform helps government workers understand their role in reform and maintain the cohesion of reform efforts. It also provides a timeline for achieving results. Communicating successes with reform serves to build public confidence and maintain the momentum of reform efforts by bolstering political and public support. The reform message must be simple, understandable, and honest; must point out the potential costs and inconveniences of reform; and should not over promise outcomes.

Create a change-enabling culture

Reform should seek long-term change in the behavior of government by changing organizational culture. Incentives need to be built into reform efforts so that government workers are rewarded for actions and outcomes that are consistent with reform goals. Government must foster cooperation rather than coordination by reducing the segmentation of tasks and putting emphasis on global performance. Each country has a different institutional model for providing the capacity to drive reform. The more decentralized the system, the more important it is to have both formal and informal channels of communication to maintain cohesion in the reform process.

Leading the reform

There is currently a debate among OECD countries on how to bridge the gap between the development of reform and its implementation. Some countries have stressed that providing incentives for leadership could help bridge the gap. This could be done by encouraging innovation and rewarding successes, and giving potential leaders the opportunity to develop leadership skills on the job. For other countries, well-functioning structures and processes deserve greater emphasis.

KEY POINTS⁹

Government expanded substantially in most OECD countries after World War II, and by the mid-1970s had become overextended and unaffordable. The resulting fiscal pressure prodded public administration reforms, which occurred in two broad waves from the late 1970s. The first wave—"less government"—consisted of reforms to control the growth of government spending. The second wave—"better government"—comprised reforms to improve services and relations with citizens. Currently, a "third wave" may be ongoing to correct some of unforeseen side effects generated by the earlier reforms, and to reconcile the advantages of greater managerial autonomy with the need to preserve cohesion and integrity in the public administration.

The *first wave* of reforms included efforts to both control aggregate expenditure and make government more efficient. Helped by the stimulus provided by the fiscal discipline requirements of EU, by the end of the century these efforts had been successful in restoring fiscal stability in most OECD countries.

The goal of expenditure reduction required greater selectivity in government intervention as well as some downsizing of the government apparatus. Most OECD governments responded to this challenge by withdrawing from commercial activities, while maintaining their general commitment to social protection (e.g., pensions, universal health care).

Downsizing was also achieved largely by attrition and redeployment rather than by outright staff cutbacks. The specific content of personnel management reforms varied. Some countries (e.g., New Zealand), went as far as trying to establish a single public/private labor market with fixed-term contracts for public employees and maximum mobility from one sector to the other, while other countries (e.g., Japan) have retained the traditional features of the lifetime career civil service. In most countries, however, managers have been given greater flexibility to make individual personnel decisions and to evaluate the performance of their staff.

Preserving the social protection compact, in the face of more limited resources, required also efforts to make government more efficient. In most OECD countries, such efficiency improvements were attempted through corporatization of public enterprises; some regulatory streamlining; arrangements to contract out service delivery to private entities; and giving more authority to managers. Corporatization was largely successful in improving efficiency in

public enterprises, but regulatory simplification was neither universal nor very far-reaching on most OECD countries, and contracting out is subject to severe limitations and risks. Accordingly, much of the hoped-for efficiency improvement in government rested on assigning greater responsibility to managers to manage their budgets and staff. However, managers' flexibility has been limited by the need to preserve the newly restored fiscal discipline and assure uniform treatment of government employees across all agencies. In some cases, the added authority given to managers was counterbalanced by a greater role for the employee unions. In many OECD countries, therefore, improvements in public administration efficiency were generally not as significant as the substantial improvements that were achieved in the aggregate fiscal situation.

The *second wave* of reforms—better government—was stimulated by the increasing pressure from the public for improved services and for a more responsive administration acting to serve the citizens rather than dictate to them. The two broad directions of reform consisted of moving closer to the citizens and assuring stronger accountability.

The former entailed mainly efforts to improve administrative responsiveness and service quality, and bringing the responsibility for some services closer to the users by decentralization. In turn, better service quality called for improving transparency in administration, opening channels for participation, addressing client requirements, and increasing accessibility.

Enhanced accountability is the counterweight to providing more autonomy and flexibility to public managers. However, even when effectively counterbalanced by internal accountability, the greater autonomy of public managers carries the risk of diluting the accountability of the executive as a whole to the legislature. This raises issues such as whether top public managers (rather than ministers) should report directly to the legislature, or whether legislative bodies are adequately equipped to oversee results, and similar difficult questions. One solution in some OECD countries has been to separate accountability for operational matters from accountability for policy. In any event, greater autonomy for public managers has entailed in most countries the need for stronger external audit and evaluation.

The speed and methods of administrative reform have been mostly country specific, but three approaches can be identified among OECD countries. A few countries shifted to a private sector approach in government, through introducing quasi-market mechanisms, splitting policy from implementation,

adopting commercial accounting, etc. Other countries added new solutions to existing models, for example by giving more responsibilities to the voluntary sector. A third group of countries preferred ad hoc pragmatic responses to specific problems, while maintaining their framework of rules and procedures. Common issues have emerged, however, and mainly the difficulties of measuring performance; ethical tension between delegation of authority and protection of integrity; risk of fragmentation and confusion in state intervention; demoralization from authoritarian introduction of top-down reforms; and uncertainty from never-ending change transformed into an end in itself. As noted, therefore, many OECD countries are now in what may be called *third wave* reforms—to preserve the good innovations of the previous years while jettisoning the ones that have proven to be too costly or counterproductive.

NOTES

- ¹ The guidance and extensive comments of Anne-Marie Leroy and Salvatore Schiavo-Campo are gratefully acknowledged. This chapter partly relies on Boston (1998); Ives (1995); Jensen (1998); Premfors (1998); Rhodes (1998); OECD (1995b, 1996, 1997b); and the OECD Public Management Web site: www.oecd.org/puma/.
- ² Excluding interest payments on government debt, several other countries (e.g., Italy) also generate a “primary budget” surplus.
- ³ See Schiavo-Campo et al. (1997) for a discussion of the methodological difficulties of measuring and comparing government and public sector employment.
- ⁴ Moreover, complex and opaque regulations are a prime source of corruption, as discussed in Chapter 17, and regulatory streamlining is the single most effective means of combating corruption.
- ⁵ The Japanese Government has been weighing the need for the public sector to hold on to public corporations, considering current socioeconomic conditions, and has been taking steps to abolish, consolidate, or streamline public corporations as decided by the Cabinet in 1997. Among other changes, six financial institutions were merged into three in October 1999.
- ⁶ A national reflection on the advantages and costs of this system was set under way with the change in government from the 1999 elections.
- ⁷ Accrual budgeting requires accrual accounting; accrual accounting does not require accrual budgeting (Chapter 7).
- ⁸ These documents, including the report on the Symposium findings, are available on PUMA’s Web site (<http://www.oecd.org/puma/>).
- ⁹ Because this chapter is a review of OECD country experiences, the customary section of “Directions of Improvement” would not be appropriate and is omitted. (Some of the lessons of reform experience in OECD countries were described in the previous section.)

Chapter 21

Improving Public Administration in Developing Countries and Transition Economies: Some Lessons of Experience

Doctors say of tuberculosis that in the early stages it is easy to cure but difficult to diagnose, whereas in the late stages it is easy to diagnose but difficult to cure. It is the same of the affairs of state.

— *Nicoló Macchiavelli*

Symmetrically with the structure of Chapter 1, the first section of this concluding chapter lists the generic conditions for public management reforms, and the second section assembles the “Directions of Improvement” sections of the preceding chapters—thus providing a comprehensive summary of key issues, reform possibilities, and constraints.

THE GENERAL CONTEXT OF ADMINISTRATIVE CHANGE

At one extreme, improvements in public administration are impossible in countries saddled with entrenched rapacious regimes wholly lacking in accountability to the population. For these patrimonial regimes, which are by definition uninterested in efficiency and development, public administration reform risks a loss of control and of opportunities to plunder the national economy and the environment. It is therefore a mistake to assume that all governments are interested in improving the economic conditions of civil servants and the efficiency of public management. On the contrary, for a rapacious unrepresentative regime, an underpaid, de-skilled, ineffective public administration is an asset: it keeps public employees dependent for their survival on the regime’s handouts, impels their corruption, precludes their “exit,” and turns them into reluctant accomplices. In these “kleptocracies,” while there might perhaps be

conceivable reasons for certain kinds of external involvement, assistance to improve the government administration is a wasteful delusion.

At the other extreme, lasting structural improvements in public management are never easy, simple, or quick. Therefore, most developing countries and transition economies fall into the intermediate category, for which public management reform is difficult and time-consuming, but is manageable. We know it is manageable, because experience shows that it has been managed in several countries (e.g., Bolivia, Botswana, Republic of Korea, Singapore, and Thailand). For administrative reform to have a chance of succeeding, however, several conditions are required.

General Conditions for Sustainable Improvements

International experience shows that there are six general conditions for constructive efforts to improve public administration in developing countries and transition economies.

“Ownership”: The basic prerequisite

Not surprisingly, the general condition for successful structural public management reform is genuine ownership of the reform—by the government as a whole if systemic issues are to be addressed, or by a major player in government if the strategy begins with reforms in an individual sector or administrative function. In either case, support from the highest political levels is necessary. Fact-finding and cost-containment measures have less stringent ownership requirements—but without active local involvement at the appropriate level the returns to these measures will be minimal because of lack of follow-up. Beyond fact-finding and cost containment, administrative changes simply cannot be implemented in sustainable fashion on the basis of the stakeholders’ benign neglect, let alone over their opposition.

Vision

A coherent long-term *and public* vision is mandatory. It is important for sustainable reform that government flesh out in concrete detail the generic goal of a right-sized, efficient, and responsive administration, oriented toward providing an enabling environment for the private sector while protecting important public interests. Rhetoric alone won’t do: to the extent possible, targets should be precise (not necessarily quantitative),

the intended criteria explicit, and timetables reasonably specific. Without a coherent and specific vision of the public administration as it should become, pragmatism becomes ad-hockery, external support dissipates, and haphazard reform actions come to a stop. But, however fine, *the vision of a few cannot be a living guide for the actions of the many*. The process of involving the public in defining a vision of the profile and behavior of government organizations is crucial to the practical value of the vision as a policy guide.

Selectivity

Among other things, a clear long-term vision permits selectivity—which is inevitable because it is obviously unrealistic to try to reform the administrative system all at once. Interventions should be focused on those sectors or functions that meet three criteria. The sectors or functions should be: (i) important; (ii) amenable to significant improvement in a reasonable period; and (iii) likely to generate role-model effects or positive pressures for public management improvements elsewhere. Thus, selectivity does not mean picking winners and losers, focusing on partial solutions to an inherently systemic problem, or ring-fencing privileged reform enclaves. Instead, *selectivity is a criterion for optimal sequencing*, by strengthening in turn different institutional linkages, in the context of the clear long-term vision mentioned above.

Sensitivity

This criterion entails primarily an understanding of the situation of those affected and of social constraints. It is well-known that expatriate advisers do not always possess such an understanding. But often, the country's own policymakers and high government officials are out of touch with administrative realities as well; and officials in the capital are frequently oblivious of the state of public services in local areas. It is essential, therefore, to identify those who do know such realities firsthand, and listen to them. A public management reform program rests on sand if it is elaborated without consulting those who have relevant information and those whose cooperation will be needed to implement the program.

Stamina

Stamina and patience are required by the long gestation of public administration reforms. With their heavy institutional content, such reforms call for a long-term investment of imagination and resources, and for the

willingness of government and donors to stay the course. It is necessary to state this obvious requirement because all too often complex reforms are undertaken “on the cheap,” thus guaranteeing their failure regardless of how well targeted and designed they may otherwise be.

Implementation capacity

Unlike first stage “stroke of the pen” policy changes such as price decontrol or exchange-rate devaluation, most public administration changes are second-stage “affirmative reforms,” which require careful and consistent implementation efforts over time. Adequate implementation capacity is therefore a must. However, the required capacity need not preexist in its entirety. It can grow apace with reform implementation itself, provided that the administrative reform design explicitly includes such a capacity-building component and is carefully sequenced to assure that its reach does not exceed its implementation grasp.

How to Get from Here to There: Some Strategic Lessons¹

Notwithstanding the importance of a long-term vision for administrative reform, it is the dynamic question of *how* to get there that has suffered the worst disregard, because it is so murky and difficult. It is not surprising that, when faced with the size of the gap between reform goals and institutional realities in many countries, reasonable people shy away from any involvement in government reform and anticorruption efforts. But common sense and growing international experience point to various ways to begin to bridge this gap, among which are the following.

The torto-hare approach

The strategic focus should be on identifying areas where it is feasible to move very fast, and areas where it is essential to build carefully a solid institutional foundation required for sustainable reform. To use the metaphor of road traffic, “torto-hare” was the slogan (*tarta-lepre* in Italian, combining tortoise [*tartaruga*] and hare [*lepre*]) coined by the Italian traffic police in the 1960s to describe optimal driver behavior: drive fast or slow, depending on the circumstances. The worst approach to driving in erratic traffic and poor visibility is to go on cruise control, whether at high or at low speed.

In this perspective, the dichotomy between big bang reforms and “gradualism” is false. The premise of the big-bang (or shock therapy)

approach is that partial reforms will have no effect in the absence of simultaneous rapid reforms in complementary areas. The premise of the gradualist approach is that there is only so much change a society can stand at any one time, and the attempt to do too much will end up in a failure to accomplish anything. Both premises are valid, but stretching them to their logical extremes leads to untenable prescriptions. The extreme version of shock therapy, reforming everything at once, is utterly unrealistic and risks causing extreme damage in a plural society driven by ethnic animosities; at the other extreme, the “fundamentalist” interpretation of gradualism becomes a justification for perpetual tinkering around the edges without any progress. The obvious alternative to such ideological approaches is a pragmatic *analysis* of the benefits, costs, opportunities, and risks of specific administrative changes in a specific country. Accordingly, administrative reform should be as fast as possible when circumstances permit, and as slow as necessary when accountability needs to catch up, absorptive capacity to grow, or public tolerance to be rebuilt. (Again, however, a coherent overall vision is mandatory.)

Testing for readiness

It is important, therefore, not to assume that circumstances are always propitious for change. Among the myriad practical ways for a government to test the system’s readiness, three can be mentioned:

- Undertake some specific action, no matter how modest, as a trigger of significant involvement. If it proves impossible to take easy initial steps, the harder ones to follow will not have much chance of success. Furthermore, to do so will flush out at an early stage the reform opponents.
- Devise a “transparency test” to open up some part of the personnel management or administrative apparatus to public scrutiny, and to begin building public support for improvement therein.
- Issue a candid public statement concerning key administrative weaknesses and reform options, as a basis for initiating a public dialogue.

More generally, it is *society’s* readiness, not the government’s, that is at issue. As the old saw has it, in a democracy people get the government they deserve. But in authoritarian regimes, too, the administrative culture reflects the norms of society at large. *The behavior of public organizations is determined in part by the expectations of the public.* Thus, information, good

practice dissemination, and other ways to create public demand for reform and to raise general expectations of good government are needed to complement executive efforts to improve administrative efficiency.

Fact-finding: A constructive beginning

Lasting improvements in government performance are politically delicate, of long gestation, and difficult to implement. Nevertheless, in most cases governments can initiate factual and analytical work even when the probability of actual reforms is a long way off.

This fact-finding and analytical work is both an obvious prerequisite to eventual sensible reform, and a nonconfrontational first stage of the change process. Governments are not always aware of problems in their own administrations until the facts are uncovered and, usually, the bare facts make the direction of improvement painfully obvious. Even when political or social circumstances are not conducive to actual change, governments are often amenable to functional reviews of government organizations, assessments of procedures, improvements of information systems, pilot surveys of user opinions, and the like.

The futility of "paper reforms"

Formal changes in public administration are hollow in the absence of effective monitoring and enforcement mechanisms. Administering, monitoring, and enforcing mechanisms take time, resources, and genuine commitment at several levels to become operational. Yet, two tendencies often converge in practice to sidestep these requirements. The first tendency is the temptation of politicians and foreign donors alike to declare a problem solved and move on to the next item on the agenda. Thus, for example, the reorganization of an ineffective ministry can be publicized as a "result" without any attention to the other elements needed to improve the functioning of the ministry in practice. The other tendency is the habit of control-minded elites to try to effect behavioral change by decree. (Military and other authoritarian regimes are particularly prone to this illusion.) There is overwhelming evidence that such change, if any, is purely transitory. As stressed throughout this book, attention to implementation issues is essential for the probability of success of the reform.

Operational Approaches

Grounded on the above general considerations, two interrelated operational approaches to improving public management in developing countries can be suggested: (i) strengthening intrasystem linkages; and (ii) fostering the creation of “efficient nuclei.”

Strengthening internal linkages: The essence of “capacity building”

In many developing countries, and in most transition economies, the absence of systematic lines of interagency communication and the lack of incentives to share information (which is often viewed as a personal asset) result in fragmented policy formulation and atomized decision making. The challenge is how to improve communications and reduce the cost of information within the public sector.

It is always difficult to decide whether to strengthen one government agency or another; the outcome of bureaucratic “turf” disputes is uncertain; and the risks of losing an organizational bet are potentially severe. The guiding operational criterion for sustainable improvement should therefore be to strengthen the linkages between the components of the public administration, both among central ministries, and between them and subnational entities. Strengthening the institutional and information linkages within the administrative system has important advantages: it (i) does not prejudice the appropriate transition path for the system as a whole; (ii) entails a direct reduction in transaction costs; and (iii) is most likely to have positive implications for transparency and accountability. It is essential to encourage *positive* interaction among government agencies, not by rhetoric, but by specific incentives for greater information exchange, training, and cooperation. This point leads to the second approach suggested here.

Efficient nuclei vs. enclaves

Action to strengthen linkages facilitates but does not in itself spread new rules and efficient organizational practices. There must also exist dynamic agents of change that can generate the positive messages to be transmitted throughout the system by the improved communication channels. These agents, these efficient nuclei, must be deliberately created to perform a few key selected public functions.

A guiding criterion for selecting these key functions is precisely their contribution to maximizing the linkages within the public sector. By analogy with Albert Hirschman's "unbalanced growth" approach of 30 years ago (Hirschman 1958), *efficient nuclei should be created largely on the basis of their potential for spreading new institutions and organizational practices throughout the public management system.*

A nucleus of administrative efficiency should also meet the following practical standards.

- Be small, and deliberately meritocratic, both in the initial selection of staff and in the evaluation of staff performance.
- Have flexible and simple procedures.
- Provide sufficient compensation for staff (this may require fixed-term contracts, to permit adequate incentives without compromising eventual decisions on an affordable civil service compensation structure).
- Have adequate material and financial resources.
- Use local talent, with external advisers used only when demonstrably necessary.
- Be a transitional arrangement, with a clear sunset clause and advance specification of the procedures for reassignment of its staff throughout the relevant government agencies.
- Operate not only to perform specific tasks but also a teaching-by-doing function, in cooperation with other agencies.

The approach is applicable in a variety of administrative areas. An illustration can be given in the area of procurement. As discussed in Chapter 9, delegating the procurement function to line ministries is risky in the absence of sufficient capacity at the center to formulate sound procurement standards and rules, and make sure they are applied. The spending agencies, however, also need advice and assistance in this area, to avoid generating an atmosphere of pervasive mistrust and the ensuing micromanagement from the top that compromises both the efficiency and the integrity of the procurement process. By the efficient nucleus approach, the central unit charged with procurement responsibility would be required to provide assistance to the spending agencies in the flexible implementation of the procurement procedures—thus at the same time improving the practicality of the procurement procedures and strengthening the agencies' capacity to carry out their own procurement. The relationship between the central unit and the ministries' procurement offices would encompass

cooperation and mutual assistance and not only oversight and control, and would therefore encourage informal exchanges of information and advice as and when needed.

In contrast, it is essential to resist the temptation to “ring-fence” segments of the new modernized public administration in order to insulate them from the existing inefficient system. *Enclaves do not work in institutional development any more than they do for physical development projects.* There are two basic differences between an efficient nucleus and an enclave. First, an efficient nucleus is aimed at spreading institutional improvements throughout the system. Second, efficient nuclei should be encouraged to emerge within an existing organization, to reform it from the inside—a benign mutation rather than a threat. Enclave projects, on the other hand, normally either ignore or bypass the existing organizations. The organizational strongholds being bypassed refuse to wither away, and actively resist and subvert the reform process. One major reason for the negative experience with enclaves is that the enclave approach shuts out the *people* in the existing organizations and gives them no hope of participating in the reform process, thus guaranteeing their opposition. The outcome is illustrated, among many other events, by the situation of Bolivia in the 1980s (Box 21.1).

Box 21.1

Bolivia: Donor-Abetted Administrative Duality

In the early 1980s, Bolivia faced a severe economic crisis reflecting ineffective macroeconomic management, political instability, and institutional problems, and resulting in acute hyperinflation (an average of 1,600 percent during 1980-1985). The crisis also led to administrative chaos in the ministries and affiliated agencies. The structural adjustment process introduced in 1985 demonstrated that government institutions were not competent to fulfill their roles. This forced political authorities to use specialized external teams financed by international assistance. However, while foreign assistance was a good source of technical support in the short term, it became a part of the problem, by causing distortions in personnel policies and pay structure in the public administration, raiding the best personnel, and weakening domestic capacity. In turn, the increasing weakness in domestic capacity began to threaten the sustainability of the policy reforms.

As a result, the state's central administration in effect came to consist of two groups—a smaller well-qualified group receiving support from foreign

continued on next page

Box 21.1 (cont'd.)

assistance projects, and the larger group remaining in the old structure of public administration, underpaid, less skilled, and wasting its time on administrative tasks of little relevance. The larger group was also demoralized because of poor career prospects and political interference in hiring and promotion. Moreover, the existence of a privileged group in public administration made it difficult to apply personnel policies consistently.

These trends were eventually reversed, through a public administration reform program partly financed by foreign aid itself. In effect, to remedy the negative impact of short-sighted technical assistance of the past, foreign aid was used to finance the improvement in incentives needed to send the qualified local professionals back home to their own civil service.

Source: Chaudhry, Reid, and Malik (1994).

The role of hope

It is important that administrative reforms incorporate a *potential* benefit for all individuals in the system—the hope of becoming part of the new institutions, the chance of turning themselves from reform losers to reform winners. The individual's probability of access to the new system may be low, but people can still be motivated into supporting the reform by the prospect of improving their chances through personal effort, with the help of appropriate training. The key proviso is that there must be absolute confidence in the equality of opportunity of access to the new system.

Governments should have no illusion that incorporating the “role of hope” in public administration reform programs will remove resistance to the reform. It can, however, turn many opponents into supporters and, at the margin, spell the difference between success and failure. Also, fairly administered training-for-access programs can have an important demonstration effect in terms of the principle of reward for effort and performance, rather than for political or ideological loyalty. In any event, assuming that everyone in the “old guard” is useless or an adversary is wrong, providing equal opportunity of access is the right thing to do.

“Internal structural adjustment”

A way of managing the transition from a dysfunctional to a radically different system is to give individual administrative units positive incentives

to reform, and then place the burden of proof on them. By analogy to structural adjustment programs, the formulation of a coherent administrative reform program by the country's government permits defining the required adjustment for all ministries, and hence setting appropriate performance criteria for each. Ministries that meet those criteria would, for example, become eligible to use a new salary scale, or be exempt from recruitment freezes, or receive greater budgetary allocations, or a combination of incentives—in the context of a business plan consistent with the overall reform program. For such an approach to succeed, it is, of course, essential to have an autonomous and credible mechanism of evaluation of organizational performance. In Japan, good results have been obtained by having outside agencies initiate and arbitrate reform, giving discretion to administrative entities in achieving broad reform goals, and recognizing the importance of psychological motivation. In other countries, international participation may be necessary for the credibility of the approach.

REFORM PRIORITIES AND SEQUENCING OF REFORMS

This section assembles the “Directions of Improvement” recommendations from each of the previous chapters. The convenience to the reader of having a self-contained reform and sequencing agenda justifies this duplication. (This section should be read in conjunction with the last section of Chapter 1, which summarizes the key points of the various aspects of public administration.)

Government Machinery and Organization

Policy Formulation and Coordination

The first requirement of an effective administrative apparatus is to define and communicate to it clear policy directives and decisions. Therefore, there is a need for institutions capable of producing decisions that are consistent, affordable, and capable of being implemented. There is also a need to improve transparency and predictability in the policy process, so that powerful individual ministers do not short-circuit the system and undermine collective goals in pursuit of their parochial interests.

Improvements in cabinet systems and related organizations should be geared to better performance on five basic tasks: (i) provide intelligence and early warning regarding the policy items likely to come before the cabinet; (ii) ensure that all agencies and ministries with a stake in a given

issue are adequately consulted; (iii) provide supporting analysis and the careful consideration of options; (iv) record and disseminate decisions; and (v) monitor implementation and follow-through.

Among the key principles of policy formulation, probably the least observed in developing countries is the principle of discipline. Promulgating policies that are “dead on arrival” because they are unrealistic, devalues the policymaking process and reduces the impact of leadership. It is essential, therefore, to introduce concrete provisions for greater discipline in policy formulation, as for example a requirement that no decision can be presented for cabinet approval unless it is fully costed and is consistent with other legislation and rules.

Experience demonstrates that there are many routes to more effective policy coordination. Pronounced differences exist not only between countries but within the same country over time. These differences matter in terms of the speed and cost-effectiveness with which decisions are reached, as well as the degree of ownership among various ministries and departments responsible for implementing those decisions. But there is clearly no one “right” answer to the question of how policy-making institutions should be improved, provided that the improvements focus on the five tasks noted above. Generally, however, the size of the decision-making group can be small and hence its decision-making effectiveness greater, to the extent that there are mechanisms to assure broad consultation with other government entities and the public.

It is important, therefore, not to look at central policy formulation mechanisms in a vacuum. Often, their success is supported by additional coordinating mechanisms. These range from cabinet subcommittees to interministerial task forces and working groups to congressional liaison offices and business-government coordinating councils, and can perform a useful complementary role. Also very important is for governments to find ways to encourage informal cooperation at all levels of administration, and remove obstacles to the free flow of information within government.

These considerations are of particular relevance for donor agencies, which have recently begun to assist the effectiveness of central decision-making mechanisms in developing countries. The resources involved are often very small, but hold significant promise for assisting the efforts of many developing countries to improve the quality of their service delivery, regulatory functions, and public administration in general.

Organizational structure of central government

Few recommendations can be advanced in an area as political and dependent on country characteristics as the organization of government. However, certain general approaches can be advanced.

By and large, developing countries are usually more heterogeneous than developed countries, and their independence is more recent. Therefore, while the functional principle dominates the organization of central government in developed countries, much of the developing world could usefully consider the value of ministries serving a particular geographic area or clientele, whenever government reorganization appears appropriate.

Also, there is a certain trade-off between coordination and accountability: a larger number of ministries makes coordination more difficult but facilitates the placement of responsibility. Again as a broad generalization, in developing countries weak accountability is more of a problem and a risk than loose coordination of decisions. To that extent, whatever the number of ministries, care should be taken to assure clear assignment of responsibility and rules for accountability. Nevertheless, while the specific number of ministries depends largely on country size, goals and circumstances, most developing countries of average size can probably get by with 12-18 ministries, and the very small countries with fewer than ten.

Concerning the regulatory framework, the situation is complicated in most developing countries by the regulations inherited from the former colonial authorities, which are not only likely to be obsolete, but were designed in the first place for control and exploitation rather than protection of the local citizenry and encouragement of competition. To these were added the many more regulations promulgated after independence. Nevertheless, the key issue in most developing countries is not the quality of regulation, but its tax and erratic enforcement. Most countries would therefore benefit from a two-pronged effort at regulatory reform by: (i) extensive pruning of the welter of regulation; and (ii) building the capacity for robust, nondiscriminatory, and predictable enforcement of the key regulations—particularly those that protect competition, public safety and health, the environment, and land use.

Organizational structure of subnational and local government

Because a first requirement for accountability is a clear assignment of responsibility, it is advisable to specify by law the powers of each level of

subnational government, in those cases where they remain ambiguous. It is highly inadvisable, however, to codify administrative customs or other informal modes of behavior, as custom when codified loses its natural capacity to adapt to change.

Weak capacity of subnational government to exercise certain functions should be an indication of the need to strengthen such capacity, and not an excuse for withholding legal sanction for the responsibilities it is expected to exercise. Central and intermediate levels of government can strengthen both the powers and the capacity of local government by:

- entrusting to elected local bodies the government of urban and rural areas, with clear functions and commensurate resources;
- avoiding the central appointment of local leaders, and resisting the temptation to intervene except when local governance is violated or at risk;
- fostering the creation of mechanisms for accountability and responsiveness of local government to the citizens, and for appropriate public participation;
- enabling local governments to appoint qualified staff, and providing such technical and managerial assistance as local government may require to function effectively; and
- assuring the effective audit of local government activity, and an appeals channel for the redress of citizens' grievances.

Considering the growing importance of large urban centers and megacities, and especially the large numbers of marginal and poor people residing in those agglomerations in developing countries, central and provincial governments have a special responsibility to:

- help devise integrated region-wide solutions for land-use, transport, and environmental problems, as well as for the provision of a minimum level of services to the poorer groups, primarily shelter, clean water, and waste disposal;
- assure that megacity governance responds to the same basic requirements as good governance in general—particularly participation;
- prevent particularistic interests of individual municipalities, or of privileged groups, from exploiting the unplanned expansion of megacities to their own advantage; and
- help address the issues of internal migration, along with measures to assist the recovery of impoverished inner cities.

It is much easier to anticipate and prevent the problems of megacities (as, for example, was done in Seoul) than to remedy them after they have surfaced in their most severe form (as, for example, in Jakarta and Manila). Nevertheless, improvements in megacity governance, and resolute action by all levels of government, are essential to prevent those problems from becoming worse still, and can succeed if they are well-coordinated and sustained over a period of time.

Decentralization: What, when, and how

Experience worldwide shows that decentralization can be a mechanism to improve political stability, deliver service more efficiently and effectively, reduce the level of poverty, and promote equity. Governments intending to decentralize functions should note the following general principles:

- Decentralization should be understood as a means rather than an end in itself. The goal is to heighten the overall quality of governance.
- There needs to be consensus and support from different sectors for adopting decentralization measures.
- In cases where decentralization is a new development, subnational governments should be given time to learn and gradually adapt to the new system. In parallel, control and regulatory mechanisms should be instituted to guide subnational government operations.
- Decentralization should be a sequenced set of well-conceived policies and implementation of policies should be carefully planned and executed. The risks of hasty action are particularly great in developing countries.
- Normally, the country's constitution should embody the broad outlines of decentralization, enabling laws the specific parameters, and administrative rules the details of implementation. In countries where decentralization laws were made piecemeal, it is highly advisable to codify all legislation relating to decentralization to maintain coherence and spot duplications and inconsistencies.
- Ensure that mechanisms for public participation and autonomous decision making are installed in the legal and regulatory framework and institutionalized in implementation. Subnational governments must be directed to encourage citizens to participate in decision making.
- Specify the responsibilities for each level of government, and those to be jointly shared by the central and subnational governments. To

avoid turf competition and confusion, it is important to be clear about which particular functions are to be delegated, deconcentrated, and devolved. Deconcentrate functions that are national in scope and over which the center wishes to have direct control; delegate special and highly technical functions; and devolve functions that are local in scope.

- To the extent practicable, government functions should be assigned to the lowest possible level of government. There should be a convincing justification, such as spillover and externalities, for assigning them to higher levels of government.
- Ensure that subnational governments are capable to carry out functions and responsibilities transferred to them. Transfer of functions and authority to subnational governments needs to be matched with transfer of appropriate technology, skills, and financial and manpower resources.
- Ensure human resource development and organizational capacity building until the time when subnational governments can independently sustain their own needs.
- Especially in devolution, central government needs to enact regulation to ensure national standards of public services and prevent local government actions from interfering with or contradicting national policies and goals.
- Allow some flexibility to local government in implementing decentralization mandates.

It is important that government enforce vertical coordination among different levels of government, and encourage horizontal coordination among agencies and subnational government at the district and city level. Interagency coordination should lead to convergent actions by field agencies, avoiding duplication of local staff and programs, and exploiting economies of scale. Caution should be taken to avoid both overregulation and undercontrol by central government.

Nonministerial government bodies and corporate governance of public enterprises

Because direct government delivery of public services is only one of several options, developing countries should periodically reexamine the effectiveness of direct delivery of public services relative to possibilities for the involvement of private businesses and nongovernment organizations (NGOs). This is especially advisable in local government, which is normally

responsible for providing those services that are generally more suitable for nongovernment delivery. Close monitoring is needed, however, to prevent service quality and access from declining as a result of capture by powerful local private interests.

A similar middle-of-the-road approach is advisable for handling the relationship between service policy and implementation. A sharp separation between the two functions is inadvisable in most countries, and the creation of an autonomous executive agency exclusively responsible for service delivery is an especially bad idea in developing countries. However, the two functions are in fact distinct. It is advisable for countries, within the existing organizational arrangements, to consider ways in which to sharpen the focus on formulating good service policy and standards, while at the same time giving more flexibility to government managers in the actual delivery of the public services. The appropriate improvements will depend largely on country characteristics, the service in question, and the organization of the government. Generally, however, the issue of how to give greater freedom to government managers to deliver services more efficiently should be viewed in conjunction with budgetary procedures (especially the desirability of some flexibility in reallocating budget within the same category) and the mechanism evaluation of public managers' performance.

In a majority of developing countries and transitional economies, the public enterprise sector as a whole is a drain on the public finances, without an offsetting benefit in terms of providing services to groups that would be underserved by private business. There is therefore a strong case for *both* reducing the size of the sector through privatization and improving the efficiency and responsiveness of enterprises that remain in the public sector. Because privatization carries special risks in countries with governance weaknesses, developing countries should pay close attention to the process of privatization, with all the expert assistance they can obtain. External donor agencies, too, need to shift their focus from the quantity to the quality of privatization, from the "what" to the "how" of the handling of privatization.

Concerning the improvement of the efficiency and responsiveness of the remaining public enterprises, reforms in corporate governance are necessary in many developing countries and most transitional economies. In this area, the selective approach recommended above is not desirable, because corporate governance reforms and procedures must be uniform for the entire sector.

The following measures, among others, can help ensure the benefits of corporatization:

- Establish a single corporate form and avoid both hybrid organizational solutions (which muddy up accountability) and sector-specific schemes (which permit the ministries to retain undue influence).
- Ensure open communication and credibility, particularly vis-à-vis the employees.
- Monitor the activities of reluctant enterprise managers during the corporatization process.

In selecting an agent to represent the state, it is preferable to establish a single central public agency rather than split the oversight role among different agencies, or entrust it to an existing entity with a different mandate. Such a central public agency would be responsible for the oversight of every public enterprise, but the regulatory function should be vested in separate agencies to avoid conflicts of interests.

When considering the creation of a board of directors, the following are needed.

- First, evaluate whether a board is preferable to other mechanisms of effective control, on the basis of the availability of good board members and the size and nature of the enterprises in question.
- Clarify board objectives and give the board adequate authority.
- Select independent and competent board members representing different constituencies—predominantly from the private sector.
- Help boards organize themselves and provide training where lacking. The formation of an institute for directors to provide such training is worth considering, ideally on a subregional basis for several countries.
- Provide adequate incentives and accountability systems. Board members' remuneration must be competitive with that of the management of enterprises, and procedures must be established to review board members' performance, including in particular the robustness of their supervision of enterprise management.

Performance and management contracts are not a panacea and are in most cases problematic. Therefore

- Performance contracts should be used selectively.
- The information on which the enterprise performance targets are set should be made available to both parties.
- An independent body should be established to act as an arbiter and conflict resolution mechanism.
- Performance indicators should be derived from an agreed three- to five-year plan, and performance targets should be adjusted only when major factors outside the control of managers change.
- Once performance targets have been set, managers should be free to manage, subject only to general government policies and contractual provisions.
- If circumstances are not conducive to detailed performance contracting, a performance agreement can still provide the basis for a constructive dialogue on performance, provided that significant positive or negative consequences result for the enterprise managers.
- Because of the severe risks of management contracts (with private managers) in developing countries, when it is absolutely necessary to enter into such contracts the government should consider hiring an independent external entity to monitor and supervise the management on its behalf.

Managing Government Resources

Managing central government expenditures

The approach to improving central government budgeting should be pragmatic, providing a menu of options rather than single “best-practice” models. However, certain principles are universal:

- making sure that changes in public expenditure management strengthen the four pillars of governance (accountability, transparency, predictability, and participation);
- using improvements in public expenditure management partly to reduce opportunities for corruption, both home-grown and imported;
- paying attention not only to fiscal discipline, but also to strategic resource allocation, good operational management, and due process; and
- stretching the horizon of budgeting beyond the immediate future, through a concrete multiyear approach, when feasible, but at a minimum at the level of systematic reflection and dialogue.

In addition to these general principles, experience suggests three practical rules for assessing the merits of recommendations to improve expenditure management in the specific country context:

- Getting the basics right is a must for the process of spending the people's money, especially in poor countries where the people can least afford costly experiments. In the words of the Conference on Fiscal Policy and Reform (2–4 February 1999, Apia, Samoa): "...fundamental elements of budgeting preparation, implementation, and monitoring that permit effective control, promote transparency, foster accountability, and ensure legitimacy need to be firmly in place before highly sophisticated concepts of budget management...[are] introduced."
- Any measure to improve public expenditure management in developing countries must raise the country's own capacity to manage its public expenditure. An improvement in public expenditure management designed and implemented primarily by expatriate specialists is no improvement at all; quite the contrary, it may even worsen matters. Neither can improvements last if they are imposed top-down by the central agency with little involvement or implementation capacity of the sector ministries.
- Assess the record of actual success or failure of the measure being recommended by independently obtaining feedback from other countries that have experimented with it.

On *budget preparation*, priority actions are a reasonably comprehensive budget coverage, disclosure of policies that have an immediate or future fiscal impact (e.g., contingent liabilities), and a good expenditure classification. In addition, efficient line-item cash budgeting must be established on a solid basis before considering a move to other budgeting systems.

Hard financial constraints, flowing from a consistent macroeconomic framework, are essential at the start of the budget preparation process, to give the line ministries the predictability needed to design their expenditure programs, in conformity with government sector policy. Good operational management requires that line ministries be accountable for implementing their programs, but they can be held accountable only if they have sufficient authority to design those programs.

To move toward a *multiyear budgeting perspective*, the first priority is to prepare aggregate expenditure estimates by function and broad economic

category, and review the forward costs of programs when preparing the budget. As the next stage, multiyear expenditure programs can be prepared, including only programs/projects for which financing is assured—thus focusing only on ongoing policies. As a final stage, a formal and detailed medium-term expenditure framework can be prepared, with the same coverage and degree of detail as the annual budget. To achieve this final goal, a progressive approach can be considered. Aid-dependent countries should first prepare a strong and realistic public investment program (consistent with available resources and without “white elephant” projects). Other countries could focus on other costly expenditure items, e.g., pensions and other entitlements. In addition, preparing a full sector expenditure program for one or two key sectors can yield useful experience in multiyear programming.

Improvements in *budget execution* generally entail enhanced expenditure control, more efficient spending, and better cash management. Improved expenditure control results mainly from timely and predictable release of funds; effective controls and monitoring at each stage of the expenditure cycle (commitment, verification, and payment); clear procedures for registering commitments; and, of course, sound and well-enforced procedures for procurement (discussed later). Improvements in efficiency call for flexible rules for virements; some possibility for carry-over of authorized spending to the next year; and progressive decentralization of controls, but in parallel with a reinforcement of audit and financial reporting. Finally, priority actions for better cash management include a realistic cash plan consistent with the budgeted expenditure; centralization of cash balances (not necessarily of actual payments); and timely tracking of government borrowings and repayments.

In *audit*, efficiency (value-for-money) audits may be considered only after a strong financial and compliance audit is clearly established, and all resources should be concentrated on that basic priority. Similarly, in *accounting* the priority is on establishing a solid cash accounting basis and consolidating the operations of extrabudgetary funds—complemented, however, by a commitment register, accrual accounting for debt, and the recording of contingent liabilities. Further improvements could include modified accrual accounting and the formulation of asset registers—at least for the more valuable assets at risk. A move to full accrual accounting should not be considered until the previous steps are firmly in place (except for public sector commercial activities, where accrual accounting is essential). Finally, *performance orientation* in budgeting can be fostered in

several ways other than the formal introduction of quantitative performance indicators or performance budgeting, as explained later.

Managing local government expenditure and fiscal decentralization

The first priority in this area is to review the distribution of fiscal responsibilities between levels of government to make sure that it is clear and explicit. Next, it is necessary to verify that the formal assignment of responsibilities is in fact carried out and, where it is not, to assess whether the lack of implementation derives from insufficient local capacity or from central government interference.

It is also important to combat the temptation to “download” fiscal problems by devolving expenditure responsibilities to local governments without the means to carry them out. This practice makes it difficult for local governments to operate, and at the same time gives them an alibi for bad performance. Defining fiscal targets for general government instead of only for the central government (as recommended in the International Monetary Fund Code of Fiscal Transparency) would help accomplish this purpose. In developing countries and transitional economies, therefore, improving fiscal statistics at the local government level is important not only to promote a healthy fiscal policy overall, but also to help protect local governments against unfunded mandates.

Because fiscal decentralization carries costs and risks as well as benefits, it is essential to examine, *case by case*, whether a specific move toward fiscal devolution is likely to carry a net benefit. Such an examination should rest in part on the feedback of informed persons from local government and civil society, rather than a mere desk review by a central entity. Local administrative capacity is an important determinant of the effectiveness of decentralization. Weak local capacity is not necessarily a reason to keep expenditure responsibilities centralized. However, every move toward fiscal decentralization should be accompanied by measures to strengthen local capacity and governance, and should assure that independent channels of feedback and complaint between the local population and the central government are open.

It is especially important to consider the impact of fiscal decentralization measures on poverty, income distribution, and regional inequalities. Although all major policy changes entail shifts in the interpersonal and interregional allocation of resources, when a loss is likely

for poor and vulnerable groups, appropriate compensatory measures must be incorporated in the design of decentralization and forcefully implemented. Again, there is no substitute for ascertaining the views of local civil society in this respect.

When assigning taxes to local governments, it is necessary to encourage coordination across jurisdictions, to avoid undesirable competition in offering tax incentives, double taxation, or tax loopholes. Such coordination can also exploit scale economies in tax administration and improve local administrative capacity by benefiting from the experience of other jurisdictions. Coordination in the tax area can thus become a testing ground for greater general cooperation and, to that extent, can alleviate local capacity constraints and build regional social capital.

Property taxes are the most suitable for assignment to local government, especially in developing countries where the only alternative may be overreliance on transfers from central government. Taxes on certain types of property, such as automobiles, are inherently progressive and relatively easy to administer. However, taxes on land and buildings, which can yield much greater revenue, are difficult to administer and are a frequent source of corruption. Improvements in this area are therefore important for effective fiscal decentralization in developing countries, but always difficult—especially in regions with weak governance and powerful local elites. Directions of improvement include mainly

- giving local governments the freedom to set their own property tax rate;
- improving the property tax valuation system;
- giving the assessing agency direct financial incentives to maintain the tax base and keep assessments up to date;
- strengthening procedures for collecting real estate taxes, normally including the power to seize the concerned property for nonpayment of taxes;
- assuring effective external audit of tax valuations and the assessment process; and
- introducing robust measures to raise the cost of corruption.

The objectives of fiscal transfers are often in conflict—between stabilizing and reducing of regional disparities, or between compensating for benefit spillovers and setting national service standards. Hence, it is important to ensure that the fiscal transfer system as a whole is internally

consistent and trade-offs between objectives are explicit. In practice, this entails relying not on a single type of grant but on a judicious combination of conditional and unconditional, capped and open-ended, and capital and current grants.

In revenue sharing, it is advisable to move away from annual bargaining (which is time-consuming, heavily politicized, and a potential source of corruption) and toward a rule-based arrangement, whereby only the overall amount to be transferred is decided annually, with the distribution to regions and localities governed by explicit criteria. In addition, the tax assignment and revenue-sharing rules must provide the right incentives for efficiency and fiscal discipline by local governments. For example, certain tax-sharing arrangements can lead local governments to put all efforts into collecting those taxes that give them the most benefit, and neglect the rest. A review of the actual behavior of local government in response to central rules, based partly on a survey of informed local opinion, can help pinpoint those rules that have had a disincentive effect, and can be a good basis for improving the fiscal regulatory framework.

Rule-based mechanisms, e.g., centrally set limits on local debt, borrowing, expenditure arrears, and approval of major loans, are also used to assure fiscal discipline in local government. In developing countries, where capital markets are undeveloped and there is an implicit assumption that the central government will bail out local governments if they get into trouble, such direct controls are unavoidable. It is important, however, to exercise them efficiently, avoiding cumbersome and intrusive controls that micromanage local government under the guise of controlling its borrowing.

Acquiring goods and services: Public procurement

In developing and transitional economies, improving the procurement system to meet standards of economy, competition, accountability, and honesty generally requires moving to:

- simplified legal and regulatory framework for procurement;
- clear organizational arrangements, combining centralized procurement policy/oversight with decentralized operations;
- improved public access to information and documentation;
- measures to ensure that only civil servants of competence and integrity are in charge of government procurement, and providing

for commensurate rewards through career options and frequent rotation;

- simple and transparent process of procurement, whichever method is chosen;
- more effective mechanisms to curb fraud, abuse, and corruption, with appropriate assistance from international organizations; and
- more attention to contract execution and monitoring.

In many developing countries, efforts to close loopholes for corruption or to achieve social goals have created increasingly detailed regulations and centralized control. The problem is especially acute for the acquisition of technology and other products that change rapidly and have a short product cycle. A major improvement would be to review the value thresholds above which the complex bidding rules apply in their entirety, and to raise these thresholds with inflation. In many developing countries, low-value items make up the bulk of procurement, especially in local government and field offices, and complicated regulations intended to prevent the misappropriation of very small sums generate far greater transaction costs for both the government and the private supplier. Worse, as noted in Chapter 1, they are usually ineffective in preventing large-scale corruption, precisely because of their complexity and the resulting delays, discretion, and lack of transparency. The main direction of improvement is to achieve a better balance between controls and managerial flexibility. Most developing countries need fewer but clearer and more robust rules, together with swift and predictable enforcement.

In developing countries, the uneven documentation and bidding procedures of different government entities compound the problem of excessive controls. Standard bid documents for goods and services, as well as work contracts, are in fact enforced for donor-assisted projects. Major improvements in economy and integrity would result from extending such standard bidding documents to all government procurement because their use reduces opportunities for undue discretion, collusion, and extortion. Developing countries can also benefit from external assistance to improve the regulatory and organizational framework, and build capacity in their procurement offices, but should not rely mainly on external consultants for actual procurement operations.

Other improvements in procurement in developing countries could be realized by addressing the slowness of the dispute resolution mechanisms. The process is slow partly because of weaknesses in the judicial system and

partly because of the complex appeal procedures. The process of recovering money from suppliers in case of bad performance or default is cumbersome and often fruitless because of antiquated foreclosure laws and the manipulation of bankruptcy laws by defaulters. Contractors, too, face protracted legal battles in recovering disputed sums from government. With the government and the contractors thus forced to take steps to protect themselves from these eventualities, transaction costs increase for both sides, making the purchase of goods and services, and contracting, much more costly in the government than in the private sector. Overall weaknesses in the judicial system are a broader problem, which could be dealt with by establishing a streamlined and fast-track procedure for appealing administrative court decisions on procurement disputes.

Finally, although the process of procuring goods, services, and works is critical for the economical and effective use of public funds, procurement issues have not received much attention from senior public managers and political leaders. In part, senior managers are not interested in the mechanics of procurement; they are also concerned with keeping their distance (and deniability) from potential waste or corruption scandals. Yet, they must realize the great importance of procurement in an efficient, effective, and honest government, and place it at the center of their responsibility rather than shunting it off to lower-level staff. In turn, political leaders must give them their support in the exercise of this delicate responsibility.

Government employment and compensation policies

Civil service improvement is often identified with the cost-containment measures of personnel retrenchment and real-wage reduction for fiscal reasons. (This explains much of the suspicion attached to civil service reform in developing countries.) However, while the cost-containment dimension is important in many countries, civil service improvement is a much broader challenge, and should be seen within the general context of public administration and governance practices. The goal of government employment and wage policy is neither to minimize employment nor to compress wages, but to achieve a workforce with the size, skill mix, motivation, professional ethos, and accountability needed to: provide quality public services; reduce transaction costs for the private sector; design and implement economic policy; execute budgets and investment projects; preserve key assets of society; and facilitate institutional development throughout the economy.

Unlike firing people and cutting salaries, these structural reforms carry potential social and political gains, in addition to the economic ones. Of course, they are also far more complex and of long gestation, partly from the need to develop a professional ethos, which is as important as technical competence. In this complex task, as in all public administration, improvements must rest on a bedrock of greater accountability. Inefficiency and corruption in the civil service do usually call for measures in both employment and better incentives. However, without improvements in effective accountability, retrenchment and more adequate incentives will simply result in a smaller and well-paid, but still inefficient and corrupt civil service.

As discussed in Chapter 1, accountability (like wage adequacy and overstaffing) is a relative notion. Strengthening civil servants' internal accountability to their administrative superiors may be necessary. But strengthening internal administrative accountability is rarely sufficient to produce an improvement in government efficiency and quality of services to the public because internal controls are often ineffective—especially when the social ethos tolerates collusion between supervisors and subordinates. Stronger outward accountability, therefore, is essential for greater responsiveness to the needs of the public and thus to improved service quality—whether it is the individual civil servant who is directly accountable, or the service unit, or the ministerial department as a whole. Outward accountability can be increased in a variety of ways—user surveys, individual name tags, investigative journalism, media access (e.g., radio talk programs), whistleblower laws, public opinion polling, etc. (Chapters 13 and 16.)

In trying to move away from an underperforming and underpaid civil service, without massive fiscal implications or immediate wholesale reform, the following transitional measures emerge from recent international practice. It is essential that such measures be a transition to *something*, and hence that they be formulated as part of a coherent and concrete vision of reform and implemented as a step in the sequence leading to that reform. If taken in isolation, such transitional measures would produce little but the institutional enclaves that so richly failed throughout the developing world. To mention a few:

- In the acquisition of new blood for the civil service, it is possible to create a two-tier system (as in Poland) whereby new staff are recruited at the new salary scale and are expected to meet higher standards of qualification. Over time, the new system will expand as the old one

contracts, eventually leading to a unified system with better-qualified, better-paid staff. Like dual exchange rate systems, this approach will work only if it is transitory.

- Even at the present inadequate salaries, young and better-trained people can be induced to join government service for limited periods if given challenging responsibilities and solid training (as in Estonia). When they leave, others can be recruited. The training requirements within the government sector are semipermanent, but the capacity of the economy as a whole is enhanced; the general understanding of the work of government is improved; the average performance of government employees rises; and positive models are offered to permanent employees for their own betterment.
- Special transitional arrangements for contract employees (higher-skilled, paid above the existing scale) can be workable (as in Lebanon), provided that the allocation of such contractual posts to government bodies is decided at high levels; that each appointment is cleared individually and personally by high authority; and that these arrangements are part of a genuine transition to an overall salary reform.
- Individual negotiations between new staff and ministries (as in Guyana) should never be permitted, as they result in glaring distortions and inequities, and compromise prospects for sustainable improvement.
- Capacity constraints in developing and transitional countries suggest the desirability of unified classification and pay systems (such as those in Japan, France, the Netherlands, etc.), rather than differentiated classifications for different entities of government.
- All possible encouragement should be given to mobility within government, and obstacles and artificial constraints removed. In particular, the fragmentation of the civil service into a variety of separate professional cadres hampers mobility and fosters rigidity and lack of communications within the civil service. Mobility, transfer provisions, etc., should be formulated transparently and after appropriate consultation with stakeholders.
- Upward feedback, that is, confidential surveys to obtain the views of subordinates, is essential for the evaluation of managers' performance.

Finally, while a coherent vision of the endpoint of civil service reform is essential, it is also necessary to provide guidelines for the transition from "here" to "there."

Immediate measures could include:

- a freeze on recruitment;
- the sequestering of future vacancies arising out of retirement, termination, death, or resignation;
- a temporary halt in promotions except in individual cases expressly approved by high authority; and
- a halt on the absorption of contractual and temporary employees into permanent positions.

Short-term measures would involve:

- a simple but complete census of all types of employees;
- the removal of ghost workers and other irregularities from the payroll;
- an improved personnel management information system; and
- the completion of studies on job classification, personnel procedures, and salary structure.

Medium-term measures would include:

- the implementation of the recommendations reached in the previous phase;
- the streamlining of personnel regulations;
- a review of the functions, organization, and operational effectiveness of government, starting with the key ministries;
- a mechanism for re-certifying government employees in order to screen out those without adequate qualifications; and
- implementation of a program for redeploying other employees.

As part of the *long-term measures*, each ministry could be required to submit a concrete restructuring plan consisting of a statement of objectives, strategies for achieving these objectives, a staffing program, a timetable, simple indices of administrative performance, training needs, and financial requirements. Once the plan is approved at the highest level, and irreversible initial steps have been taken, the ministry in question can freely recruit *from other ministries*; resume normal wage increases and promotions; have its reasonable financial needs met; and move up to the new salary scale established in the meantime. Such a process would create incentives for all government entities to improve their organization and operations in order to be allowed to move up to the new flexible structure, and for individual employees to move to the more dynamic government entities. In time, all

government entities would operate in accordance with the new system, and the coherent vision formulated to begin the process would be fulfilled. (This process, naturally, is an ideal, and carries heavy requirements in terms of consistency, persistence, and political determination and continuity.)

Managing government personnel

In many developing countries and transition economies, government personnel management systems are in a state of disrepair—politicized, riddled with patronage, lacking relevant information, and neither rewarding good performance nor disciplining underperformance or misbehavior. Often, weak personnel management is associated with inefficient policies for government employment and compensation. In these cases, it is difficult to change personnel management substantially, but some improvements are nevertheless possible. In countries where personnel management practices are unsound but personnel policies are broadly adequate, major improvements are both possible and of great benefit to the effectiveness of the public administration. In both types of countries, the role of the principles of merit, nondiscrimination, and openness in government personnel recruitment and promotion should be strengthened at every opportunity.

Concerning personnel planning, staff levels in many developing countries are based both on ceilings imposed by the ministry of finance and on the annual estimates of recruitment needs that are prepared by the various ministries for budgetary negotiations. Better planning of staff requirements, based on well-defined functions and priorities, and the maintenance of a simple personnel database would permit a gradual move away from this mechanical practice.

The lack of reliable data also affects the grading of different government jobs, and allows the system to be manipulated. In many countries, the opaque nature of job grading is often complicated by an excessive number of wage brackets. Efforts at improvement should concentrate on remedying these basic problems, by reducing the number of brackets and conducting a basic survey of who works where and on what—rather than going through complex job classification exercises and adopting the graded classification systems of developed countries.

On the question of central versus decentralized personnel management, most developing countries face the difficult challenge of reducing the overall size of the government workforce while still providing

for priority recruitment needs and making their recruitment process more equitable and merit-based at the same time. This complex challenge requires building a strong and accountable centralized recruitment system, rather than imitating the decentralized recruitment practices of a few developed countries, which presuppose a robust personnel system and have inequity and corruption risks particularly high in developing countries.

A senior executive service could risk fostering greater dependence on politicians' personal agendas and develop an elite mentality, which runs counter to the principle of government responsiveness to the citizen. In addition, Asian SES systems have often been hampered in their functioning by hostility among the various senior services and by politically motivated transfers at short notice. In other countries, e.g., the US, the logic of an SES system has been negated by legislated salary caps. Nevertheless, when circumstances permit, developing countries could explore the possibility of establishing a small SES—merit-based, apolitical and accountable, with compensation commensurate to responsibilities and comparable to salaries in the private sector. Countries where such a system already exists should review its functioning and take steps to reduce the internal or external constraints on its effectiveness, such as arbitrary transfers at short notice.

A robust and agile public service commission of unquestioned integrity and independence is a must for improving government personnel management in developing countries. Countries that do not have such a commission or equivalent body should consider establishing one. Countries that do have such a commission could usefully review its capacity and functioning, to make sure that it has not only the requisite independence and resources but also the flexibility to command respect for national personnel goals and procedures without becoming a bottleneck in recruitment, promotion, and discipline.

Concerning performance and discipline, cultural factors and social values influence performance appraisal as well as the setting of sanctions and the granting of rewards. While Western cultures emphasize individual achievement and risk taking, many Asian systems stress rule-based compliance and group cohesion. In some Latin American countries regional ties are important, and African countries put a premium on ethnic loyalty. Propitiating superiors with gifts and introducing personal factors into advancement decisions are often not seen as violating public ethics in many non-Western countries. Therefore, in improving personnel evaluation the practical challenge is how to adapt good management principles to the

reality of informal practices and cultural influences. In particular, the comparative merits of group versus individual appraisal need careful consideration, as the individual's performance may be stimulated more by sanctions or rewards affecting his group than by the probability of short-term personal gain or loss. However, the evaluation system should identify nonperformers individually and handle them as such, rather than relying entirely on the group to discipline its own members. Finally, it is useful to explore practical ways to expose the front-line staff to clients and public expectations.

Investing in government personnel

In many developing countries, the time is ripe for a comprehensive review of the training system for government personnel. Training for public administration requires rethinking and reflection on both the demand and the supply side.

On the *demand* side, the foundation for such a review must be a revision of the roles of the state, because the government's skill requirements depend necessarily on the tasks it is intended to perform. As in all other aspects of government personnel policy, from retrenchment to compensation and to basic procedures, training cannot be targeted effectively in the absence of a clear idea of the functions of government. It is possible, however, to define skill requirements and hence training needs progressively for individual sectors or levels of government-provided that there is a clear link between training and staff career development.

On the *supply* side, many countries have an unnecessarily large number of institutions for training of government workers. Partly as a result, the availability of resources and quality of training are weak. Major improvements can be expected from a rationalization of the system, eliminating overlapping, duplication, and waste of resources. In particular, specialized training institutions associated with specific sector ministries require careful scrutiny, as they are often the source of unnecessary training justified only by the need for their survival. For this rationalization, greater reliance on the actual needs of government agencies and individual civil servants is important, and is possibly the only way to combat the supply-driven mentality of most training programs. Informal and on-the-job training should be systematically encouraged, as well.

External assistance can provide a useful role in these improvements, especially through the permanent commitment entailed by twinning arrangements between local training institutions and public administration institutes in certain developed countries. But external aid has often been a major part of the problem, too, supporting vast training programs without clear aims, lacking the essential institutional and organizational prerequisites, and in some cases inadvertently weakening the capacity of local training institutions. It is therefore important for developing countries' governments to re-assert ownership of external aid programs for public administration training. In turn, this requires a simple but clear and sound national policy for training of civil servants.

The Interaction Between the People and Their Government

“Voice” and “exit”

In developing countries and transition economies, “exit” possibilities (in the form of alternative modalities of public service provision) are generally more limited than in developed countries. Correspondingly, “voice” mechanisms of consultation and public feedback are more important to foster government performance and accountability in service provision in developing countries. In addition, fostering citizens’ voice also has a beneficial impact on the quality of governance as a whole.

Concerning exit, not only are choices of alternative suppliers of public services more limited in developing countries, but contracting out also presents special risks, especially in build-operate-transfer (BOT) arrangements. The weak administrative capacity in these countries entails weak government ability to supervise and monitor contract execution effectively. In some cases, contracting-out might be the only option to improve a service, or a BOT the only way to obtain the large-scale financing needed for large infrastructural investment needed. In those cases, in addition to scrutinizing the contract very closely, developing countries could consider obtaining specialized assistance from a third party during negotiations, and from yet another independent entity for contract supervision.

Contracting out the delivery of some public services to nonprofit voluntary agencies and community groups does not carry the risks mentioned above. This route also offers creative possibilities for expanding choice for the poor and most vulnerable, for whom “exit” is literally not an option.

However, one must first verify that the “community agency” is not merely a front for private business groups; prevent its capture by such groups; and assess carefully the long-term impact of the service contracting on the effectiveness of those agencies in terms of their primary function of serving as critics and watchmen of government activities.

Concerning voice, “citizens’ charters” stating the users’ rights to certain public service standards can be a strong adjunct of administrative reform, but only when designed well, in participatory ways, and efficiently implemented. This requires substantial administrative and monitoring capacity, as well as a major revision of procedures, delegation of powers, and adequate resources. Consequently, citizens’ charters are not a major direction of improvement for developing countries and transition economies, in many of which impressive charters have been promulgated without real ownership by the government agency or the employees, and thus not implemented.

Aside from the specific device of citizens’ charters, a much stronger client orientation is essential in public administration of developing countries, where citizens are too often viewed as passive beneficiaries of public services granted by the government. To produce lasting improvement, however, government initiatives in that direction should keep in mind that the interest of specific client groups may differ from those of the taxpayers and the public at large. Also, initiatives should be selective, and focus on the more critical areas of customer dissatisfaction—normally in locally-provided services. Moreover, such initiatives can interact positively with decentralization moves and with participatory approaches to improve the overall quality of governance.

Among the myriad possible mechanisms of public consultation and feedback, particularly effective has been the device of issuing public “report cards” on the performance and integrity of different government agencies. The lack of profit motive notwithstanding, the desire to stay at the top or to improve a low standing is proving to be a powerful motivator for government agencies in developing countries with representative governance.

The high cost of sophisticated client surveys has sometimes discouraged its use in poor countries. However, since there is no substitute for direct feedback from service users, government agency employees or the citizenry at large, quick-and-simple surveys may still provide reliable

information at low cost, especially when conducted by local organizations—provided that basic standards of statistical representativeness are met.

The same is true of grievance redress mechanisms. In their ideal form, such mechanisms can be expensive, and highly burdensome on the limited administrative capacity of developing countries. However, simpler varieties can be explored, suitable to local conditions.

When considering introducing any improvement along the above lines, one should recall that both exit possibilities and voice are especially limited for the poor and more vulnerable groups. Therefore, special measures to address the situation of those groups are a must. In the absence of special measures, improving voice channels will typically entail greater voice for the better-off and the more vocal and, assuming a limited stock of administrative attention, may even reduce service access for the poor.

Similarly, because the potential for voice is stronger in services that are more visible and locally provided, the natural inclination to focus on those services may inadvertently produce neglect of services that are less visible and those with a regional or national impact. Thus, for example, an increase in users' voice might lead to improving (visible) garbage collection, while (less visible) garbage disposal worsens—producing environmental damage and a probable adverse impact on poor communities less able to keep from becoming the unwilling host of garbage disposal sites. Once again, greater client-orientation must be in the context of stronger *citizen*-orientation, and improvements in service efficiency matched by greater effectiveness of the national public administration apparatus as a whole.

Social capital and participation

Because social capital, building reciprocal trust from voluntary association, is important for economic development and effective public administration, governments in developing countries should encourage voluntary networks of cooperation in all areas. This need not require vast resources. Sometimes, a public signal of encouragement from the government may be enough. Or, government may make simple facilities available to local communities and provide some access to information of common interest—the community groups will do the rest. (This approach resembles the site and services projects, which provide land clearing, road access, and utility connections for industrial zones.) Among the poor, however, voluntary cooperation requires more active government support to become sustainable.

Not all forms of social capital deserve support. Networks of cooperation founded on a principle of exclusion, or even of active hostility toward other groups in society, must be guarded against, particularly in ethnically and religiously diverse societies. Also, to avoid eventual divergence between different groups, the spontaneous development of social capital within certain groups should be complemented by deliberate government encouragement and assistance to create linkages and positive interaction between groups.

Developing countries should similarly foster participation by citizens' groups in government programs. Reliable feedback on program implementation from the intended beneficiaries is needed. For this, it is important to provide adequate channels of communication and give sufficient encouragement and protection to "whistleblowers." At the same time, it is necessary to ensure that the sample is representative of the beneficiary population and does not consist merely of those who respond first or loudest. Affirmative action to elicit feedback from the poor and marginalized groups is also important.

Governments also need to assess carefully the legitimacy of groups claiming rights of participation and make sure they are grassroots-based rather than being creations of special interests, mainly by canvassing local opinion on those groups.

Beyond feedback on program implementation, upstream participation in the selection and design of projects is important. Country circumstances will determine which of a variety of possible approaches is realistic and effective for this purpose. Concerning project and program selection, the first prerequisite for effective participation is a representative and responsive local government, prodded by an active local community. Concerning project and program design, a low-risk, low-cost variant of participation found useful in many countries is the formation of a beneficiary review group, with the mandate to do its best to find fault with the proposed design and send the project back to the drawing board for improvement.

Participation fatigue is often a problem. When participation is undertaken for purely cosmetic reasons or in mechanical ways, or when the feedback is not seriously considered, participation fatigue is a rational response and a visible symptom that the participation approach was insincere or badly conceived. But even with the best intentions, initial

enthusiasm in participation may wane if the foundation—social capital—is weak. Hence, social capital formation and participation should be conceived as complementary.

Mainstreaming participation is a long-term affair, which calls among other things for careful piloting. Because of the positive impact of one good participatory activity on others, governments should consult the local communities on the types of low-cost activities for which participatory approaches can be tested. For such sequencing, and in general, governments should follow four principles in their approaches to participation:

- *effective outreach* (tailoring the approach to the target population and the problem at hand);
- *equal access* (making it realistic and equally probable for large numbers of the target population to participate);
- *impact* (linking participation to significant policy decisions); and
- *actionability* (promoting the incorporation of the outcome of participation into actual government programs).

Donor agencies should work together with governments to:

- identify pockets of social capital and support them, or at least take care not to destroy them through ill-considered assistance programs;
- avoid creating patron-client relationships of dependence;
- create an environment that enables social capital to thrive, by providing simple facilities, channels of communication, and the lessons of good and bad experience in participation; and
- invest in social capital formation, directly and indirectly, through participatory project design and implementation and the facilitation of positive interaction between groups.

Nevertheless, active stakeholders' participation should not cause governments to lose sight of their primary responsibility to provide public services, or lead society to loosen up on its task of holding the government accountable for doing so.

Civil society and nongovernment organizations (NGOs)

Active civil society organizations strengthen the interface between the citizens and their government and are thus important both for the

quality of governance and for improvements in public services. General directions of reform especially relevant for public administration include:

- Strengthening the roles of formal civil society organizations, e.g., by involving educational institutions in retraining and other implications of administrative change, or by attempting to relate to public employee unions as a constructive agent of change rather than an adversary;
- Supporting grass-roots organizations, e.g., farmers' groups and neighborhood groups, by strengthening their management capacity and protecting them from capture by local vested interests;
- Encouraging the growth and efforts of informal voluntary groups, which are particularly important for the poor and disadvantaged;
- Recognizing the roles of traditional customary institutions; and
- Facilitating the emergence of public interest citizens' groups to counterbalance organized business lobbies.

In particular, governments in most developing countries should improve their relations with NGOs, which are not only voluntary and independent like other civil society organizations, but also nonprofit and public-interest oriented. Most developing countries have not yet realized the potential of NGOs to prod public administration effectiveness, mobilize local resources, provide checks and balances on the use of government power, and give the poor and disadvantaged the special advocacy they need.

The generic requirements for improved relations with advocacy NGOs are open channels of communications and the willingness to listen to diverse points of view. And service NGOs can help considerably in the design of government programs and the delivery of public services. It is especially important in this context to encourage and be responsive to whistleblower NGOs, which investigate the efficiency and integrity of local services and investment projects.

NGOs, for their part, also need improvement in certain respects. They should be:

- accountable for the use of funds and the effectiveness of their operations;
- more flexible and cost-conscious in their procedures;
- more willing to recognize a wider range of viewpoints;
- more participatory and bottom-up in their management style; and
- more willing to network with other NGOs.

NGOs can be excellent partners for government, particularly vis-à-vis the poorer and marginal groups, mainly by:

- mobilizing the community and introducing participatory approaches;
- facilitating large government programs;
- running alternative service delivery systems;
- contributing to government program and project formulation; and
- participating in dialogues on policy issues.

Financial support from government and, equally significant, assistance in building up the NGO's management and operational capacity are important, but the organization must be careful not to allow such support to weaken its independence, critical attitude, or capacity to exert pressure on the government. Similarly, donor support should not distort the mission and mandate of the NGO, and partnership with a large international NGO should always leave the local NGO stronger rather than more dependent. Developing countries should therefore explore neutral funding mechanisms such as those developed in Denmark and the Netherlands, whereby NGOs gain access to unconditional government grants on the basis of transparent criteria, without having to bid for contracts. (Donors should consider providing external assistance for such funding.)

On the other hand, government and donors, too, should be careful in their dealings with NGOs, and not inadvertently support NGOs created solely to benefit from public funds or to provide a cover for vested interests. External donors should, in addition, be mindful of the possibility that an NGO may in fact be a proxy for the host government or public agency. For this purpose, it is advisable to conduct and keep up to date a survey of NGOs, to identify those with:

- transparent governance;
- prudent financial management;
- audited and published accounts; and especially
- established reputation among grass-roots organizations and peer agencies.

Transparency, information, and the role of the media

Along with weak governance comes opaqueness in government decision making and information, and a restricted or timid public media.

The directions of improvement in transparency in most developing countries should include efforts on both fronts.

The prerequisite for both is improved government recordkeeping. If the information cannot be found, it cannot be communicated; if it is not organized, it cannot be found; and if either too little or too much information is retained, it cannot be organized.

At one extreme are countries where recordkeeping is scattered and documents are nonexistent, as in many African countries. At the other extreme are countries where too much information is kept, notably in South Asia. The result, however, is the same: the inability to access quickly relevant government information when it is needed. In the former situation, the direction of improvement is obvious (although not easy), and consists of enforcing official rules concerning the keeping of government information. In the latter case, the habit of keeping unnecessary records, including those on the smallest transactions, must be broken. This, in turn, requires simplifying administrative rules, since excessive red tape is both a major source of corruption and a key impediment to accessing information. A change in attitude is also required: the need to retain each document (and why in so many copies) must be justified, and measures must be devised to penalize unnecessary record holding and to reward civil servants who free up communications. Incentives and disincentives in this direction should be made part of the personnel management policies of the government.

Similarly, the role of a ministry of information needs to change from the traditional role of disseminating propaganda and protecting the government from embarrassing disclosures, to channeling communication and building trust between the government and the citizens. This role shift will require, among other things, choosing ministers of information and senior ministry staff for their credibility with the public.

In all countries, citizens must not be restricted in their right to access government information about themselves. However, the exercise of the citizens' right to other government information should focus on the areas most important for governance—i.e., budget, electoral processes, procurement, land use, and basic service delivery. Ways should also be found to improve information access for all citizens and not only for the richer or the better organized. Hence, when information access rights are nominally equal but *de facto* inoperative for poorer people and groups, proactive communication efforts by government are needed.

In most developing countries and transition economies, the significant costs of enforcing freedom of information (FOI) legislation are not warranted by the benefits, partly because inadequate recordkeeping raises the costs of information retrieval and partly because of the high demands of FOI mechanisms on scarce administrative capacity. It is all the more important, therefore, to put in place a variety of other innovative mechanisms to channel relevant government information to the public. The cooperation of local voluntary organizations can be very useful in this respect.

To protect and strengthen the essential role of the media in good governance, developing countries and transition economies should take a two-pronged approach: reduce official restrictions on media access and activity, and help build media capacity and professionalism. Inadequate media capacity should never be used to justify media controls by government; but neither can it be accepted as the normal state of affairs. Certain restrictions on media activities are needed to combat libel and defamation, and are indispensable in multi-ethnic countries to prevent or manage conflict. Clear legislation to that effect, however, is preferable to administrative discretion, except in rare emergencies.

Media accountability is a critical issue in all countries. Moreover, in developing countries, weak and noncompetitive media can easily become the instrument of particularistic vested interests and fail to perform their essential role of informing the public and exposing government mistakes and corruption. (In these circumstances, the media themselves can be a source of active or passive corruption.) External entities—both official donors and specialized international foundations—must help developing countries build up the capacity and standards of their media, partly through journalists' internships and twinning with established media organizations in developed countries.

Improving Administrative Integrity, Responsiveness, and Service

Fostering public integrity and preventing corruption

Efforts to foster ethics and prevent corruption are two sides of the same coin and must be combined. As a 1999 OECD survey of corruption prevention showed, many of the measures taken by countries have contributed to both build a sound ethics framework and combat corruption. One of the most effective preventive measures is the internalization of integrity standards into personal behavior. However, an incentive framework that raises the

costs and risks of corrupt behavior above its potential benefit is essential as well. These two aspects are closely linked. In time, the internalization of integrity standards reduces the incidence of corruption and thus makes enforcement of anticorruption regulations all the more effective; conversely, the existence of high cost/risk for corrupt behavior is a powerful inducement for maintaining high personal standards. Thus, in addition to criminalizing corruption, governments need to elaborate and communicate the standards of appropriate behavior, e.g., the difference between a harmless gesture of appreciation for good service, an inappropriate gift, and an outright bribe.

Anticorruption is part and parcel of the good governance agenda and, as such, needs to be addressed in the context of the specific public management improvements outlined elsewhere in this book. Accordingly, the only general direction of improvement that can be recommended is to strengthen accountability, transparency, the rule of law, and participation in each individual area of public administration—focusing where corruption problems are greatest. In particular, stronger accountability assures the independent review of individual administrative actions; and transparency of decision-making criteria and prompt communication of administrative decisions exposes wrongdoing. Certain broad considerations, however, are relevant to efforts at improving the ethical climate and reducing corruption. In no particular order of importance:

- Make sure to expose and penalize misbehavior at the top of an organization or of the political system, rather than just catching a few small fish for public relations purposes.
- Asset disclosure and public exposure can be powerful means of disciplining corrupt behavior, even without criminal prosecutions, and at the same time they provide important information to the public in the exercise of its political choices.
- Good management is key. While ethical behavior is the responsibility of each individual civil servant, a climate of trust combined with effective oversight by the responsible manager provide the essential enabling environment. In the words of a Russian proverb: “Trust but verify.”
- Preventing corruption is far more effective, and cheaper, than punishing corruption after it occurs. Although prevention is automatically weakened if enforcement is known to be lax, restricting the opportunities for corruption is not only more effective, but also reduces the risk of creating a witch-hunt climate. Because the largest single source of corruption is an overcomplex and opaque regulatory

framework, streamlining and clarifying the regulatory framework is the single best anticorruption measure, and in addition contributes to reducing transaction costs and improving economic efficiency.

- A distinction is needed between grease money (sometimes called speed money), i.e., gifts or favors given to induce the civil servant to do his job, and outright bribes to induce him to violate the rules, give preferential treatment, or not enforce the laws. Both forms are harmful, and both must be discouraged, but in a deeply corrupt system priority should first be given to forceful action against outright bribery. The practice of grease money can only be eradicated in the context of comprehensive civil service reform.
- Especially in developing countries, anticorruption efforts should focus at least as much on the private corruptor as on the government corrupted, including the pervasive bribe-giving from external agencies and companies.
- International aid organizations have an essential role to play, at a minimum in preventing corruption in their aid-financed projects, but more broadly in cooperating actively with each other and with the recipient country's efforts.
- As true in other areas, the swiftness and certainty of punishment are more effective than severe punishments with an extremely low probability of being imposed. In some developing countries, less than one percent of those indicted on corruption charges are eventually convicted *and* serve their sentence. As a general rule, attention should focus on the expected loss, i.e., the severity of the punishment for a certain action multiplied by the probability of being caught and actually receive that punishment.
- In personnel procedures, ethics criteria should be introduced in the recruitment and advancement process. Although it is impossible to guarantee that only ethical persons will enter the public service, explicit consideration of this dimension will lead to winnowing out some high-risk candidates. It is also important to assure that whistleblowers are not only protected, but actually rewarded, while building in safeguards to punish destructive gossip and prevent the creation of a witch-hunt climate.
- Specialized anticorruption agencies can perform an important role. However, they should be genuinely independent—especially from the regular police—and accompanied by complementary measures on regulatory simplification, legislation, personnel procedures, judiciary efficiency, etc. In the absence of such complementary measures, anticorruption agencies have shown a record of ineptness and futility.

Performance in public administration

Injecting formal performance-related elements into public management requires extreme care, both because better performance orientation is critical for improving public administration and because there are many wrong ways of pushing it and only a few ways of doing it right. The suitability of performance measurement and the specific indicators themselves depend among other things on the sector in question. Concerning the overall approach to fostering better administrative performance, the lessons of international experience are the following:

- Never confuse the end of better performance orientation with any one of the specific means for achieving it. There are many ways to foster performance. Depending on circumstances, performance improvements may justify the use of quantitative indicators; or call for qualitative indicators; or rely on dialogue, moral suasion, peer pressure, and other means that do not entail overt performance indicators of any sort. When performance indicators are appropriate, they should normally be introduced without wholesale changes in administrative or budgetary systems.
- Consider the probable impact of introducing performance indicators on individuals' behavior, especially in multi-ethnic societies and very small economies, and take compensatory or insurance measures.
- Understand the different uses and limitations of input, output, outcome and process indicators of performance, and tailor the use of each to the specific sector and issue in question. Whenever possible, use a combination of indicators to assess performance, rather than any single one.
- Assure robust monitoring of performance, with swift and predictable consequences.
- Performance indicators can be used in the dialogue between the line ministries and the central ministries (or the public), but direct and mechanical links to procedures, personnel, or budgetary appropriations should generally be avoided in developing countries.
- Build-in provisions for the systematic assessment of *performance of the performance system itself*. It is inherent in the logic of any performance management system that it, too, must be subject to a reality check, and to periodic proof that its concrete benefits outweigh the cost.

Beyond the above caveats, it is important to constantly be on the lookout for any possibility to expand the service awareness of government administration; raise the rewards (not necessarily monetary) for good performance and the sanctions for unsatisfactory performance; and keep under constant review the possibility of introducing the various tools for measuring and monitoring performance. In all these tasks, systematic feedback from the employees, the service users, and the public at large is invaluable, and so is an informed and aggressive free media.

The actual process of introducing performance indicators into the public administration can consist of the following stages:

- pick one or two government departments that provide services directly to the public;
- introduce simple performance measures at an acceptable cost (including transactions cost);
- monitor closely the functioning and impact of the measures;
- debug the measures and adjust as needed;
- gradually expand the application of performance measures to other governmental areas as and when appropriate; and, most importantly,
- stop when reaching the point of diminishing returns.

The role of information and communication technology for improving public administration

Developing countries' governments are only in the initial phases of adopting ICT to improve financial management, streamline the delivery of government services, enhance communication with the citizenry, and serve as a catalyst for empowering citizens to interact with the government. Specific initiatives must fit the country's context and priorities, but certain principles are important to avoid waste and mistakes while seizing on opportunities.

First, *ICT is a tool*, immensely powerful yet essentially no different from a photocopier or a car, in the sense that user needs and requirements must come first and dictate whether and how the ICT tool should be used. For certain functions, pencil and paper, or a telephone, or a face-to-face meeting, or a visit to the library is far more effective than computers or the Internet. This obvious point must be stressed because governments, consultants, or donor agencies often encourage computerizing anything in sight. Indeed, it could be argued that ICT innovation is now largely supply-

and marketing-driven rather than dictated by the needs and requirements of the users. Thus, as for any tool, it is essential to assess realistically and compare the costs of a given ITC change with the actual benefits expected from it.

Second, *the ICT “techie” and the “public manager” should not work in isolation from one another.* Improvements in public-sector effectiveness stem largely from better rules and procedures in the sector concerned. To apply advanced ICT to obsolete or inefficient rules and processes means in effect to computerize inefficiency. Doing the wrong thing faster is not progress. On the other hand, the absence of relevant ITC knowledge risks either costly mistakes or missed opportunities for dramatic service improvements.

Third, *ICT cannot substitute for good public management and internal controls.* Indeed, the introduction of computers can give a false illusion of tighter expenditure control in cases where a large part of the expenditure cycle occurs in parallel and in “black boxes” outside the computerized system.

Fourth, faster and integrated public information systems carry correspondingly *greater risks* for the integrity of the data, and can even jeopardize the entire information database if developed carelessly and without sufficient checks, controls, security, and virus protection. Governments moving from a manual public accounting and recording system to a computerized one, or from paper personnel files to e-files, should keep the manual accounts going alongside the new system until the new system is working well and is secure and free of risk.

Fifth, it is often argued that the introduction of ICT reduces corruption. Unfortunately, this is not true. Computer technology eliminates many opportunities for corruption for those who do not understand fully the new technology, but opens up new corruption vistas for those who understand the new systems well enough to manipulate them. In a sense, ICT permits an intergenerational shift in corruption and rent seeking.

That said, ICT’s wonderful potential has been hardly used in most developing countries to increase government accountability, transparency, and participation; improve the efficiency and effectiveness of public-sector operations; widen access to public services; and disseminate information to the public and get feedback from relevant stakeholders and service users. Among other things, information and communication technology can help solve the centralization/decentralization dilemma by making relevant data easily available at all government levels.

SOME CONCLUDING MESSAGES

We hope to have shown in this book that the mere facts of public administration say nothing in and of themselves about the need for or direction of administrative reform, and that mechanical imitation of “models” developed elsewhere is highly inadvisable. Recommendations for improvements in public management must rest on a solid basis of country-specific analysis, as well as on a good understanding of international experience and the mistakes made by other countries.

We trust, too, that this volume has provided a clear sense of the benefits and costs of embarking on major changes in this complex, delicate, and important area. The eventual benefit of comprehensive reform is a government administration that can systematically provide quality public services, improve access for marginal groups, reduce transaction costs for the private sector, and implement economic policy and other government activities. Clearly, the potential impact of administrative reform on development and poverty reduction can be massive. Of course, one must keep in mind the risk of change as well. Particularly if the public management is performing reasonably well, “innovations” may actually make the situation worse. Symmetrically, if the administration is extremely weak and corrupt, radical changes may be the only way to improve it.

It is true that in the absence of genuine ownership by government and major stakeholders, realistic support by external actors, and willingness by all sides to stay the course, it is better to stop at preparatory and consensus-building activities until the climate for administrative change becomes more favorable. However, it is always advisable to keep a close watch on administrative integrity and effectiveness—recalling that the slide of many “failed states” began in part with the degradation of their public administration; that administrative ills are relatively easy to cure only in their early stages; and that the public sector in every country faces today a far more competitive and fluid environment than in centuries past.

Finally, the international experience with administrative reform throughout the world, but particularly in developing countries and transition economies, yields a number of general “messages”, with which we conclude this book:

- *Get the basics right.* Complex management tools should not be considered unless and until the basic machinery functions reasonably

well. This is not a prescription for standing pat, but a condition for progress itself—as the premature introduction of these tools dooms them to failure.

- *Look at what is done, not just what is written.* Rules unenforced are no rules at all. It is important to examine the reality of organizational and human behavior in public administration rather than only the formal appearance and regulations.
- *Adaptability is not imitation.* As Mahatma Ghandi's lead quote to this volume implies, practices and reforms introduced elsewhere should always be considered with an open mind and, if appropriate, adapted to the local circumstances and objectives, but never simply transposed onto a different social and economic context.
- *Don't make the same mistakes.* It is essential to be familiar with both good and bad international practice—and not only that of countries in a specific administrative tradition. Often, it is by contrasting the different ways of doing things in different administrative cultures that the solution appropriate to the local circumstances can be found.
- *Don't look for quick fixes.* Reforms in public administration have a heavy institutional content, and there is no such thing as instant institutional change. Also, the area is by definition influenced by political considerations—which are rarely amenable to “technical” solutions and often require a period of gestation and acclimatization.
- *Put the right driver in the driver's seat.* Central leadership is needed, but a rigid top-down approach is unlikely to produce lasting change. An administrative improvement should be designed and implemented with the active participation of the key stakeholders. A variant of this criterion in aid-dependent developing countries entails that external donors should contribute to a reform agenda set by the local government, and not be allowed to drive the administrative reform process.
- *Question, question, question..* Diversifying the sources of advice can help. Competition can help screen out bad ideas as it helps screen out bad products. But it is only by challenging the specifics of the reforms being recommended that a government can reasonably assure itself that the recommendation is worth taking.

NOTES

¹ This section is based on Schiavo-Campo (1994).

STATISTICAL APPENDIX

I.
GOVERNMENT EMPLOYMENT AND WAGES

Various recent years, as percentage of population and of GDP^a

	Employment						Wages		
	Government administration			Social Sectors			Total general civilian government	As percentage of GDP	As multiple of per capita GDP
	Central Government	Non-central government	Education sector	Health sector					
<i>Africa</i>	0.9	0.3	0.6	2.0	2.0	2.0	6.7	5.7	
Angola	1.1	0.2	0.4	0.3		1.9	4.7	1.3	
Benin	3.5	1.1	1.1	0.2		5.8	10.9	3.5	
Botswana	0.4						4.4	11.8	
Burkina-Faso	0.1		0.3	0.1			3.9	7.7	
Burundi	0.6	0.2	0.5	0.1		1.4	3.9	3.7	
Cameroon	1.2	0.3	1.3	0.4		3.2			
Cape Verde	0.9	0.2	0.2	0.0		1.3	4.4	5.2	
Central AR	0.2		0.1						
Chad	0.4	0.1	0.6	0.1		1.2			
Comoros	1.3		1.0	0.4					
Congo	0.3	0.1	0.4	0.0		0.8	6.7	7.6	
Cote d'Ivoire	1.5		0.3	0.2		2.0			
Djibouti									

^a Adapted by permission from S. Schiavo-Campo, "Government employment and pay: The global and regional evidence," Public Administration & Development, 18, 457-478 (1998), which was based in turn on a large-scale survey out by the World Bank in 1997. (S. Schiavo-campo, et. al., 1997b).

	Employment						Total general civilian government	As percentage of GDP	As multiple of per capita GDP
	Government administration		Social Sectors		Wages				
	Central Government	Non-central government	Education sector	Health sector					
<i>Africa - cont'd</i>									
Equatorial Guinea									
Eritrea									
Ethiopia									1.7
Gabon	2.6	2.5	0.5						
Gambia	0.3	0.1	0.3	0.2		0.9			
Ghana	0.2	0.1	1.0	0.2		1.5	5.8		4.0
Guinea									
Guinea-Bissau	0.5	0.2	0.5	0.2		1.5	2.5		2.8
Kenya	0.9	0.2	0.9	0.1		2.0	10.3		6.2
Lesotho	1.0		0.5						
Madagascar	0.7								
Malawi	0.5		0.5	0.1		1.2			
Mali	0.3								
Mauritania	0.4		0.4	0.1			5.6		5.9
Mauritius	3.3	0.5	0.9	0.8		5.5	8.1		1.4
Mozambique									
Namibia	4.2		0.1	0.0					
Nigeria	0.4		0.0	0.0					
Niger	0.3		0.2	0.1			7.9		10.3

<i>Africa - cont'd</i>									
Senegal	0.4	0.1	0.3	0.1	0.8	9.1	11.8		
Seychelles									
Somalia									
South Africa	1.4	1.1	0.6	0.2	3.4	8.9	5.6		
Sudan									
Swaziland									
Tanzania	0.5	0.1	0.4	0.1	1.1	4.1	1.8		
Togo	0.4	0.1	0.3	0.1	0.9	9.0	3.9		
Uganda	0.2	0.2	0.5	0.0	0.9	7.9	8.4		
Zaire					1.0				
Zambia	0.8	0.2	0.5	0.2	1.7	4.7	3.2		
Zimbabwe	0.6	0.2	0.9	0.2	1.9	11.4	6.8		
Asia and Pacific	0.9	0.7	0.8	0.2	2.6	4.7	3.0		
Afghanistan									
Bangladesh	0.4		0.2	0.1	0.6	3.7	4.1		
Bhutan				0.1					
Cambodia	1.6			0.2	1.6	3.8	1.3		
China	0.1	1.6	0.9		2.8				
Fiji	5.4	2.8							
India	0.4	0.4	0.3	0.1	1.2	4.2	7.1		
Indonesia	0.7	0.3	1.0	0.1	2.1	3.0	1.6		
Korea	0.6	0.7	0.6	0.2	2.2	2.2	4.6		
Lao PDR	0.1	0.4	0.8	0.2	1.4	5.9	2.0		

	Employment						Total general civilian government	As percentage of GDP	As multiple of per capita GDP
	Government administration		Social Sectors		Wages				
	Central Government	Non-central government	Education sector	Health sector					
<i>Asia - cont'd</i>									
Malaysia	2.3	1.1	1.0	0.2	4.5	7.7	3.4		
Maldives	3.0		1.2	0.7	4.9				
Micronesia	0.6	5.7			6.3	50.8	4.7		
Mongolia									
Myanmar	1.2				1.2	1.9	1.5		
Nepal									
Pakistan	0.4	0.6	0.3	0.1	1.5	0.9	1.9		
Papua New Guinea									
Philippines	1.0	0.4	0.7	0.1	2.1	5.5	2.3		
Singapore	0.9		0.8	0.2	2.0	4.6	2.1		
Sri Lanka	2.8	0.6	0.9	0.1	4.5	5.1	1.8		
Solomon Islands						13.4	4.6		
Thailand	1.2	0.9	0.6	0.1	2.8	5.2	4.2		
Tonga									
Vanuatu									
Vietnam	0.4	1.3	1.1	0.4	3.2	3.0	1.1		
Central and Eastern Europe and the former Soviet Union	1.1	0.8	3.0	2.1	6.9	3.9	1.3		

<i>Central and Eastern Europe</i>									
Albania	1.9	0.2	1.6	0.8	4.6	7.2	1.3		
Bosnia									
Bulgaria	0.9	0.3	2.9	2.3	6.4	2.7	1.4		
Croatia	1.6	0.6	1.5	1.5	5.2	3.0	1.4;		
Czech Republic	0.6		1.7	1.2		5.2	1.5		
Hungary	1.4	1.3	2.9	2.4	8.1	3.3	0.6		
Macedonia	0.9	0.1	0.9	1.3	3.2	6.0	1.9		
Poland	0.2	0.4	1.6	2.0	4.2	6.1			
Romania	0.2		1.4	0.7		5.8	0.9		
Slovakia	1.3	0.8	3.2	2.4	7.7	0.7	1.0		
Slovenia	1.4		2.5	2.7					
Turkey	1.0	0.4	0.9	0.2	2.6	2.1	2.0		
<i>Former Soviet Union</i>									
Armenia	0.8	3.7	4.0	2.0	10.5	1.8	0.8		
Azerbaijan	0.8		5.2	2.3		1.8	1.6		
Belarus	0.6	0.4	4.2	2.8	7.9	3.9	0.5		
Estonia	1.9	1	2.9	2.0	7.8	5.6	1.		
Georgia	2.6	1.3	4.5	2.1	10.5	0.8	0.1		
Kazakhstan	1.2	0.9	1.8	3.0	6.8	2.8	0.1		
Kyrgyz Rep	5.8		3.5	2.3		4.9	0.8		
Latvia	1.9		3.6	2.9	8.4	6.3	7.1		
Lithuania	1.0	0.6	3.8	2.8	8.2	3.6	1.2		

	Employment						Total general civilian government	Wages	
	Government administration		Social Sectors		As percentage of GDP	As multiple of per capita GDP			
	Central Government	Non-central government	Education sector	Health sector					
<i>Former Soviet Union -</i>									
<i>cont'd</i>									
Moldova	0.2	0.4	4.2	2.4	7.3	5.5	0.5		
Russia	0.4	0.4	5.0	2.8	8.6	1.7	0.3		
Tajikistan	0.5		3.8	1.9					
Turkmenistan	1.9		4.4	2.1	8.4	0.7	0.7		
Ukraine	0.4	0.7	4.4	2.9	8.4				
Uzbekistan	0.4			2.2					
Latin America and the Caribbean									
Antigua and Barbuda	1.2	0.7	0.8	0.3	3.0	4.9	2.7		
Argentina	13.1	0.2			4.9	11.5	0.9		
Bahamas	0.9	2.8	0.8	0.3	6.5	2.1	2.4		
Barbados	3.2		1.7	1.5	6.8				
Belize	4.0		1.1	1.6	4.2				
Bermuda									
Bolivia	1.2	0.2	1.1	0.3	2.7	4.0	1.8		
Brazil									
Chile	0.3	0.2	0.1	0.4	0.9	3.9	4.2		

<i>Latin America and the Caribbean - cont'd</i>									
Colombia	0.1	0.5	0.8	0.2	1.7	2.7	2.4		
Costa Rica									
Dominican Republic	1.7	0.4	1.0	0.3	3.4	6.5	1.9		
Ecuador	0.7		0.6	0.4	1.7	5.3	3.6		
El Salvador									
Guatemala	1.6	0.4	0.1	0.2	2.3	4.4	3.7		
Guyana	1.0	0.1	0.6	0.1	1.8	8.5	4.0		
Honduras									
Jamaica									
Mexico									
Nicaragua	0.5		0.7	0.5		7.0	3.2		
Paraguay	3.0								
Peru	1.5								
Suriname									
Trinidad and Tobago									
Uruguay	2.4	1.2	2.1	0.8	6.5	5.0	2.1		
Venezuela	1.2	0.5	0.9	0.1	2.7	4.8	1.8		
Middle East and North Africa	1.4	0.9	1.2	0.4	3.9	9.8	3.4		
Algeria	1.5	0.8	1.3	0.6	4.2	9.7	2.9		
Bahrain	2.6		1.8	1.1	5.5	7.1	1.3		
Egypt	1.8	2.7	0.9	0.7	6.2	8.4	4.7		
Jordan	0.8	0.8	1.5	0.5	3.5	14.4	2.7		

	Employment						Total general civilian government	Wages	
	Government administration		Social Sectors		As percentage of GDP	As multiple of per capita GDP			
	Central Government	Non-central government	Education sector	Health sector					
<i>Middle East and North Africa - cont'd</i>									
Lebanon	0.2	0.3	0.8	0.1	1.4	1.5	1.4		
Morocco	0.8	0.5	0.9	0.1	2.3	12.1	4.5		
Syria	1.0	0.3	1.7	0.3	3.2	8.7	3.0		
Tunisia	1.4	0.3	1.5	0.5	3.7	7.1	3.0		
WB-Gaza	1.5		0.7	0.2	2.4				
Yemen	2.3	0.7	0.3	0.2	3.5	8.0	3.3		
OECD^b	1.8	2.5	2.1	1.4	7.7	4.5	1.6		
Australia	1.3	2.3	2.3	1.7	7.6		1.3		
Austria	3.4	2.5	0.5	1.3	7.6	3.7	1.0		
Belgium	1.7	2.3	2.8	0.8	7.6	7.3	2.4		
Canada	1.0	1.8	1.3	0.0	4.0	2.2	1.7		
Denmark	2.8	5.2	2.8	2.0	12.7	12.9	1.3		
Finland	2.2	7.7	0.7	1.8	12.4	3.3	1.3		
France	2.7	2.2	1.9	0.2	7.0	3.3	1.0		
Germany	0.4	2.6	1.4	0.1	4.5	2.4	1.3		
Greece	1.1	0.4	1.2	0.1	2.7	9.5	4.2		

^b Organisation for Economic Co-operation and Development

II.
WORLD MILITARY EXPENDITURE, 1989 - 1998
(in US\$ millions at 1995 prices and as percent of GDP)^a

Country	In US\$ million				As % of GDP ^b				As % of public health and education expenditure, 1995 ^c
	1989	1992	1995	1998	1989	1992	1995	1998	
Africa	8,983	6,516	5,260	4,006	4.1	3.0	2.5	2.1	27.2
Benin	32	-	-	-	1.9	-	-	-	-
Botswana	151	189	166	229	3.2	4.1	3.1	4.0	-
Cameroon	176	144	116	159	1.7	1.5	1.4	1.8	-
Cape Verde	-	-	6	-	-	-	1.5	-	-
Chad	-	-	20	-	-	-	2.0	-	-
Comoros	-	-	-	-	-	-	-	-	-
Cote d'Ivoire	128	122	-	-	1.4	1.4	-	-	-
Eritrea	-	-	123	-	-	-	19.9	-	-
Ethiopia	549	132	118	154	11.1	3.2	2.1	2.3	36.8
Gabon	-	-	-	16	-	-	-	-	-
Gambia	3	4	3	-	1.1	1.1	-	-	-
Ghana	25	53	49	-	0.4	0.8	0.8	-	12.5
Kenya	355	186	159	-	3.1	1.9	1.8	-	-
Lesotho	34	22	26	-	4.4	3.2	3.1	-	-
Liberia	27	24	-	-	2.3	-	-	-	-

Source: Stockholm International Peace Research Institute (SIPRI), 1999 Yearbook, Oxford University Press; SIPRI estimates; ADB staff estimates based partly on World Bank and EBRD data.

Country	In US\$ million				As % of GDP ^b				As % of public health and education expenditure, 1995 ^c
	1989	1992	1995	1998	1989	1992	1995	1998	
<i>Africa - cont'd</i>									
Madagascar	36	37	27	-	1.2	1.2	0.9	-	-
Malawi	19	18	15	-	1.5	1.4	1.0	-	13.0
Mali	39	-	-	-	2.3	-	-	-	-
Mauritania	38	32	30	-	4.0	3.5	2.8	-	40.6
Mauritius	9	13	13	-	0.3	0.4	0.3	-	4.7
Mozambique	115	103	69	75	10.3	8.3	4.6	1.9	-
Namibia	-	130	68	97	-	4.3	2.0	3.1	15.7
Niger	15	-	-	-	0.9	-	-	-	-
Nigeria	759	939	428	692	1.0	0.9	0.5	1.7	50.0
Rwanda	39	101	56	-	1.8	4.4	4.2	-	-
Senegal	85	83	81	-	2.1	1.8	1.8	-	34.6
Seychelles	17	23	12	-	4.3	4.7	2.3	-	19.0
Sierra Leone	10	26	25	-	0.6	2.2	N.A.	-	-
South Africa	5244	3428	2949	2,196	4.1	2.8	2.2	1.9	-
Sudan	308	173	139	-	3.2	2.2	1.7	-	-
Swaziland	12	24	27	-	1.2	1.9	2.3	-	24.7
Tanzania	87	-	81	-	1.7	-	1.5	-	-
Togo	43	41	31	-	3.1	2.9	2.4	-	-
Uganda	91	74	110	165	2.3	1.5	1.8	2.5	42.9
Zambia	173	117	56	-	4.2	3.0	1.6	-	31.4
Zimbabwe	365	280	256	223	4.6	3.7	3.3	3.8	-

<i>Asia and Pacific</i> ^d	45,207	52,653	53,073	56,330	3.2	3.2	2.9	2.3	68.0
Bangladesh	376	438	474	526	1.6	1.7	1.5	1.2	-
Brunei Darussalam	305	328	286	-	-	6.2	5.7	-	-
Cambodia	-	-	123	130	-	-	4.2	4.2	-
Cook Islands	-	-	-	-	-	-	-	-	-
Cyprus	239	476	201	-	3.6	6.2	2.3	-	-
Fed. States of Micronesia	-	-	-	-	-	-	-	-	-
Fiji	40	35	35	-	2.3	2.0	1.7	-	-
India	7,756	6,819	8,004	9,842	3.1	2.4	2.3	2.6	57.5
Indonesia	1,944	2,354	2,513	2,767	1.6	N.A.	1.2	3.0	57.1
Kiribati	-	-	-	-	-	-	-	-	-
Laos	-	-	109	-	-	-	6.2	-	-
Malaysia	1,399	2,032	2,444	2,000	2.7	3.0	2.8	2.8	46.7
Marshall Islands	-	-	-	-	-	-	-	-	-
Mongolia	-	29	21	-	7.9	2.5	2.2	-	21.4
Myanmar	2,530	3,023	3,932	-	3.0	3.4	3.7	-	-
Nepal	30	32	37	-	0.8	0.8	0.8	-	17.8
North Korea	1,871	2,112	-	-	-	-	-	-	-
Pakistan	2,986	3,582	3,428	3,319	6.6	6.7	5.8	5.2	161.1
Papua New Guinea	-	56	-	-	-	1.3	-	-	-
People's Rep. of China	9,900	13,800	12,500	16,900	2.6	2.7	1.8	1.8	-
Philippines	1,158	861	1,187	1,580	17	1.3	1.6	2.4	-
Samoa	-	-	-	-	-	-	-	-	-
Singapore	2,278	2,875	3,673	4,803	4.6	4.7	4.3	5.6	95.6
Solomon Islands	-	-	-	-	-	-	-	-	-
Sri Lanka	157	328	687	609	1.6	3.0	5.3	4.0	120.5
Taipei, China	8,886	10,023	9,858	10,620	4.8	4.5	3.8	-	-
Thailand	2,402	2,987	3,561	3,234	2.4	2.3	2.1	2.1	34.4

Country	In US\$ million				As % of GDP ^b				As % of public health and education expenditure, 1995 ^c
	1989	1992	1995	1998	1989	1992	1995	1998	
<i>Asia and Pacific - cont'd</i>									
Tonga	-	-	-	-	-	-	-	-	-
Tuvalu	-	-	-	-	-	-	-	-	-
Vanuatu	-	-	-	-	-	-	-	-	-
Vietnam	950	462	-	-	-	3.4	-	-	-
Central and Eastern Europe and Former Soviet Union^{d,e}	242,530	52,316	33,019	17,111	14.1	5.3	4.0	2.8	24.5
Albania	93	62	53	29	-	4.4	2.2	1.2	-
Azerbaijan	-	611	171	-	-	3.3	2.3	-	57.5
Belarus	-	671	318	311	-	1.6	1.4	1.4	12.8
Bosnia & Herzegovina	-	-	257	128	-	-	-	-	-
Bulgaria	1,026	470	325	217	-	2.9	2.5	2.2	33.3
Croatia	-	1,305	1,775	1,257	-	7.3	9.8	6.7	71.0
Estonia	-	21	55	50	-	0.5	1.5	0.9	11.7
Georgia	-	127	143	166	-	-	1.5	3.2	-
Kazakhstan	-	-	401	414	-	-	1.1	2.0	16.2
Kyrgyzstan	-	-	56	-	-	-	1.5	-	14.7
Latvia	-	-	44	33	-	-	1.0	0.6	9.0
Lithuania	-	-	29	104	-	-	0.5	1.0	4.7
Macedonia	-	-	-	107	-	-	-	4.9	-
Romania	1,411	1,072	756	546	3.6	3.3	2.1	1.6	-

Russia	240,000	47,500	25,700	11,200	14.2	5.5	4.0	2.5	51.3
Slovak Republic	-	-	435	410	-	-	2.5	2.1	22.3
Slovenia	-	343	335	354	-	-	1.8	1.9	14.0
Tajikistan	-	-	59	-	-	0.4	1.1	-	13.4
Turkmenistan	-	-	148	225	-	-	1.4	5.1	-
Ukraine	-	-	1,665	1,561	-	-	3.1	3.1	25.4
Uzbekistan	-	133	294	-	-	-	1.1	-	10.1
Latin America and Caribbean^d	20,973	15,285	21,257	18,125	1.8	1.5	1.6	1.5	21.8
Argentina	5,228	3,910	3,362	3,886	1.7	1.4	1.6	1.1	-
Belize	5	6	8	-	1.2	1.1	1.4	-	12.4
Bolivia	96	127	127	-	1.8	2.1	1.9	-	19.6
Brazil	9,220	5,605	10,906	13,125	1.7	1.1	1.5	1.7	21.4
Chile	1,097	1,127	1,240	1,008	2.4	2.2	1.9	1.3	35.8
Colombia	908	946	1,444	-	1.4	1.4	1.8	-	26.1
Costa Rica	30	23	44	-	0.4	0.3	0.5	-	4.7
Ecuador	308	471	348	-	2.0	2.7	1.9	-	35.2
El Salvador	241	161	97	-	2.9	2.0	1.0	-	21.7
Guatemala	176	182	144	106	1.6	1.5	1.0	0.5	28.6
Guyana	4	-	6	-	-	1.0	0.9	-	10.1
Honduras	52	82	47	-	2.4	1.5	1.2	-	18.8
Nicaragua	40	111	32	-	6.5	2.3	1.7	-	18.9
Panama	89	108	97	-	2.1	1.3	1.2	-	12.1
Paraguay	126	93	122	-	1.2	1.6	1.4	-	26.9
Peru	908	1,243	834	-	1.9	1.9	1.4	-	-
Uruguay	406	412	286	-	2.4	2.3	1.6	-	34.0
Venezuela	1,104	1,615	1,113	-	2.2	1.3	1.4	-	-

Country	In US\$ million				As % of GDP ^b				As % of public health and education expenditure, 1995 ^c
	1989	1992	1995	1998	1989	1992	1995	1998	
Middle East and North Africa^e	39,647	47,400	41,743	42,910	11.4	8.7	8.6	8.4	94.8
Algeria	542	868	1,235	1,733	1.7	1.9	3.0	3.5	-
Bahrain	212	268	274	-	5.4	5.3	5.0	-	-
Egypt	2,205	2,178	1,971	2,043	4.4	3.8	3.3	2.6	50.8
Iran	1,754	2,022	2,550	2,985	2.9	2.2	2.5	-	46.3
Iraq	-	-	-	-	-	-	-	-	-
Israel	7,515	7,706	7,378	8,540	12.3	10.5	8.5	-	-
Jordan	514	426	552	587	10.6	7.8	8.3	8.4	66.9
Kuwait	2,574	6,555	3,693	3,264	8.5	31.8	13.9	10.8	151.1
Lebanon	-	458	490	414	-	5.2	4.4	2.4	-
Malta	26	27	31	31	1.1	1.0	1.0	-	-
Morocco	1,890	1,441	1,551	-	5.8	4.3	4.7	-	-
Oman	1,802	2,008	2,018	1,753	18.6	16.2	14.7	-	-
Saudi Arabia	14,912	15,369	13,218	17,142	15.7	N.A.	10.5	13.6	-
Syria	3,020	4,197	3,608	3,155	8.0	9.0	7.3	17.63	-
Tunisia	402	390	345	378	2.8	2.3	1.9	1.7	-
United Arab Emirates	2,279	2,231	1,950	-	5.8	5.5	4.9	-	128.9
Yemen	-	1,256	879	885	-	9.2	8.0	20.5	125.0
Non-OECD Countries	357,339	174,170	154,352	138,482	11.4	5.2	4.5	4.1	38.6

OECD Members	689,543	637,323	565,398	538,537	4.3	3.7	3.0	2.7	21.1
Australia	7,320	8,446	8,067	8,299	2.3	2.5	2.3	2.3	20.4
Austria	2,146	2,121	2,133	2,118	1.1	1.0	0.9	1.0	7.8
Belgium	6,051	4,808	4,449	4,328	2.5	1.8	1.6	1.8	16.0
Canada	10,965	9,963	9,077	6,999	2.0	1.9	1.6	1.2	-
Czech Republic	-	-	839	1,061	-	-	1.7	2.0	13.4
Denmark	3,224	3,224	3,118	3,206	2.1	1.9	1.7	1.8	11.3
Finland	1,854	2,219	1,968	2,213	1.4	2.0	1.6	1.8	11.9
France	52,099	50,527	47,768	45,978	3.7	3.4	3.1	3.2	22.0
Germany	53,840	49,951	41,160	38,878	2.8	2.1	1.7	1.8	13.2
Greece	5,001	4,987	5,056	6,211	4.6	4.5	4.4	5.2	60.3
Hungary	1,511	910	612	580	2.8	2.1	1.4	1.3	13.7
Iceland	-	-	-	-	-	-	-	-	-
Ireland	495	642	688	772	1.0	1.2	1.1	1.0	9.7
Italy	22,846	21,643	19,376	22,809	2.3	2.1	1.8	1.9	17.8
Japan	47,409	48,819	50,112	51,285	1.0	1.0	1.0	1.4	-
Korea	11,253	13,130	14,424	15,042	4.0	3.6	3.2	5.0	57.1
Luxembourg	121	145	142	168	1.1	0.9	0.8	-	7.8
Mexico	869	1,118	1,224	1,185	0.4	0.4	0.4	0.3	5.2
New Zealand	1,033	770	659	775	1.9	1.5	1.1	1.4	8.5
Netherlands	9,907	9,308	8,011	7,859	2.8	2.5	2.0	2.1	16.7
Norway	3,745	3,968	3,508	3,577	3.0	3.0	2.4	2.5	16.3
Poland	3,442	2,502	2,720	3,053	1.8	2.3	2.3	2.1	24.5
Portugal	2,435	2,639	2,670	2,622	2.8	2.8	2.6	2.5	24.8
Spain	10,164	8,529	8,652	8,241	2.0	1.6	1.5	1.5	14.0
Sweden	5,345	5,503	5,421	5,337	2.3	2.5	2.3	2.4	15.1
Switzerland	5,653	5,395	4,238	3,865	1.9	1.8	1.4	1.5	11.5

Country	In US\$ million				As % of GDP ^b			As % of public health and education expenditure, 1995 ^c
	1989	1992	1995	1998	1989	1992	1995	
<i>OECD Members - cont'd</i>								
Turkey	4,552	5,948	6,60	7,920	3.3	3.7	3.8	4.2
United Kingdom	42,645	38,828	33,841	32,320	4.0	3.8	3.0	2.4
United States	373,618	331,280	278,856	251,836	5.6	4.9	3.8	3.1
WORLD	1,046,882	811,493	719,750	677,019	6.7	4.0	3.3	3.0

^a The ratio of military expenditure to GDP is calculated in domestic currency at current prices and for calendar years. The deflator used for conversion from current to constant prices is the consumer price index (CPI) of the country concerned. For most countries the conversion to dollars is made by use of the average market exchange rates. The exceptions are countries in transition whose economies are still closed that market exchange rates do not accurately reflect the price ratios of the entire economy. For these countries conversion to dollars is made by use of purchasing power parity (PPP).

^b Weighted means of country ratios

^c Unweighted means of country ratios

^d Excludes OECD member countries

^e For most countries in this region, the GDP implied by the SIPRI data is significantly different from that shown in other institutional sources. As it is impossible to effect a country-by-country reconciliation, the GDP ratios for each country ought to be viewed as broad magnitudes. However, as many of these differences go in opposite directions for different countries in the region, the regional average ratios of military expenditure to GDP can be considered relatively reliable.

III.
NUMBER OF CENTRAL GOVERNMENT MINISTRIES,
Various Recent Years

Country	No. of central ministries ^a	Population (Thousands)	Population per ministry (Thousands)	Central government employment (Thousands)	Average number of employees per central ministry
<i>Africa</i>	19	13,942	926	1,046	71
Angola	-	11,600	-	1,100	-
Benin	-	5,800	-	-	-
Botswana	10	1,500	150	3,500	350
Cameroon	-	13,900	-	600	-
Cape Verde	-	406	-	1,200	-
Chad	-	6,700	-	200	-
Comoros	-	651	-	400	-
Congo	-	2,745	-	1,300	-
Cote d'Ivoire	-	14,300	-	300	-
Eritrea	-	3,400	-	-	-
Ethiopia	-	60,100	-	-	-
Gabon	-	1,140	-	2,600	-
Gambia	12	1,200	100	300	25
Ghana	20	18,300	915	200	10
Kenya	24	33,100	1,379	900	37.5
Lesotho	-	2,100	-	1,000	-
Liberia	-	2,900	-	-	-
Madagascar	-	15,800	-	700	-
Malawi	-	10,400	-	500	-
Mali	-	11,500	-	300	-
Mauritania	17	2,400	141	400	23.5
Mauritius	24	1,100	46	3,300	137.5
Mozambique	17	18,300	1,076	-	-
Namibia	-	1,600	-	4,200	-
Nigeria	28	118,400	4,229	400	14.3
Rwanda	-	5,900	-	-	-
Senegal	24	8,800	367	400	16.7
Seychelles	-	75	-	-	-
Somalia	-	10,200	-	-	-

Source: Various Embassies, Consular Offices, Internet Government Websites, World Bank and ADB country desk officers

^a Excluding Offices of the Prime Minister/President, State Ministers, Deputies, Secretariat, Special Councils, Commissions. Different sources occasionally provide different figures. The data shown in this table have been derived from a number of sources and efforts have been made to cross-check them to the extent possible. Nevertheless, some uncertainty remains, also because mergers or additions to the number of ministries are not uncommon, and may have occurred after the time when these data were assembled.

Country	No. of central ministries ^a	Population (Thousands)	Population per ministry (Thousands)	Central government employment (Thousands)	Average number of employees per central ministry
<i>Africa - cont'd</i>					
South Africa	22	43,300	1968	1,400	63.6
Sudan	-	27,900	-	-	-
Swaziland	17	906	53	-	-
Togo	-	4,300	-	400	-
Uganda	-	20,400	-	200	-
Zambia	-	8,500	-	800	-
Zimbabwe	18	12,300	683	600	33.3
Asia	20	123,951	4,696	1,069	51
Afghanistan	25	22,100	884	-	-
Bangladesh	23	126,000	5478	400	17.4
Bhutan	7	1,900	271	-	-
Brunei Darussalam	11	307	28	-	-
Cambodia	20	10,500	525	1,600	80.0
Cyprus	11	800	73	-	-
India	35	950,000	27143	400	11.4
Indonesia	21	199,900	9519	700	33.3
Israel	20	5,800	290	-	-
Laos	13	5,200	400	100	7.7
Malaysia	23	21,700	943	2,300	100.0
Maldives	18	273	15	3,000	166.7
Mongolia	9	2,300	256	-	-
Myanmar	31	46,400	1497	1,200	38.7
Nepal	28	2,600	93	-	-
North Korea	-	22,800	-	-	-
Pakistan	25	138,200	5528	400	16.0
People's Rep. of China	29	1,243,700	42886	100	3.4
Philippines	20	73,500	3675	1,000	50.0
Rep. of Korea	18	46,000	2556	600	33.3
Saudi Arabia	20	19,500	975	-	-
Singapore	14	3,200	229	900	64.3
Sri Lanka	32	18,600	581	2,800	87.5
Taipei, China	10	-	-	-	-
Thailand	14	61,000	4357	1,200	85.7
Vietnam	17	76,500	4500	400	23.5

Country	No. of central ministries ^a	Population (Thousands)	Population per ministry (Thousands)	Central government employment (Thousands)	Average number of employees per central ministry
<i>Central and Eastern Europe and Former Soviet Union</i>	15	17,813	747	1,264	73
Albania	16	3,731	233	1,900	118.8
Armenia	-	3,600	-	800	-
Azerbaijan	14	7,600	543	800	57.1
Belarus	-	10,215	-	600	-
Bosnia	-	3,784	-	-	-
Bulgaria	15	8,306	554	900	60.0
Croatia	18	4,498	250	1,600	88.9
Czech Republic	15	10,300	687	600	40.0
Estonia	14	1,455	-	1,900	-
Georgia	-	5,400	-	2,600	-
Hungary	12	10,200	850	1,400	116.7
Kazakhstan	14	16,800	1200	1,200	85.7
Kyrgyzstan	-	4,600	-	5,800	-
Latvia	13	2,474	-	1,900	-
Lithuania	19	3,706	195	1,000	52.6
Macedonia	21	2,190	104	900	42.9
Poland	10	38,650	-	200	-
Romania	17	22,565	1327	200	11.8
Russia	10	147,105	-	400	-
Slovak Republic	14	5,383	385	1,300	92.9
Slovenia	15	1,987	132	1,400	93.3
Tajikistan	-	6,000	-	500	-
Turkey	17	64,000	3765	1,000	58.8
Turkmenistan	18	4,200	233	1,900	105.6
Ukraine	-	50,698	-	400	-
Uzbekistan	-	23,700	-	400	-
<i>Latin America and Caribbean</i>	15	17,142	1,169	2,275	192
Antigua and Barbuda	12	67	6	13,100	1,091.7
Argentina	7	36,000	5143	900	128.6
Bahamas	15	289	19	3,200	213.3
Barbados	14	262	19	4,000	285.7
Belize	20	230	12	-	-
Bermuda	13	60	5	-	-
Bolivia	14	7,800	557	1,200	85.7

Country	No. of central ministries ^a	Population (Thousands)	Population per ministry (Thousands)	Central government employment (Thousands)	Average number of employees per central ministry
<i>Latin America and Caribbean - cont'd</i>					
Brazil	23	159,900	6952	-	-
Chile	19	14,600	768	300	15.8
Colombia	16	36,200	2263	100	6.3
Costa Rica	17	3,464	204	-	-
Dominican Republic	11	8,097	736	-	-
Ecuador	6	11,900	1983	1,700	283.3
El Salvador	12	5,928	494	700	58.3
French Guinea	24	159	7	-	-
Guatemala	12	10,157	846	-	-
Guyana	15	847	56	1,600	106.7
Honduras	15	6,338	423	1,000	66.7
Jamaica	15	2,554	170	-	-
Mexico	15	96,400	6427	-	-
Nicaragua	13	4,351	335	500	38.5
Paraguay	10	5,100	510	3,000	300.0
Peru	14	24,400	1743	1,500	107.1
Suriname	16	437	27	-	-
Trinidad and Tobago	21	1,307	62	-	-
Uruguay	12	3,200	267	2,400	200.0
Venezuela	15	22,800	1520	1,200	80.0
<i>Middle East and North Africa</i>	20	14,992	643	1,390	62
Algeria	27	29,100	1078	1,500	55.6
Bahrain	15	620	41	2,600	173.3
Egypt	27	62,000	2296	1,800	66.7
Iran	22	60,700	2759	-	-
Iraq	21	21,177	1008	-	-
Israel	20	5,800	290	-	-
Jordan	25	5,800	232	800	32.0
Kuwait	15	1,800	120	-	-
Lebanon	13	3,100	238	200	15.4
Libya	19	5,800	305	-	-
Malta	11	375	34	-	-
Morocco	21	27,300	1300	800	38.1
Oman	25	2,400	96	-	-

Country	No. of central ministries ^a	Population (Thousands)	Population per ministry (Thousands)	Central government employment (Thousands)	Average number of employees per central ministry
<i>Middle East and North Africa - cont'd</i>					
Qatar	12	600	50	-	-
Syria	25	15,000	600	1,000	40.0
Tunisia	25	9,200	368	1,400	56.0
United Arab Emirates	17	2,580	152	-	-
WB Gaza	-	-	-	1,500	-
Yemen	27	16,500	611	2,300	85.2
Pacific	10	587	44	5,400	360
Cook Islands	14	20	1	5,400	-
Fed. States of Micronesia	6	130	22	-	-
Fiji	15	809	54	-	360.0
Kiribati	14	81	6	-	-
Marshall Islands	11	61	6	-	-
Papua New Guinea	16	4,500	281	-	-
Samoa	5	168	34	-	-
Solomon Islands	9	404	45	-	-
Tonga	13	99	8	-	-
Tuvalu	4	10	3	-	-
Vanuatu	8	178	22	-	-
OECD^b Members	14	37,286	3,022	1,658	132
Australia	16	18,500	1156	1,300	81.3
Austria	10	8,100	810	3,400	340.0
Belgium	18	10,200	567	1,700	94.4
Canada	20	30,300	1515	1,000	50.0
Czech Republic	15	10,300	687	600	40.0
Denmark	19	5,300	279	2,800	147.4
Finland	12	5,100	425	2,200	183.3
France	14	58,600	4186	2,700	192.9
Germany	14	82,100	5864	400	28.6
Greece	18	10,500	583	1,100	61.1
Hungary	12	10,200	850	1,400	116.7
Iceland	-	271	-	-	-

^b Organisation for Economic Co-operation and Development.

Country	No. of central ministries ^a	Population (Thousands)	Population per ministry (Thousands)	Central government employment (Thousands)	Average number of employees per central ministry
<i>OECD Members</i>					
<i>- cont'd</i>					
Ireland	10	3,700	370	1,200	120.0
Italy	11	57,500	5227	1,300	118.2
Japan	12	125,600	10467	700	58.3
Korea	18	46,000	2556	600	33.3
Luxembourg	-	417	-	-	-
Mexico	15	96,400	6427	-	-
New Zealand	18	3,800	211	1,200	66.7
Norway	16	4,400	275	2,600	162.5
Poland	10	38,700	3870	200	20.0
Portugal	-	9,800	-	1,800	-
Spain	12	39,300	3275	1,300	108.3
Sweden	10	8,800	880	4,100	410.0
Switzerland	7	7,100	1014	2,100	300.0
The Netherlands	12	197	16	3,900	325.0
Turkey	17	64,000	3765	1,000	58.8
United Kingdom	14	58,200	4157	1,300	92.9
United States	14	267,900	19136	1,200	85.7
WORLDWIDE AVERAGE	16	32,245	1,607	2,015	135

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