

# **Public Sector Reform – An Introduction**

**March 2009**



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**Public Sector Reform  
An Introduction**

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Comments, questions and suggestions are welcomed and should be sent to [EuropeAid-TC-PIU@ec.europa.eu](mailto:EuropeAid-TC-PIU@ec.europa.eu)

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- ➔ Guidelines (n°1) - "The Programming, Design and Management of General Budget Support"
- ➔ Guidelines (n°2) - "EC Support to sector programmes: covering the three financing modalities: Sector budget support, Pool funding and EC procurement and EC project procedures" (July 2007)
- ➔ Guidelines (n°3) - "Making technical cooperation more effective" (April 2009)

### Reference documents:

- ➔ Reference document (n°1) - "Institutional Assessment and Capacity Development – Why, what and how?" (2005)
- ➔ Reference document (n°2) - "Supporting decentralisation and local governance in third countries" (2008)
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## Glossary of terms used

<b>Backbone strategy</b>	EC policy on Technical Cooperation and Project Implementation Units
<b>Budget oversight</b>	Process of scrutiny of those making the budget by other parts of government, the legislature, the Supreme Audit Institution and the Civil Society
<b>Business process re-engineering</b>	Design of business process to increase efficiency and reduce cycle times
<b>Cabinet</b>	Central body of an Executive institution (notably a Ministry) that sets policy direction for the institution concerned
<b>Central department</b>	Government department having an overall responsibility of government activities through a function such as finance or human resource management
<b>Clientilism</b>	Process of resource allocation and decision-making used for the governing elite or party to generate support and votes
<b>Common law</b>	In countries where the Common law prevails (most of English speaking countries), legal code developed by the judiciary over time, built up from precedent
<b>Conduit</b>	Channel of communication between citizens and government
<b>Constitutional autonomy</b>	Institutional arrangement giving power to a government organisation or level of government that cannot be overridden by central government
<b>Corruption</b>	Using public office for personal gain by collecting bribes or preferment outside the legal framework. Under the civil Law Convention on Corruption of the Council of Europe, corruption is defined as “ requesting, offering, giving or accepting, directly or indirectly, a bribe or any other undue advantage or prospect thereof, which distorts the proper performance of any duty or behaviour required of the recipient of the bribe, the undue advantage or the prospect thereof”
<b>Decentralisation</b>	Political, fiscal and administrative transfer from central governments to democratically elected regional or local authorities. The exercise of these powers is autonomous and subject only to legal requirements
<b>Devolution</b>	Devolution is an arrangement or a process in public administration in which distinct bodies are created by law, separate from the central administration, and in which local representatives – either elected or appointed by the population – are (progressively) given powers to decide on a variable range of public matters and (progressively) gain access to resources which can be utilised at their discretion. The political base is the locality, and powers are devolved
<b>Executive branch</b>	That part of government that is responsible for policy execution
<b>Federal system</b>	Way of organising government that gives autonomy to provinces or states at sub-national level. In ‘confederal’ systems membership of the federation is voluntary
<b>Fiscal deficit</b>	Negative balance of government revenues and expenditures
<b>Fiscal stress</b>	Problem of insufficient government revenue to pay for government expenditure
<b>Fiscal surplus</b>	Positive balance of government revenues and expenditures
<b>Hierarchical bureaucracy</b>	Organisation governed by rules in which instructions are transmitted downwards
<b>Illiberal democracy</b>	Mode of government that includes elections, but without other aspects of liberal democracy, such as freedom of expression and association
<b>Institutional arrangements</b>	Rules and practices through which transactions and organisational actions are conducted
<b>Legislature</b>	Branch of the State responsible for passing laws
<b>Liberalisation</b>	Reduction of regulations and controls on economic activity
<b>Line department</b>	Government department responsible for policy making and service delivery in a sector, such as education, or a policy area, such as family policy

<b>Macro-economic policy</b>	Central government policy on taxation and spending, plus monetary policy, designed to create economic stability
<b>Management climate</b>	Set of attitudes and expectations that affect how managers behave
<b>Managerialism</b>	A belief that managerial authority and management methods are a superior way to run organisations
<b>Napoleonic code</b>	Legal code designed and implemented during Napoleonic era. The Napoleonic code, based on Roman-German law, is the basis of civil law systems (notably used in most of French, Spanish and Portuguese speaking countries)
<b>National culture</b>	Ways of behaving and transacting affected by specific national traditions, attitudes and beliefs
<b>Neo-patrimonial state</b>	Government in which family members of government members and officials take precedence over other citizens in the allocation of resources and jobs, through 'normal' government processes
<b>'New contractualism'</b>	Use of elements of market transactions to relationships within government and between government and suppliers
<b>Oligarchy</b>	Rule by a small group of people
<b>Patrimonial state</b>	State in which the rulers use their position to favour their family or clan members
<b>Privatisation</b>	Transfer of state-owned assets to private ownership, either by selling shares or selling the assets to private buyers
<b>Procurement</b>	Process of purchasing goods or services
<b>Quasi-market mechanisms</b>	Administrative arrangements that have some but not all of the characteristics of a market
<b>Rule of law</b>	Control of actions, including those of the government, by an agreed code. A country operates under the "rule of law" when it has: a legislature that enacts laws which respect the Constitution and human rights; an independent judiciary; effective, independent and accessible legal services; a legal system guaranteeing equality before the law; a prison system respecting the human person; a police force at the service of the law; an effective executive which is capable of enforcing the law and establishing the social and economic conditions necessary for life in society, and which is itself subject to the law; a military that operates under civilian control within the limits of the Constitution.
<b>Special agencies</b>	Government organisation with a single function, such as tax collection or border control. After 'New Public Management'-type reforms, can include the service-delivery parts of ministries, such as highway construction
<b>State-owned enterprise</b>	Organisation owned by the state that engages in manufacturing or services and earns revenue from sales as well as from taxation
<b>Structural adjustment</b>	Policy of liberalising trade, currency exchange rates and controls, subsidies and tariffs, along with reducing the size and scope of government.
<b>Technocrat</b>	Person who claims authority by the possession of technical skills
<b>Trajectory</b>	Direction of policy change, initiated by policy choices then affected by other forces
<b>Weberian state</b>	Ideal type of government in which actions are governed by rules, control is through a hierarchy and public officials are trained, work exclusively in their official job and act impartially

## Executive Summary

This is a document introducing public sector reform for people involved in designing and delivering aid interventions, in particular at sector level or through budget support. EuropeAid is implementing the 'Backbone Strategy for Reforming Technical Cooperation and Project Implementation Units for External Aid provided by the European Commission'. The moves from project support to sector-wide approaches and to budget support have resulted in greater involvement of Commission staff with national public administration systems and with public sector reforms. Implementation of these reforms frequently involves the development of the capacity of the people involved, both in national governments and at the Commission.

This paper includes a set of operational annexes supporting assessment and understanding on the state of public sector:

- Annex 1** on "Governance – Corruption" provides a framework to discuss the extent, type and importance of corruption.
- Annex 2** on "Diagnosing the Public sector – An agenda for discussion" – sets out a range of issues to start diagnosis, including, financial and human resource management, regime type, constitutional framework, cultural and institutional context and the pressures for change.
- Annex 3** on "Instrument for Diagnosis" introduces four diagnostic instruments:
  1. the Public Expenditure and Financial Accountability Framework;
  2. "Organisational culture";
  3. "Governance indicators";
  4. "Micro-political mapping".

This paper argues that successful public sector reforms take account of the economic, social, cultural, constitutional and political context of the state in which they are implemented. External intervention, whether by donors and lenders or by foreign experts cannot proceed on the assumption that a pre-formed set of administrative reform processes will solve the particular problems of any specific government. The paper first sets out a definition of the public sector, then the likely faults with the public sector and the reasons for them. It then examines the impact of the type of state formation on the choice of reform strategy, presents the variety of reforms that have been attempted. It then covers the options for sequencing reform implementation.

The organisations and governance arrangements included in the public sector varies from country to country. What is private and what is public depends on the history and development trajectory of individual states. There is no standard prescription for what should be private and what should be public. Governance arrangements range from state-owned enterprises, through ministries to agencies established for specific purposes. Each governance arrangement has its set of management practices.

Governments face pressures to improve their processes and impact, from their own citizens, their civil society organisations and domestic business. They also face demands for change from inward investors and from international organisations. A first step in designing reform consists of understanding the pressures and the demands on government to change. Small reforms to key services are often sufficient to satisfy demands. Fundamental, system-wide changes to practices and culture may be required, if there is endemic inefficiency and/or corruption.

Reform requires a definition of the problems and an analysis of their likely causes. Some countries have poor service delivery, others have inadequate infrastructure. While fiscal deficits are common, some states have difficulty in spending the available resources effectively, and departments are obliged to return resources to the Finance Ministry at the end the fiscal year. Identifying the symptoms and their causes is an essential prerequisite to designing reforms.

Developing countries' government systems range from dictatorships to democracies, and are often in transition from one to another. Design and implementation of reforms are heavily influenced by regime type and style of government. Autocratic regimes may find reform easier to implement than do governments who govern through coalitions whose partners need to be persuaded of every change. Democratic states reform by persuasion, according to an agenda that is set in part by the democratic processes.

Reforms are designed and implemented in a variety of social, economic, political and cultural contexts. What would be acceptable and successful in one context will be unlikely to succeed in another. As well as the general national



context, events, including social unrest or natural disasters, can produce important stimulus for change.

Many states have been formed within previous aid-driven policies, including structural adjustment and decentralisation. The scale of state and the degree of devolution to sub-national government both have an influence on future reform efforts. If sub-national governments have gained a large degree of autonomy, reform efforts will have to include persuading the sub-national institutions to change.

A first step in reform is often a basic attempt to codify and control the work of the core civil service. Once this is achieved, more complex systems of performance management can be attempted. Civil service reform often consists of implementing relatively simple managerial and bureaucratic structures and processes of order, discipline and control.

Beyond such simple measures, other changes sometimes described as New Public Management include two sorts of reforms: the use of market and quasi-market mechanisms to govern individuals and organisations; the use of 'management' methods (used in the private sector), especially in recruitment, promotion, performance management and service design and delivery, inside public sector organisations.

Governments that adopted New Public Management early have pursued further reforms to correct the problems of fragmentation, poor policy coherence and lack of central direction that resulted. The 'third generation' reforms are designed to restore coordination and coherence.

Public Financial Management changes often come first, especially when improvements to PFM are made a condition of aid. PFM is more than a set of technical changes to budgeting and accounting systems, and require or cause changes in management practice. Improved financial planning and better accountability for resources require broader management changes, establishing clear lines of command and accountability and enhanced individual responsibility.

Some reform efforts are implemented according to a grand design, in which every aspect of financial, human resource and service management are changed at the same time. Others are carried out step by step, fixing basic problems first before moving on to more complicated solutions. The paper concludes by examining the options for implementation and sequencing.

## 1. Scope and Purpose of this document

The purposes of this paper are to:

- ➔ Promote an understanding of the scale, scope and variety of Public Sector Reform
- ➔ Contribute to an informed policy dialogue about PSR
- ➔ Inform and inspire work on PSR in sectors
- ➔ Help with the processes of diagnosis, through discussion and enquiry, of the state of the public sector (see a set of diagnostic tools presented in the Annexes)

Improvement in public management is often a prerequisite of effective improvement in services and the people responsible for developing and improving services need to understand the bigger picture of public sector reform. This paper starts with basic definitions of the elements of the public sector, then introduces the range of contexts in which reform efforts that have been pursued throughout the world. Recent analysis by the Commission<sup>1</sup>, along with the evaluation of aid efforts by the World Bank<sup>2</sup> and work by the OECD<sup>3</sup> emphasise the importance of understanding the economic, political and institutional context in which aid is delivered, and on making diagnoses before making prescriptions. This paper is designed to help people carry out and understand those analyses and diagnoses.

It then examines the range of reforms that have been undertaken, from simple fixes to small management problems to system-wide transformations of the state and its constituent organisations. The purpose is to assist people involved in reform to avoid the trap of seizing solutions from a small range of options: different diagnoses require different solutions.

The paper looks at sequencing of reform efforts: one potential danger in reform work is to attempt to create very complex and sophisticated systems when basic parts of the state are not yet functioning adequately.

## 2. What is the public sector?

The organisations and governance arrangements included in the public sector vary from country to country. What is private and what is public depends on the history and development trajectory of individual states. This chapter outlines the elements of the state and points out the main variations between states, arising from historical and political differences. States with large public sectors, including state owned enterprises have different problems from small states. Decentralised or federal states have different challenges to centralised ones. The importance of these differences for the design and implementation of Public Sector Reform is described.

Apart from a few rare cases where the state is absent or so fragile as to be ineffective, governments generally have an **Executive** branch, organised under a head of government (who may also be head of state). Normally a **Council of Ministers**, consisting of political heads of government departments, constitute an executive, led by the head of government. In a presidential system the President chooses the members of the executive. In a Parliamentary system the ruling party or parties choose the Prime Minister and the Executive. The design and implementation of reforms are influenced by how the Executive is formed, where the main sources of power are and who has influence over the possibilities of state reform.

There are **line departments**, such as departments of Health, Education, Transport, Foreign Affairs or Defence. In addition there are normally some **central departments**, such as a Ministry of Finance, sometimes a Ministry of the Civil Service with functions to organise and control the line ministries in various ways on behalf of the head of govern-

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1 *'Practical Guide to Capacity Development in a Sector Context'*, European Commission, 2008

2 *Independent Evaluation Group, 'Public Sector Reform: What Works and Why?'*, World Bank, 2008

3 *'The Challenge of Capacity Development: Working Towards Good Practice'*, DAC Guidelines and Reference Series, OECD, 2006

ment. When system-wide reforms are planned, a Ministry of Reform is sometimes created for the task. These central departments have a strong influence over the line departments. However, in some countries the line departments may outweigh the central ministries and be resistant to centrally-driven reform programmes. In others the power of the Executive is exercised by control over the finances through a strong central finance ministry, or through appointments to senior positions through a Civil Service Commission or other powerful central body.

Most governments also have **special agencies** concerned with tax collection, military forces, national police and security and intelligence agencies, border controls etc. In New Public Management reforms there has been a tendency to convert service delivery elements of line departments into specialist agencies and separate out the function of policy-making from that of service delivery. This process is designed to strengthen the authority of the top management within those special service delivery units, through powers delegated from the government centre.

There is a variable set of **state-owned enterprises**, established at different stages for different reasons. These state-owned enterprises may be airlines, mines, railways, postal services, telecoms, oil companies, manufacturing plants, commodity distribution agencies, marketing organisations, broadcasters. The boundary between the public sector and the private sector in these fields varies according to politics and history. The boundary moves, for example with the recent privatisation of airlines in Europe and Africa and with nationalisation of power resources in Latin America and Russia. The governance of state-owned enterprises varies from management through independent Boards of Directors, to direct control by Heads of State.

These variances in the boundary between the private and public sectors and in the role of the state produce large differences in the size of the public sector and its significance in the economy. One measure of the size of the state is the proportion of GDP that the state takes in revenue. Table 1 shows a selection of countries general government revenues as a % of GDP:

Maldives	61
Bolivia	51
Norway	50
Kuwait	46
Belgium	41
Croatia	40
Chile	28
USA	19
Kyrgyz Republic	19
Bangladesh	10
Congo, Dem Republic	8

Source: IMF, 2007, *Government Finance Statistics*, Table W1

While these data cover revenues collected for all purposes, including transfers and subsidies as well as public services, they show that the scale of the public sector has a big range, among both 'developed' and 'developing' countries.

Public services are situated in the public sector in a variety of ways: for example, in some states all teachers in state schools are **civil servants** employed by the Ministry of Education, in others they are employed by local authorities or local school boards. Similarly, medical staff may be employed by central Ministries or local health boards or local authorities. The degree to which public services are provided through centrally employed staffs and through sub-national governments or autonomous bodies, such as school boards, has a bearing on the strategy for reform: **decentralised systems can only be reformed by persuasion and shared values and aspirations**, whereas at least structural aspects of reforms in centralised systems can be changed by implementing centralised plans.

Some services considered 'public' are **provided by private companies** regulated by the state. Where, for example, water supply and public transport are privatised, efforts to improve performance must be implemented through the subsidy and regulation system, rather than directly through changes in the management arrangements. In cases of

extremely poor performance, such as the experience of privatised water supply in Tanzania for example, reform may only be possible by re-nationalising the privatised services.

The **methods of financing** also vary widely, the same service being funded through taxation and delivered free at the point of consumption in some places, and sold through the market in another. The specifics of ownership, governance and distribution have a significant impact on attempts at reform. Where reforms have included the introduction of consumer charges for services previously provided free of charge further reforms require that attention is paid to the level of prices, the proportion of due fees that are collected, and the impact of the created market on the efficiency and equity of the system.

**Legislatures have different roles** in relation to the public sector: often the approval of the budget by the legislature is an important constraint on the actions of the executive. Legislators also scrutinise the actions of the executive and hold it to account, if they are enabled to do so. Legislators can be an important conduit of demands for change in the rest of the public sector. In federal systems, centrally initiated reforms are difficult to implement in autonomous States or Provinces. Strengthening the legislature and supporting its roles of scrutiny and representation form a central part of many reforms.

The **governance arrangements** are an important factor to take into account when considering the reform of the public sector where there are extensive state-owned enterprises. Where the enterprises are embedded in Ministries (especially where they are under the personal control of the Minister) vested interests enable resistance to reform efforts. Managerial governance arrangements, with a clear distinction between the role of the enterprise managers and the role of the politicians and their departments make reforms easier. Anti-corruption policies are more effective when the relationship between the management of the enterprises and the government is public and clear.

More generally, governance arrangements have other impacts on reform efforts. **States organised as unified hierarchical bureaucracies have a different challenge to ones that operate through relatively autonomous locally accountable entities.** Where decentralisation has been successful and sub-national governments have fiscal and constitutional autonomy, reform is likely also to be varied and will depend on the political will of local leadership.

In the special case of **fragile states**<sup>4</sup> where the relationship between the state and society is tenuous or possibly hostile, the main purpose of reform is to develop the institutional arrangements through which the state can be formed. State-building is an essentially domestic matter, but parts of the process can be supported from outside assistance.

### 3. Pressures on governments and levels of reform

Governments face pressures to improve from their own citizens, civil society organisations and domestic businesses, in addition to demands for change from inward investors and from international organisations. A first step in designing reform consists of understanding the pressures and the demands on government to change. Small reforms to key services may be sufficient to satisfy demands. Fundamental, system-wide changes to practices and culture may be required if the public sector as an entity is weak or shows serious symptoms.

'Reform' is used to describe many changes from minor adjustments to management arrangements to fundamental changes in ownership, governance and management arrangements. Building capacity to deliver services and reduction in capacity to correct fiscal imbalances are both described as 'reform' in the official reports that accompany the changes. In this paper, 'reform' is used to describe the range of processes, but **genuine reform can be defined as change that either produces a measurable improvement in services or a noticeable change in the relationship between institutions of the state and the citizens:** hence a reform that changes the way in which civil servants are paid that has no impact on services or on the way those civil servants relate to the citizens would not be counted as a genuine reform.

What are the pressures on governments to make reforms? This question is important because some pressures are more likely to produce genuine reforms than others. One reason for which governments propose reforms is pressure from their constituents. **Electoral systems** that include genuine competition can lead to competing parties promising

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4 See 'Concepts and Dilemmas of State Building in Fragile Situations', OECD/DAC, 2008

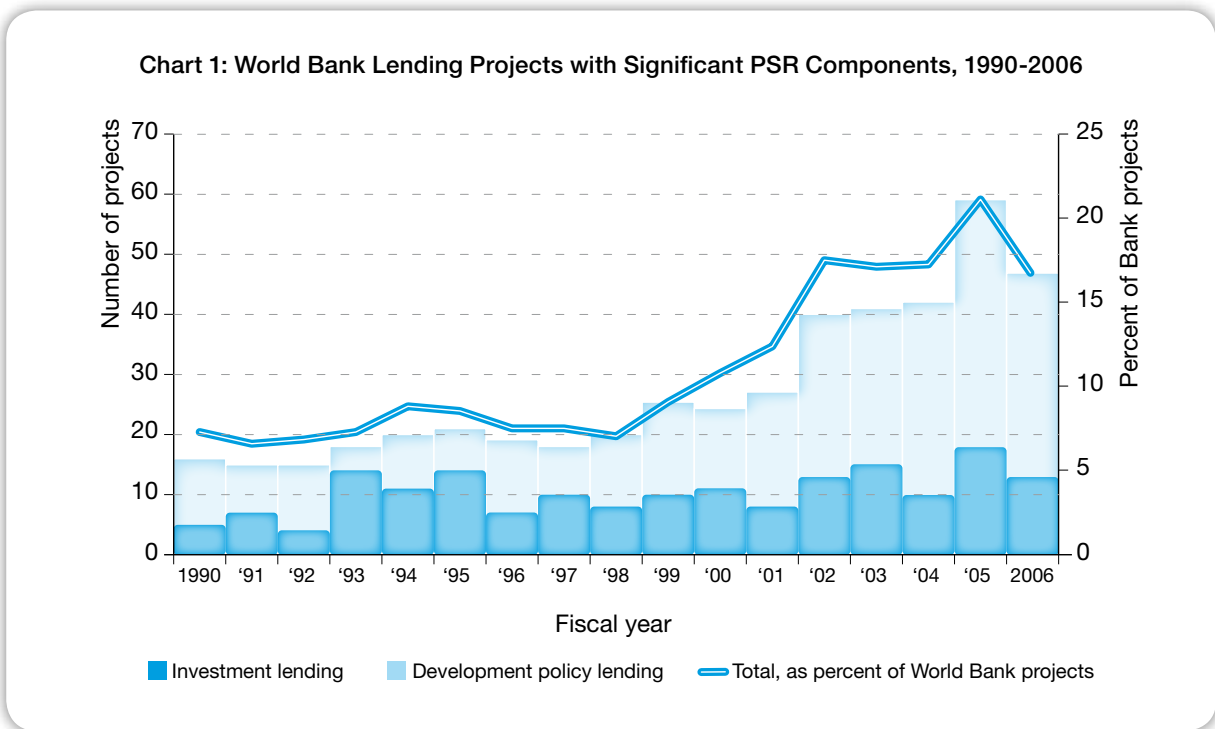
to improve services, and then trying to carry through those promises after elections. Pressure can also come from an **organised civil society**, concerned with the standard of public services or with rights and access to services. Extreme cases such as the Cochabamba, Bolivia, **riots** over water services or the school pupil strikes and demonstrations in South Sudan over lack of payment for teachers, or the ‘Service Delivery’ **demonstrations** in South Africa are visible examples of citizens protesting to governments in favour of better services. Uneven service delivery, whether by geography, class or ethnicity may also generate public pressure for service improvement.

Sometimes the pressure comes from the **private sector**, concerned with the impact of public services on business: bureaucratic obstacles to investment or to trade cause complaint from producers and traders. Such domestic pressures are more likely to produce changes if there is freedom of expression and a democratic system in which people’s views are important to those in power.

**Fiscal stress** and pressure from lenders have also led to attempts at reform. During the Structural Adjustment period, such pressures led to spending reductions, staff cuts and re-drawing of the boundaries of the state. Clearly the relative weight of outside agencies depends on the degree to which the government is dependent on them for financial support, and on how clever the governments are at promising reform without having to deliver.

Fiscal pressure may also be internally generated, through recurrent budget deficits: reductions in spending have to be accompanied by some improvements in productivity so that the cuts do not cause dissatisfaction or unrest. Cuts in spending are therefore normally made along with attempted efficiency improvements. Fiscal pressures can encourage reforms, even without external intervention.

**Corruption** can also lead to internal and external demands for change, if there is freedom of expression and an organised civil society and if donors and lenders fear that aid and loans will be wasted through corruption. Governance and management processes that guarantee relevant outputs and outcomes may require reforms of systems in which accountability is weak. The World Bank’s promotion of PSR, through public finance reform, CSA (civil service and administrative reform) and anti-corruption efforts, accelerated at the end of the twentieth century: an increasing number of aid interventions were accompanied by reform efforts, as illustrated in Chart 1<sup>6</sup>:



Different pressures on governments create a **variety of objectives** for the reforms: they may aim at greater efficiency, at better service quality, at enhancing the legitimacy of government in the eyes of donors or of citizens. The underlying objectives of reforms may not be about services at all: they may represent power struggles within government or they may be part of a wider socio-political reform such as liberalisation, or they may be a symbolic response to a significant failure of government in the face of events such as an earthquake or other natural disaster. It is important to understand the underlying pressures for reform and the types of reform most likely to emerge from the pressures:

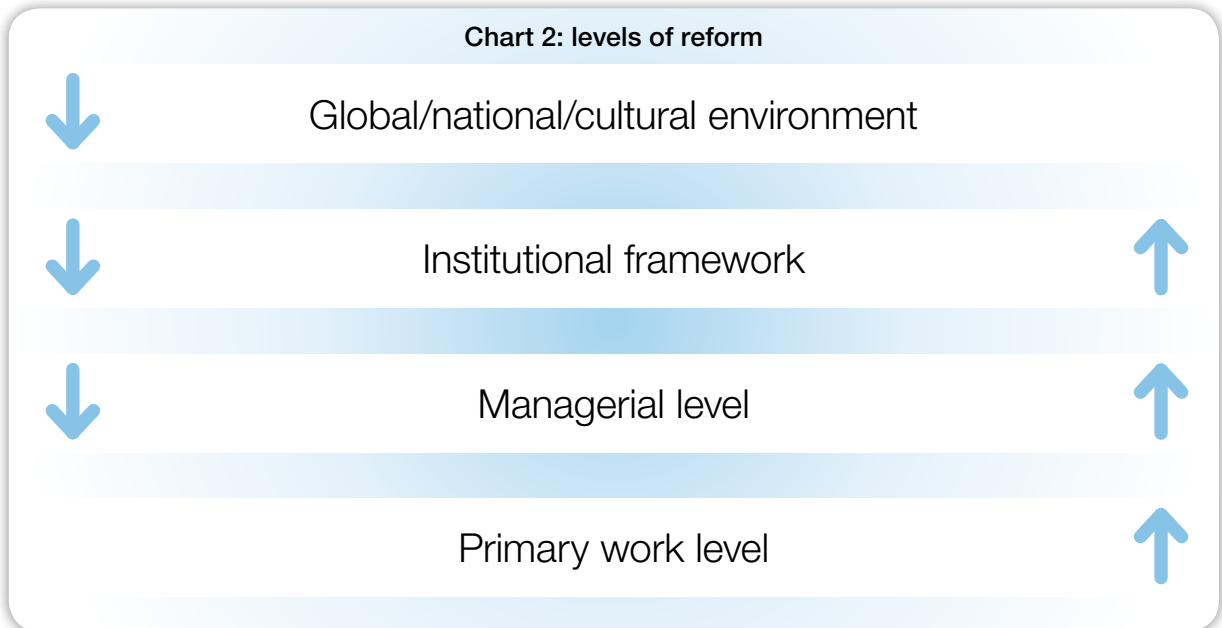
5 World Bank Independent Evaluation Group, ‘Public Sector Reform: What Works and Why?’ 2008, p.23

what is clear is that without some reason for change, governments tend to continue with previous practices.

The source and nature of the pressure will largely determine **the level of reform** that is required and that is feasible. A poorly performing and corrupt customs service can deprive a government of revenue and enable smuggling and drugs and arms trades. Changes in the management of the way the customs service is run can therefore have a big impact on the government and the country. It is often possible to make changes in customs separately from any other service or department. Creating an ‘island’ of corruption-free staff, with well designed and supported processes can be achieved without system-wide reforms and cultural change.

At the other extreme, changes to the whole cultural environment in which the public sector operates may seem to be necessary before progress is made in any department or agency.

These two levels and two in between are illustrated in Chart 2 <sup>6</sup>:



Starting from the basic level, if there is a problem with a particular service, say the issuing of licences to trade or birth certificates, then often **it will be a straightforward task to analyse the existing processes**, find out why the processes are so lengthy and then re-engineer the way the job is done. The reason for lengthy bureaucratic procedures are normally to protect the jobs of the many people involved in the job, or the creation of an opportunity for bribery to speed up the process. These reasons have to be removed along with the old processes, by redeploying people, or eliminating the corrupt practices or the corrupt personnel.

At the next level up, the problem cannot be solved because of inadequate management: the processes cannot be redesigned because the managers have insufficient skills or inadequate authority to make the changes. In this case, **management development**, or redesigning of management arrangements may be required.

Where these management changes are not possible, the underlying cause may be the **institutional arrangements** in place: either the formal rules under which people are employed or the informal customs and practices that determine the relationship between managers and workers. If old established working practices are an obstacle, then more fundamental reforms of authority relationships, attitudes to work and to the customers of public services will be required.

Observers sometimes conclude that such institutional change is impossible because of something in the ‘national culture’ or even the ‘global environment’. Given that many genuine reforms have taken place in apparently unchangeable environments, such pessimism is not always justified. **National cultures are not immutable, although the change processes required may need a lot more careful design than simple business process re-engineering.** However, national cultures can and should have an influence on the ways in which reform is designed and implemented: this paper argues later that fundamental institutional beliefs and values, such as attitudes to authority, respect for seniority can guide reform efforts.

6 Christopher Pollitt and Geert Bouckaert, *‘Public Management Reform’*, Oxford: Oxford University Press, 2<sup>nd</sup> ed., 2004, p. 17

### Box 1: Implementing business process re-engineering in Ethiopia

The Ministry of Capacity Building launched the Public Sector Capacity Building Support Program as part of the Civil Service Reform.

With the support of a consortium of donors, the objectives of the Support programme were to:

- improve the scale, efficiency and responsiveness of public service delivery at the Federal, regional and local level;
- empower citizens to participate more effectively in shaping their own development;
- promote good governance and accountability.

One element of the changes was the promotion of business process reengineering (BPR) as a key management initiative, particularly in those Ministries that interface directly with the private sector.

Example of success of these reform efforts:

- In the Ministry of Trade and Industry, the section that issues licences for new businesses, the Licensing and Registration Division served more than 20,000 clients a year with 31 different services.
- Implementing BPR has cut the time for issuing a business licence from an average of 8 days to 39 minutes, resulting in very high levels of customer satisfaction among clients of the Ministry. Business name registration time was cut from 2 days to 34 minutes.

(For more details, see: G.H.Mengesha and R.Common, Public Sector Capacity Reform in Ethiopia: A tale of Success in two Ministries? Public Administration and Development, 27, 2007)

## 4. Which problems are the reforms designed to solve?

It is essential to define the public sector's problems and to analyse their likely causes. Some countries have poor service delivery, others have inadequate infrastructure. While fiscal deficits are common, other states have difficulty in spending the available resources effectively. This chapter sets out a range of problems and argues that identifying the actually existing problems and their causes is an important step in the process of public sector reform.

A history of **'one size fits all'** reforms raises the question: which problems are these reforms designed to solve? Not all countries' public services show the same symptoms, or even if they have similar symptoms the causes of the problems might be different.

It is tempting to define the problem, or possibly the cause of the problem, as a **'lack of'** something that an outsider expected to see. 'Lack of capacity' has become a mantra to explain any failings in administration. Once the cause of the poor service is defined as a 'lack of capacity', the only solution is capacity-building. If poor services are in practice caused by something else (poor design, irrelevance to people's needs, culturally inappropriate deliver methods) 'capacity building' will be the only solution.

The other 'lack of' explanations may be elements of management practice: lack of planning, lack of budgetary control, lack of management skills, lack of vision, lack of output-orientation. The 'lack of' diagnoses always imply a system, delivery method, set of management arrangements. **Before diagnosis, the symptoms must be carefully defined and, where possible, measured.** At the extremes, the symptoms will be very obvious.

A common symptom is **low productivity**, or negligible outputs from ministries, departments or other public bodies.

The budgets are all used up with salaries and running costs, and it is easy to see that very little benefit, services or outputs are produced by the organisation. Even when budgets increase, there is no discernible increase in output. In such circumstances the temptation is to cut the budgets, since this is unlikely to have any impact on outputs, which in any case are negligible.

A related symptom is that the organisations do have outputs, but that these **outputs are irrelevant to current needs**: the services were established at a previous time, probably financed by previous funding streams, while the needs they address, or the ways of meeting those needs, have changed in the meantime.

Similarly, there may be **services**, but they **are distributed very unevenly**, perhaps to the neglect of rural areas, or of areas far from the capital or from other major cities. Large, thinly populated countries often have a gradient from dense population in the major cities to sparse population in the more remote rural areas. The writ of the state is similarly distributed.

In some cases the **services** that are provided are **of such low quality** that people do not wish to use them and would prefer to make their own arrangements. Commonly, state-provided rudimentary healthcare in remote areas is less attractive to the citizens than well organised traditional medicine. If the service also has a high level of user payment involved, people may simply make a negative judgement about the value for money provided by those services.

There may be financial problems: **it is very important to define and measure the nature and scale of the financial problems** before looking for causes and then solutions.

**Fiscal deficits** are a common 'presenting problem'. Their causes could be many: poor budgeting (underestimating costs); poor financial controls; inadequate tax collection; unpredicted inflation; unpredicted increases in interest rates; unexpected demands for services. Clearly the causes need to be defined before solutions are sought. 'Structural deficits', meaning fiscal deficits that do not clear at the peak of the economic cycle, are the result of an underlying imbalance between expenditures and revenues. Structural deficits need to be addressed through the overall macro-economic policies.

**Fiscal surpluses** (or 'underspends') are also fairly common: departments or programmes are unable to spend their budget allocations within the relevant time period. Causes of this are also varied: underspent capital programmes may be caused by being unable to find contractors to build the planned facilities; underspent service budgets may be caused by there being not enough trained staff (e.g. teachers, nurses) to deliver the services. Or there may genuinely be 'capacity constraints' in the administration to design, manage and deliver the programmes. Alternatively, the estimates in the budgets may have been inaccurate.

**This variety of financial problems cannot all be solved by cuts in expenditure.** A common 'one size fits all' solution is expenditure reduction, privatisation and staff retrenchment. Nor are improved financial control systems a panacea, if the underlying causes of the over- and under-spends are not lack of controls.

Another general symptom of a poorly managed state is the degree to which **the rule of law** applies: the state's monopoly on violence and the distribution of justice is a defining characteristic of a well managed public sector. Failure in these areas might be due to 'capacity constraints', corruption, lack of various things (skills, judges, vehicles, premises) or a balance of power weighted towards criminals and organised crime.

The important point is that **reformers need to define which problems exist, what are the causes of those problems, which are susceptible to correction, and what it is that the reforms are designed to achieve.** In rare cases, reforms are propagated as a complete transformation of the public sector, heralding an era of honesty, efficiency, customer-orientation and fast economic growth.

The Independent Evaluation Group's report on PSR concluded that diagnosis and understanding of the causes of problems have not always been part of the World Bank's approach to PSR:

*'... the Bank concentrates on the formal rules and regulations, and where divergence from actual practices is recognized, the most common strategy is to fix the formal rules in ways that encourage greater compliance and/or reduce opportunities for corruption. Such a tactic makes sense for an institution like the Bank, which works mostly with the executive branch of government. However, it is often done without much knowledge of what created the problem in the first place and without a clear understanding of the informal processes that typically determine the outcomes.'*<sup>7</sup>

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7 Independent Evaluation Group, 'Public Sector Reform: What Works and Why', Washington; World Bank, 2008, pp. 40-41



## 5. Types of state formation and reform trajectories

Developing countries' government systems range from dictatorships to democracies, and are often in transition from one to the other. Design and implementation of reforms are heavily influenced by regime type and style of government. Liberal democracies have a set of institutional arrangements that generate some pressure on governments to perform well and tend towards certain reform methods. Dictatorships and autocratic regimes have different ways of responding to different pressures, but may be just as effective in introducing reform measures.

**Do all reforms, especially those pursued by donor governments and institutions, presume or require the existence of a liberal democracy?**

If the answer to this question is 'no', we need to look carefully at the sorts of changes that are likely to work (and not work) in different regime types. If 'yes' are the reforms inevitably part of a process of 'installing' liberal democracy? These questions are crucial for people from outside a country – if the agency (WB, EC, IMF) sees its mission as introducing or strengthening democracy, civil society, human rights, governance, equality, then interventions in technical matters such as civil service systems will become part of the larger mission. Conversely, if the institutional arrangements proposed are conceived within a framework of 'liberal democracy', solutions outside that framework will not be considered as desirable.

**Reforms designed to improve efficiency and reduce waste and corruption may have a better chance of success if there is a free media and electoral competition with open elections.** Free media and elections transmit demands for change and can be useful in holding politicians and officials to account.

On the other hand, **illiberal democracies may also implement public sector reforms:** Singapore<sup>8</sup> and Malaysia provide two examples of extensive reforms aimed at efficiency and service quality improvements driven from regimes that keep a tight hold over both the electoral process and the freedom of the media. In these two cases, an alliance of business interests, politicians and civil servants realised the need for efficiency and flexibility in public services, in the interests of national development and economic growth. Mahatir, as Prime Minister of Malaysia, explicitly rejected western style liberal democracy and yet pushed through reforms of the civil service from early in his incumbency.<sup>9</sup> China, a one-party state, has implemented extensive public sector reforms, including reforms to recruitment, performance pay, avoiding over-reliance on deference and hierarchy, etc.

8 See Box 2 on Singapore's public sector reforms

9 Richard Common, *'Public Management and Policy Transfer in Southeast Asia'*, Aldershot, Ashgate, 2001

### Box 2: Public Management Culture Change in Singapore

Singapore was run as a typical 'developmental state', with politicians and the civil service promoting national development through the private sector and through over 500 'Government Linked Companies'. Social policy and savings were managed through a nearly unique Central Provident Fund, a fully funded social security fund. The Economic Development Board, set up before independence, was the main instrument promoting private sector investment. In the early 1990s the Prime Minister led a process of transforming the civil service by adapting a 'service culture'. A series of reforms was implemented, including aligning salaries to those paid in the private sector, in order to attract good people to the civil service and to avoid corruption, a performance appraisal scheme with bonuses for high achievement, quality control circles. In the mid 1990s two further reforms were introduced: a service improvement unit was set up in the Prime Minister's Office to pursue improvements in productivity and quality throughout the public service, budgeting and various aspects of personnel management were decentralised to departments and agencies. Budgeting was to be based on the production of outputs and results, the personnel systems were to be modified to produce service and quality orientation. These reforms were consolidated into 'PS21', Public Service for the 21<sup>st</sup> Century, a scheme for producing service excellence and continuous improvement. Together, the initiatives on quality, performance and service constitute a system-wide cultural change.

**There are state formations in which parallel structures occur alongside the official organs of the state:** the Communist party in China and the Islamic hierarchy in Iran are two examples. Reforms that threaten the existence or authority of the parallel structures are unlikely to succeed, whilst changes require the approval of the religious or party apparatus. Outsiders need to understand which of the hierarchies, and which individuals within them, are de facto responsible for decision-making in relation to reform. In the case of patrimonial states, discussed later, the question is more complex: the outsider needs to understand the networks and the important points in the networks.

In Weberian states, where the position of the state employees is defined and protected by law, including constitutional law, reforms that require changes in behaviours by public servants may require legislation before they can be implemented. **Reforms that require an increase in discretion or initiative, or that require the introduction of market-type mechanisms will be more difficult in states running on Weberian principles of hierarchy and control by rules and law.** In addition to the formal, legal constraints that such an arrangement implies, this type of bureaucracy creates a culture of its own: the individuals internalise a belief that their function is to occupy their position and apply laws and rules. If a reform requires them to take initiative, behave in ways not governed by rules, or exercise increased discretion, all of these behaviours will be constrained by underlying beliefs.

### Box 3: The elements of a Weberian state

- ➔ Fixed and official jurisdictional areas, ordered by laws or administrative regulations
- ➔ Activities required to run the state are distributed as official duties
- ➔ Authority is distributed in a stable way and is delimited by rules
- ➔ Only people who are qualified are employed
- ➔ An office hierarchy and graded authority, resulting in super- and sub-ordination in a monocratic structure
- ➔ Distinction between the private and the public spheres
- ➔ Office management requires training
- ➔ Official activity requires the full time occupation of the official
- ➔ Management of the office follows general, stable, exhaustive rules

Ex-colonial states present their own constraints. Of course, almost all states in the world (exceptions such as Thailand or Ethiopia are rare) have been occupied by foreign powers at some time: the significance is the legacy of that occupation on the institutions of the state. **The legal inheritance, such as the Napoleonic code or a common-law system, affects the way government work and how reforms can be designed.** More fundamentally the reach of the colonial state into geographical areas and sectors varies and affects the level of reform that is required and possible.

In some cases, **pre-colonial institutions persist in post-colonial states.** In parts of Africa, for example, administrators of districts frequently occupy the roles that were previously allocated to colonial administrators. In addition, where indirect rule was practiced (especially in British colonies) through local 'chiefs' – sometimes promoted by the colonial powers – these local hierarchies also persist. More subtly, ways of working persist from colonial times: the Malaysian system of school inspection, for example, retains its British procedures.

In patrimonial or neo-patrimonial states in which state apparatus is used for patrimonial purposes, the **patrimonial networks** through which power and resources flow may obstruct any changes in the power relations implied by reform efforts in the official state structures. 'Traditional' authority and law persist in parts of Latin America, Asia and Africa (for example, in parallel with state law). Patrimonial structures may be used to promote and implement reforms, the networks of influence and favour themselves being instruments for change, in exchange for loyalty and position. Similar problems occur in **clientelist states**, where resources are distributed to create and maintain loyalty and votes for the rulers.

### Box 4: Neo-patrimonial states

'Neo-patrimonialism' is defined as patrimonialism within the superficial trappings of 'modern' state, using state instruments (tax, appointments, rewards) for patrimonial purposes

"... fiscal revenues are distributed to create networks of political support as rulers personally appropriate public funds to finance political allegiance; employment in the service of the state is used as a means of patronage; public investments follow political rather than economic rationales; and trade and pricing distortions are introduced to create rents and vested interests... Eventually, the rule of law vacillates, as does the trust of citizens in their institutions. As respect for institutions diminishes, corruption spreads... Altogether, the economy stagnates while the very logic of the system makes it resistant to reform."

From: Pierre Engelbert, *'State legitimacy and development in Africa'*, Boulder: Lynne Rienner, 2000

From an outsider perspective, **it is not sufficient to simply dismiss patrimonial institutions and wish they could be swept aside and replaced by market or hierarchical relations:** in some cases the institutions themselves can be the instruments of other sorts of reform.

The type of state formation affects the motivations and starting mechanisms for reform efforts: democracies with free media can generate popular demands for good services; oligarchies with close connections between business and government are likely to articulate business demands for services; one-party states' pressure for change comes from within the party.

The **legal and contractual changes** that are required to change behaviours depend to a large extent on the legal and constitutional framework of the public sector, but also on the cultural norms and beliefs that are generated and reinforced over time by those frameworks. The institutions involved in promoting and scrutinising the reform processes shape the nature of the reforms and the likelihood of their success.

## 6. Contexts and reforms

Reforms are designed and implemented in a variety of social, economic, political and cultural context. What would be acceptable and successful in one context will be unlikely to succeed in another. The level of economic development and the state of the market economy provide constraints on the sorts of reforms that are feasible or desirable. The political climate and political beliefs of the ruling party or parties will also temper the acceptability of particular reforms. The institutional context, including the enforceability of contracts, will also shape the reform agenda.

Motivations for reform mostly arise in response to **social, economic and political problems**. These may be an individual event, such as a major policy failure such or a breakdown in a service, such as the garbage collection in Naples, a natural disaster such as the Kobe earthquake in Japan, a fiscal deficit that becomes unsustainable, or the response to the floods in Bangladesh. The proposed reforms may constitute an attempt to fix the immediate problem, or it may be a more wholesale reform designed to solve a wider range of problems. The reforms may themselves have been in preparation for some time and their advocates are waiting for an opportunity to implement them. In this case there may not be an exact fit between the immediate policy problem and the solutions offered. For example, when Japan started its period of economic stagnation at the end of the 1980s, the government called for a cut in civil service numbers and civil service pay. The amounts of money involved were trivial with respect to the fiscal crisis, but the proposed solution sent a symbolic signal that the civil service would share the pain of the private sector.

Possible solutions are constrained by the **level of economic development**, with respect to the availability of alternative ways of providing services. Governments of developed economies with a wide range of service industries can more easily contemplate privatisation or contracting out services such as postal delivery or medical treatment than can governments of economies with small private sectors and poorly developed financial institutions for investment in new services.

The nature of the **market for labour and for services** in the country will also influence the policy options. Countries with high unemployment and system of support for unemployed people have little incentive to reduce the number of low paid jobs in public services. If the messengers and sweepers would otherwise have no alternative source of income, increasing their 'efficiency' by shedding large numbers of them makes little economic sense. The same may be true higher up the salary scales: graduate employment may be an important function of government agencies and state enterprises, regardless of the productivity of their employees. While in an ideal world of full employment, switching people from low productivity jobs in the public sector to high productivity jobs elsewhere would increase total welfare, this does not apply where there are few, if any alternative jobs available.

**Outsiders need to be aware of the ideological acceptability of policy options.** Even the diagnoses of the causes of the problems to be solved are shaped by the ideology of the rulers: in one country a state monopoly of provision would be anathema, while in another it could be a sign of ideological purity. Letting the market prevail would constitute support for 'freedom' to a free marketeer, while being a sign of lack of care for the vulnerable by a social democrat. The debate over urban water supply is a good example of the ideological differences between these two positions: advocates of privatisation, user charges and a free market argue that this is the only way to ensure equitable and wide distribution of potable water. All state interference favours the middle classes and generates inefficiency. Believers in planning, state control and subsidy advocate public ownership of the means of collecting, storing and distributing water as the only way to ensure that people with small or no incomes have access to water. Each will interpret the causes of the currently inadequate water supply in terms of their own preference: the cause is bureaucracy and rationing; the cause is the free market and the profit motive. The same positions apply to other public services, such as healthcare and education.

**The institutional context is also a significant determinant of what is possible.** ‘National culture’, especially its impact on attitudes to hierarchy and seniority and individualism and collectivism can be a constraint on ‘managerial’ - type changes. The capacity of the institutions involved in reform to design and train for changes in behaviours can help or hinder the reform process. The ‘management climate’, especially the degree to which managers are able to manage and make changes without meeting resistance, is an important influence on the process of change. Management advisers often call for an ‘output orientation’ or a ‘customer orientation’, as if such an orientation were a characteristic feature of individual preferences or behaviours. More likely, such an orientation is a product of acculturation and learning about the organisation’s values.

The nature of the **desired outcomes** will also influence the degree of change required and how difficult the reforms are likely to be: minor behavioural changes to achieve modest improvements in productivity will be easier than major restructurings to eliminate functions from the government machinery. The extent of the desired outcome is also important, as illustrated in Chart 2 above – whether the outcome is a step change in the speed and quality of delivery of an individual service, or a systemic change to the management or even national culture.

### Box 5: New Public Management reform in Mexico

**In 2000 President Vicente Fox reintroduced the issue of managerial reforms onto the federal government’s agenda** and terms such as ‘innovation’, ‘motivation’, ‘strategic planning’, ‘excellence’, ‘total quality’ and ‘reengineering’ became part of the official discourse. Two years later, the government issued **the Presidential Agenda for Good Government** with six objectives: a government that would cost less, a government of quality, a professional government, a digital government, a government with improved regulations, and an honest, transparent government. The Agenda was in fact an attempt to give uniformity to miscellaneous policies already in place.

Mexican NPM reformers have adopted the managerial jargon about quality, customers, innovation and results, but **they have implemented only superficial NPM policies that do not alter the structure and functioning of the federal bureaucracy.** The strategic planning process that is used in the federal ministries has become a routine procedure in which public officials fill in standardized forms, and is seldom related to outcomes. Performance indicators are designed every year, but they are not taken into account when decisions are made regarding the federal budget.

Still, the indirect effects of this transformation on the public sector were dramatic. Specifically, **the move towards a new economic model imposed two constraints in the public sector: ideological and budgetary.** First, a new group of technocrats gained power within the government, and it decided that the public sector should reduce its economic profile. Consequently, the government launched ambitious programmes of privatization, deregulation and downsizing that would significantly reduce its size, in terms of its expenditure as percent of the GDP, and of the number of public enterprises and public personnel.

Second, the new economic strategy to deal with the crisis required that the public sector stopped being a source of concern for investors, which meant a reduction in the availability of resources for public programmes, and, moreover, a **subordination of any administrative reform to the priorities of economic restructuring.**

The most significant changes in the area of public management during the Fox administration were the result of two reforms that have little to do with NPM: they came about because of pressures created by the growing democratic competition and the increasingly active role of Congress. The first reform was the **Federal Law for Transparency and Access to Public Government Information**, triggered by an intense mobilization of civic organizations and mass media and the active involvement of members of Congress. Overcoming initial resistance from Fox’s government, in July 2002, Congress passed the law, which could serve as an effective mechanism for improved accountability and better bureaucratic performance.

The second reform, also originating in Congress, **was the creation of a career civil service in the federal administration.** The Professional Civil Service Career Law was passed in 2003. It created a Ministry for Public Administration, in charge of implementing a career civil service system in most of the federal administration. **The foundations for a merit-based system have been laid.**

It is clear that **the dramatic changes in the Mexican public sector since 1997 are a consequence of the process of political democratization, rather than the result of deliberate reforms inspired by NPM.**

Guillermo M. Cejudo, ‘Explaining change in the Mexican public sector: the limits of New Public Management’ *International Review of Administrative Sciences* 2008; 74; 111

## 7. Decentralisation<sup>10</sup>

Many states have developed within previous aid-driven policies, especially structural adjustment and decentralisation. The scale of state and the degree of devolution to sub-national government both have an influence on future reform efforts. Further decentralisation, to improve democratic accountability and efficiency may be a part of the current reform agenda. It is important to establish how well the existing decentralisation is working before extending the process.

Some form of 'structural adjustment' has often been a condition of aid and loans. Structural adjustment was mainly concerned with the overall fiscal balance and with macro-economic and trade policies. **The consequences of the pursuit of balanced budgets and shrinking public sector workforces were policies of retrenchment and re-definitions of the roles of the state.** Many policies being pursued under Poverty Reduction Strategies are similar to those previously implemented under structural adjustment.

The structural adjustment programmes in sub-Saharan Africa did not, in any event, have a huge impact on employee numbers. Goldsmith estimates that the drop in central government employment between the late 1970s and the mid 1990s was less than 10%.<sup>11</sup>

Especially in newly independent states, **state employment was a source of patronage**, political stability and an expression of political power. The state organisations created, whether in civil services, state-owned enterprises or public services, were not always focused on their ostensible function, nor on public service. In fact there is evidence that retrenchment had negligible impact on the output of many organisations, since their fundamental purpose was not to produce outputs. One consequence of the attempt to cut salary bills is that in some cases salaries are so low that employees have to find other ways of earning money to survive. Another is that successive attempts to change working practices to improve efficiency are resisted as they reflect previous efforts to reduce the numbers of staff.

Decentralisation was a condition frequently required by donors and lenders along with structural adjustment. Its objectives were to **promote efficiency**, with resources being controlled closer to the point of service delivery and to promote democratic institutions and local and regional self-government. One form of decentralisation was to include privatisation, as service delivery was decentralised to private companies rather than state-run organisations.

Decentralisation has three dimensions. **Political decentralisation** involves partly transferring political authority and power to sub-national levels of government, with local elections. Benefits include the fostering of democracy at local level, and enhanced political accountability. **Administrative decentralisation** transfers decision-making, authority, resources and service delivery from central government to local agencies or offices, thus putting public employees and services physically nearer the citizens. The main aim is to improve management and service delivery. **Fiscal decentralisation** transfers resources and revenue-raising powers to sub-national levels of government. It may also include the possibility of decentralising borrowing to sub-national levels of government.

Decentralisation has created and strengthened local entities, especially local authorities. While decentralisation may require more rather than less capacity to deliver. It can generate more transparency, since state employees are more visible and locally accountable. It turns, this means that **services may be better targeted at local requirements and demands.**

Without pressure from outside, many governments are decentralising administration in an effort to **improve the coverage of services** in areas previously not served.

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10 See 'Supporting decentralisation and Local Governance in Third Countries', EuropeAid, Reference Document 2, 2007

11 Arthur A Goldsmith, 'Africa's Overgrown State Reconsidered: Bureaucracy and Economic Growth', *World Politics*, 51:4, 1999 pp.520-546. Taking 11 sub-Saharan states, Goldsmith estimated total central government employment in the late 1970s at 1,384,000 and in the mid 1990s at 1,264,000

## 8. Civil Service Reform

A first step in reform is often a basic attempt to codify and control the work of the core civil service. Once this is achieved, more complex systems of performance management can be attempted. Civil service reform may consist of establishing fundamental management practices of establishing job descriptions, lines of reporting and basic disciplines of time-keeping and attendance. More advanced reforms focus on increasing efficiency.

At the same time as structural adjustment was promoted, civil service reforms were put in place. **At its most basic, civil service reform consists of setting up the elements of a Weberian bureaucracy:** ‘establishment control’: finding out who does what, writing job descriptions, setting up payroll systems so that people who are paid both exist and turn up for work, making organisation charts to establish lines of accountability; in short, if a civil service was previously functioning as a source of patronage, such basics constitute a serious reform: if people who occupied civil service positions and drew salary were also engaged in business or doing another job, being accountable for their civil service time could be a major impediment; ghost workers are themselves an important source of patronage, that would need to be replaced if the ghosts are eliminated.

The second element is to move from a ‘career’ to a ‘position’ appointment system, in which people are hired for specific jobs, and required to be qualified and trained for those jobs, rather than hired as a generalist and then posted to different positions.

**‘Second generation’ reforms involve setting up new management arrangements for the civil service**, often including a ‘civil service commission’ with responsibility for recruiting, training and promoting civil servants. They also include trying to correct some of the civil service problems, such as low pay, ‘pay compression’ and the widespread use of non-monetary compensation such as cars and vehicles as part of the pay package. The idea behind these reforms is to make the civil service employment system more like a labour market, complete with the disciplines and incentives implied in such a market.

### Box 6: Management change in one agency: Registrar General Department of Jamaica

The RGD in Jamaica provided **poor service**, created opportunities for staff to demand **bribes** and for intermediaries to take money from citizens for helping them with registrations. Although RGD had been established as an independent agency, improving the service required intelligent and strong management action by its head, who was promised she would not be constrained by the 'old ways' of recruitment, reward, organisational structure, service design and technology.

**Data collection** was improved by trained staff going out to the hospitals and other such institutions to get on time, relevant information for data entry. Persons who were unable to complete the forms were assisted.

The use of **technology** was improved by purchasing a terminal for every desk, putting in place a telephony system that records random conversations from customer service and also records the amount of calls handled by each agent. Reports can be generated on command.

A Records and Information Management Department (RIM) was formed and a **user-friendly website** established that is constantly being updated. Every request for documentation can now be completed online if the customer has the relevant information.

**Training** in the use of the IS, customer service etiquette and motivational speakers were provided.

**Incentive schemes** were started which rewarded exemplary performance with the introduction of compatible salary packages to private sector companies used to motivate staff.

Persons not performing were given opportunities to improve before being **released from service**, and current staff promoted or skilled workers were hired.

She influenced the bureaucratic culture of the agency; a major culture change was the loss of the belief in '**jobs for life**'.

Radio talk shows were used to **educate the public** on the new services being offered and how to access them. Public education road shows in every parish were done with question and answer sessions.

**Satellite offices** in the form of Local District Registrars were set up in every major parish, with individual identifications for each individual staff member. Staff would help citizens who were not Internet savvy.

The **cost** of the services and the head of department's salary were voluntarily **subsidised** by organisations in the Private Sector.

The changes dramatically improved **customer service and customer satisfaction**.

**More advanced reforms** take this idea further and introduce competition for individual positions, including candidates from outside, performance-related pay, promotion based on merit instead of seniority and the ending of permanent tenure, irrespective of merit or performance.

One obstacle to be overcome by such reforms is to **remove the patronage system**, whereby civil servants are appointed and promoted by their political bosses for their loyalty and support. This may involve removing civil servant appointments from the politicians and leaving them to the civil service commission. This is a radical reform if the whole system is based on patronage.



## 9. 'New Public Management'

New Public Management is a broad term that applies to two sorts of reforms, mainly in English-speaking states: the use of market and quasi-market mechanisms to govern individuals and organisations; the use of 'management' methods inside public sector organisations. New Public Management reforms may be suitable where the institutional context is conducive to the use of markets and managerial control.

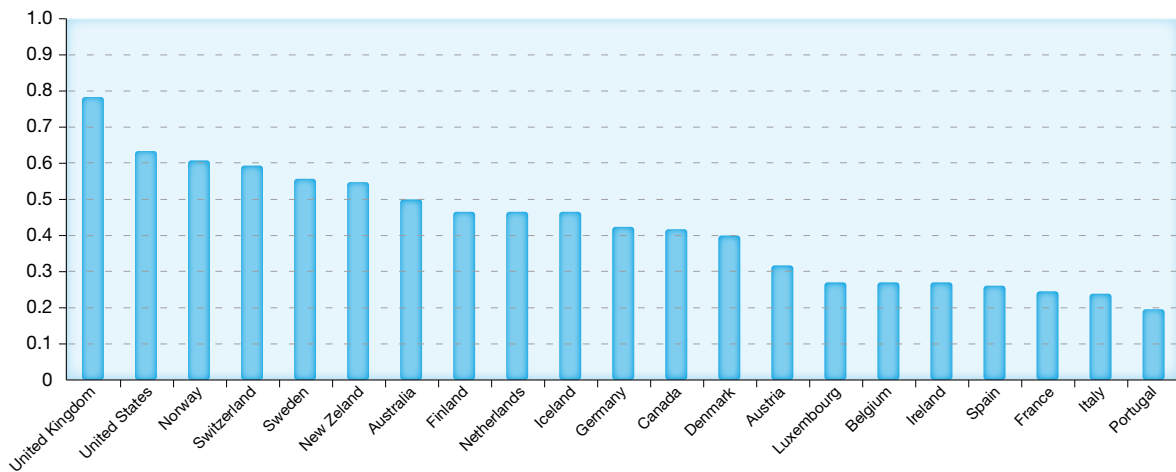
The **market reforms** introduced the use of market transactions, rather than hierarchical instructions into the public sector. The organisations would be split: 'purchasers' were created, whose job was to define what needed to be produced and set up procurement arrangements; providers were to deliver services under contract to the purchasers and could either be public or private employees. The politicians were to define their policies in terms that could be translated into 'purchases' of services. In both Australia and New Zealand budgets are expressed as payment for outputs purchased, for example.

The split **enables competition** to be organised between public and private and NGO sector service providers. This competition is supposed to reduce cost, improve quality, make managers focus on outputs etc. The pressure on cost also changes the bargaining position of managers and workers over pay, conditions, productivity. The degree of outsourcing varies around the world, some data for OECD countries is shown in Chart 3.

**Chart 3: Outsourcing of Central Government Services**

Relative Index: 0=Lowest; 1=Highest

G&S %



Source: OECD Secretariat calculations based on Government Finance Statistics Data, 2003.

The **managerial changes** are designed to give managers more control: they have more authority over workers; they have systems of performance measurement and control and incentives; budgets are capped and there is more financial discipline.

The organisations on the 'service provider' side of the transaction are given new governance arrangements: they may cease being part of a government or local authority department and become a semi-independent agency operating under a Board and under different employment laws and terms of employment to civil servants.

The main objective of NPM was to **improve efficiency**, and evaluation studies indicated that one-off step reductions in costs were achieved through the new arrangements, The **managerial changes** are designed to give managers more control: they have more authority over workers; they have systems of performance measurement and control and incentives; budgets are capped and there is more financial discipline.

The organisations on the 'service provider' side of the transaction are given new governance arrangements: they may cease being part of a government or local authority department and become a semi-autonomous agency operating under a Board and under different employment laws and terms of employment to civil servants.

The main objective of NPM was to improve efficiency, and evaluation studies have indicated that one-off step reductions in costs were achieved through the new arrangements, especially in relatively simple services like garbage collection and cleaning.<sup>12</sup> Evidence on the efficiency effects of more complex services is less clear.

In some cases the NPM type reforms resulted in frequent changes in structures and processes, for example the case of healthcare in New Zealand, which saw three complete reorganisations of the structure.<sup>13</sup> The impacts on the quality of service and on the relationships between state organisations and citizens has been less thoroughly evaluated than the impact on costs. A major study of reforms in 12 countries and the European Commission produced ambiguous results on the effects of reforms: ‘there is a good deal of evidence to show that management reforms can go wrong. They may fail to produce the claimed benefits. They may even generate perverse effects that render the relevant administrative processes worse than they were previously... even if a particular reform ‘succeeds’ in respect of one or two of the objectives... it is unlikely that they will succeed in all.’<sup>14</sup>

Box 7: ‘New Public Management’	
Market elements	Management elements
Purchaser/provider split	Hands-on professional management in the public sector
Shift to greater competition in the public sector through market and quasi-market mechanisms	Explicit standards and measures of performance
Stress on private sector styles of management practice	Capping or hard budgets
Customer orientation	Greater emphasis on output controls (or, later, outcomes)
Emphasis on quality	Emphasis on greater discipline and parsimony in resource use
Changing employment relations (labour market)	New forms of corporate governance
	Shift to disaggregation of units in the public sector
	Decentralizing management authority
	Organizational development and learning
	Explicit attempt to secure cultural change

One of the consequences of NPM reforms is the fragmentation of policy-making and service delivery, which have been addressed by later ‘third generation’ reforms.

Studies of NPM reforms in developing countries indicate that certain basic reforms have to be in place prior to their introduction. Packaging services into sets that can be costed and traded, for example, requires a clear set of managerial and accountability arrangements. Incentives for effort and efficiency require the measurement of outputs and the identification of individual efforts.

12 Kieron Walsh, *‘Public Services and market mechanisms: Competition, Contracting and the New Public Management’*, Basingstoke: Macmillan, 1995

13 Robin Gauld, *‘Continuity Amid Chaos: Health Care Management and Delivery in New Zealand’*, Otago University Press 2003 and *‘Revolving Doors: New Zealand’s Health Reforms’*, Otago University Press, 2001

14 Christopher Pollitt and Geert Bouckaert, *op. cit.* p.7

## 10. 'Third generation' reforms

Governments that adopted New Public Management early have pursued further reforms to correct the problems of fragmentation, poor policy coherence and lack of central direction that resulted. The 'third generation' reforms are designed to restore coordination and coherence. Such reforms are required where the 'managerialist' approach has tipped the balance of reform effort too far towards a narrow definition of efficiency and away from the achievement of policy objectives through co-ordinated efforts by multiple departments and agencies.

Civil Service reforms and New Public Management were both concerned mainly with economy (spending less) and efficiency (improved productivity). Early adopters of these policies found that some problems resulted from the reforms: **while individual specialised organisations improved efficiency, the capacity to formulate policy that crossed the specialised boundaries was reduced; the skills of the civil servants on the 'purchaser' side of the transactions developed more slowly than those of the service providers; government policy and service delivery became fragmented.**

The changes ('third generation reforms') designed to correct these problems were implemented especially in the United Kingdom, Australia and New Zealand<sup>15</sup>. The most urgent was a shift in emphasis from purchasable products or outputs towards the results or **outcomes of services**. This includes attempts to improve the accountability for service delivery of the executive and of public bodies.

To solve the problem of fragmented policy-making there were various attempts to devise 'joined-up' policy making and service delivery. Fragmented budgets were redesigned to be 'pooled' into broader policy areas, ministers were given 'horizontal' portfolios, departments were set up whose targets were based on outcomes, not products. Processes of evaluation were established, so that effectiveness could be judged, in addition to efficiency. In relation to structure, the core executive was strengthened to shift power from individual departments to the centre of government.

At the same time, there were attempts to develop the skills required for the newly created organisational arrangements: skills in commissioning services, in networking, in managing contracts and projects and in communication and knowledge management.

15 John Halligan, 'Reintegrating Government in Third Generation Reforms of Australia and New Zealand', *Public Policy and Administration*, 22 (2), 2007

### Box 8: New Zealand: Comprehensive Reforms

Since the mid-1980s, almost every aspect of the public sector has been reshaped, if not radically transformed. Key changes included

- a thorough-going programme of corporatisation, commercialization, and privatisation;
- a major restructuring of the “core” public service with the aim of separating the provision of policy advice from policy implementation and the purchasing function from the provision of services;
- the devolution of human resource management to the chief executives of individual departments and agencies;
- the introduction of an output-based system of appropriations;
- a shift from cash-based to accrual accounting and capital charging within the public sector;
- the development of a new system of strategic management and the integration of it with the budgetary process and performance-management regimes;
- the imposition of much more exacting monitoring, reporting, and accountability mechanisms;
- every departmental head (or “chief executive” as they are now called) on fixed-term, performance-based contracts and to require them to have signed annual performance agreements with their respective portfolio ministers;
- making a distinction, for financial management purposes, between the government’s “purchase” interest and its “ownership” interest;
- produce comprehensive financial statements on an accruals basis, including a consolidated balance sheet and an operating statement for the entire state sector;
- the passage of the Fiscal Responsible Act in 1994, which obliges governments to pursue “prudent” fiscal policies;
- “new contractualism.”, establishing more explicit, contract-like relationships at all levels of government (that is, between ministers and departments, between departments and non-departmental public bodies, and within departments) and making a concerted attempt to replicate market-type mechanisms within the public sector.

In recent years the health service has had three further reorganizations, the privatized railway has been taken back into public ownership. ‘Third generation’ reforms were put in place to restore coherence to government.

Based on ‘New Zealand’s Model of Public Management: The Promise and the Reality’, by *Jonathan Boston*, National Institute for Research Advancement, New Zealand 2003

This stage of changes suggests that reform may be cyclical: the search for efficiency gains leads to a concentration on getting reduced costs through the supply chain: competition and a focus on outputs enable reduced costs. The **focus on costs** takes attention away from policy problems and **the quality of services** as a whole. The attention then switches from the ‘vertical’ processes of commissioning and cost reduction to the ‘horizontal’ processes of looking at the needs of the population and managing policy and service delivery in a more holistic way through horizontal coordination and integration. Perhaps a ‘fourth wave’ would reverse this process and look again at the vertical organisation of individual services.

## 11. Public Financial Management and Public Sector Reform

Public Financial Management changes often come first, especially when improvements to PFM are made a condition of aid. PFM is more than a set of technical changes to budgeting and accounting systems, and require or cause changes in management practice. The explicit calculation and attribution of costs requires the definition of responsibilities of units, sections and departments. Accountability for costs implies the identification of management responsibilities.

In aid and loan - dependent countries financial management reform has taken priority. In NPM countries, financial management reforms were an important early element of the process. How do PFM reforms affect other public sector reforms?

One set of criteria for financial management are set out in Public Expenditure and Financial Accountability (PEFA). The first is the **credibility of the budget**, that the budget is realistic and is implemented as intended. Loose management, where budgets are in effect 'soft' constraints are not permitted under this criterion. The list of PEFA criteria is set out at Annex 3. PEFA assessments are publicly available for those countries in which they have been carried out.

The second concerns **budget oversight** and public accountability: the budget and the fiscal risk oversight should be comprehensive and fiscal and budget information should be accessible to the public.

**Policy-based budgeting** means that the budget should be prepared with due regard to government policy. This criterion means that departments should be involved in the budget process, not just the finance ministry – it also implies that departments have a strong understanding of the cost implications of policy and the specific resource demands of policy decisions.

The next two criteria are concerned with budget execution and accounting and reporting and therefore relate directly to the finance function. The fifth criterion is concerned with external scrutiny and audit and the credibility of executive follow-up of points raised by external auditors.

**If governments are to conform to PEFA criteria, management systems have to be in place to make budgets, implement policies and subject public organisations to external scrutiny.**

Other financial management changes include the establishment of medium term financial planning, which implies service planning; the establishment of accountable cost centres, which imply identifiable and accountable management units; the identification of outputs and the costs of outputs, which implies clear identification of what units and departments deliver.

**Financial reforms rely on the establishment of management practices to enable implementation.** While it is possible to rewrite financial regulations and design budgeting and control systems to improve financial management, the underlying management practices also need to change to enable those changes to have an impact on cost and quality of services. The World Bank evaluation of PSR said: 'Improving PFM to the point where it gets beyond just processes and has real effects on public service performance and accountability has not happened without also improving the civil service.'<sup>16</sup>

## 12. Sequencing and Implementation

Some reform efforts are implemented according to a grand design, in which every aspect of financial, human resource and service management are changed at the same time. Others are carried out step by step, fixing basic problems first before moving on to more complicated solutions. The choice of implementation strategy depends on the depth and range of problems that need to be addressed and the capacity of the public sector to implement change. The sequence of reforms is largely determined by a logic of prerequisites that have to be in place first.

The implications of the financial reforms are that management arrangements precede the establishment of cost centres and accountabilities and that financial arrangements such as cost control and medium term budgeting imply the existence of organisational and planning arrangements.

**The sequencing of changes is therefore crucial to successful implementation.** One view is that government should establish basic management control arrangements and reliable if simple accounting controls before attempting anything more sophisticated. Others are tempted to skip simple first steps and jump towards the most sophisticated possible arrangements in one leap.

The first element required in sequencing is a strong reason or ‘driver’ for change. These might be fiscal pressure, public demand, business sector pressure, external conditionality or internal political will. Certain basics have to be in place, including a ‘champion’ in charge of implementation, which may include a powerful lead organisation, such as a Ministry of Public Sector Reform, or a strong finance Ministry.

There are some other prerequisites for individual reforms: **training and development** programmes as part of capacity development **require some idea about what people’s jobs and their requirements are**, otherwise training will only result in staff leaving; pay reforms based on performance require a performance measurement system, otherwise performance rewards will be arbitrary or based on patronage; basic personnel records and payroll systems are required before ‘establishment control’ can be implemented.

For NPM - type reforms: **market reforms require institutional arrangements**: contract law and compliance as well as the existence of credible suppliers; management arrangements require an organisational culture that enables the organisation and its managers to focus on outputs and results; disaggregation and decentralisation require the availability of managers at lower levels of the organisation.

In fragile states, reform and reconstruction require a political opportunity to be created. Technical Assistance can help create capacity if it is demand-driven and does not remove capacity from other places where it is needed. If technical Assistance is to be used to create long-term improvements and permanent capacity, it must be time-limited and must include genuine opportunities for training and development.

**A basic decision is whether reform should or could be carried out over the whole of the public sector, or whether each sector has its own requirements and its own policy.** The answer partly depends on the question of the level of change required, as we saw earlier: if the whole of the public sector requires a cultural change, then some work will need to be done at whole-system level. However, different sectors have different socio-technical systems: speeding up service delivery and improving customer service in relatively mechanical processes such as issuing licences or passports can normally be achieved by business process reengineering at a work-group level. When such changes meet constraints of public sector-wide work practices then the need for higher level changes will be exposed. A New Public Management solution is to isolate specialised work units and have them operate under different rules. Such an approach may imply that each sector can make its own reforms.

The main argument for system-wide approaches is the diagnosis that only a centrally-driven reform is possible, managed and championed by a central ministry, perhaps even a ministry of reform established for the purpose. The early adopters of NPM took this approach and later examples of system-wide reforms include Morocco, whose reform required a three-year diagnosis and design stage.

Even when a system-wide approach is followed, the more sophisticated changes in payment and performance enhancement, in autonomy and discretion, in changes to the relationship between state organs and citizens all **require that the ‘basics’ are in place**. Basic payroll systems to eliminate ghost workers, accounts that track where money

is spent, supervision to ensure that employees are present and doing their job are essential prerequisites for service improvements and efficiency enhancement.

### Box 9: Comprehensive versus incremental change

“The Tanzania case is a good example of the current trend to planned comprehensive reforms in development cooperation. From this perspective, countries need transformative systems change, especially in the public sector. The assumption is that the synergies gained from simultaneous reforms in service delivery, auditing, financial management, law reform, policy analysis, democratisation and so on can boost overall performance.

Other views are more sceptical about the value of planned comprehensiveness as a reform strategy. From this perspective, such approaches have the potential to collapse under their own bureaucratic weight even in states that have a good supply of skilled people. Most governments simply cannot deal with the barrage of strategies, frameworks, plans, objectives, targets, indicators, coordination meetings and transaction costs that come with such approaches...The truly sceptical see the real ‘drivers of change’ of such reforms as having more to do with the need for external funders to be associated with heroic plans, for foreign consultants to market the latest new thing, for partner governments to gain international credibility and for senior officials in partner countries to gain access to additional resources for their particular departments and ministries.”

Source: P Morgan, H Baser, ‘Building the capacity for managing public service reform: the Tanzania experience’, European Centre for Development Policy Management, Discussion paper 570, Maastricht, January 2007, pp 21-22

‘Reforms are only rarely ‘Big Bangs’ and more often small steps. Even when New Public Management is driven by a global vision, its implementation is necessarily incremental and not a revolution, except on those privileged occasions where a coalition of politicians and civil servants, in a strong, legitimate and unified government can create a consensus for change’.<sup>17</sup>

## 13. Conclusions

Public Sector Reform, defined as producing a measurable improvement in services or a positive change in the relationship between the citizen and the state, is a long, potentially slow and possibly unrewarding pursuit. While service changes can be effected by managerial changes in individual units, subject to a receptive environment, cultural and behavioural changes across a whole country's public sector. For reformers the key questions are:

- Which problems are we trying to solve through these reform?
- Where are the pressures for change? Can any extra pressures be created?
- What constraints and opportunities are provided by the context of the public sector in question?
- How fundamental a change is required to solve the problem(s)?
- Which type of reform is needed: basic management; civil service reform; new public management-type changes, whether markets or managerialism; third generation?
- Should reforms be implemented sector-by-sector as opportunities arise, or should they be applied to the whole of the public sector?
- How should the sequencing be organised? Is there basic work on personnel and finance systems to be done before more ambitious reforms can be implemented? Is it possible to by-pass the intermediate stages and create an efficient, effective public sector in one leap?

There is a long history of outside interventions in public sector reform efforts, dating from the time of structural adjustment programmes. Recent evaluations have shown that successful reform requires careful analysis and planning. Each country is different and within countries different sectors have different problems. The capacity and political will to introduce changes have a big influence on what is desirable and what is feasible. Above all, experience has shown that reform efforts rarely if ever successfully survive a transplant from one body politic to another.



## Annexes – Table of contents

- Annex 1** is designed to provide a framework with which to discuss the extent, type and importance of corruption.
- Annex 2** sets out a range of issues for discussion to start the process of diagnosis, including, financial and human resource management, regime type, constitutional framework, cultural and institutional context and the pressures for change.
- Annex 3** provides four specific instruments which can be used for diagnosis. Instrument 1 introduces the Public Expenditure and Financial Accountability framework. Instrument 2 can be used to analyse organisational culture. Instrument 3 introduces and offers a list of governance indicators. Instrument 4 offers a framework for understanding the micro-politics as a prelude to planning changes.

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## Annex 1 - Governance and Corruption

Attempts to combat corruption and enhance transparency are often pursued alongside public sector reform efforts. While improved administrative arrangements will lead to a reduction in corruption, sometimes extra, specific reforms are required.

The issue of 'governance' has been an important component of public sector reforms. The World Bank reports that between 2000 and 2006, 38% of PSR projects had anti-corruption and transparency elements. Petty corruption, involving bribery of officials to obtain services or licences, and systemic high level corruption, involving embezzlement of public funds by senior politicians and officials, have a detrimental effect on public services, negatively affecting the relationship between the citizen and the state and reducing the levels of service available.

Corruption, combined with inefficiency and badly designed systems, can have a negative effect on economic growth. Business development and investment can be seriously hampered by the amount of time and money necessary to get permission to build, invest and do business. While it may be difficult to attribute poor or reduced growth to a particular aspect of corruption and inefficiency, a generally negative investment environment can be detected.

As well as impacting on business and investment, the same corruption and inefficiency can result in serious alienation of the citizens from the State. The Namibian government's anti-corruption campaign lists the main causes of corruption<sup>18</sup>:

- ➔ Low salaries, especially when linked to high job security
- ➔ A gift culture, where small presents in exchange for services are normal
- ➔ The absence of rules, regulations, policies and legislation
- ➔ A high degree of individual discretion for public servants
- ➔ The absence of transparency
- ➔ The absence of a watchdog institution
- ➔ Socio-economic conditions in poor countries<sup>18</sup>

The Overseas Development Institute in the United Kingdom usefully classified corruption in the Chart, 'Types of Corruption'.

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18 Sylvie Trosa, *'La réforme de l'État : un nouveau management ?'*, Paris: Ellipses, 2008, p.110 (my translation)

### Types of Corruption<sup>18</sup>

	Petty corruption		Grand corruption	
<b>Who is the bribe beneficiary?</b>	Service providers (teachers, nurses/doctors) Implementing agencies (e.g. tax and customs officials)		Decision-makers; political and administrative élites	
<b>Different sub-types</b>	Getting service that one is entitled to	Undermine the system	Ten per cent	Predatory
<b>Examples</b>	Jumping the queue; paying extra at hospital	Bribing judges, e.g. in commercial disputes; paying for exam results	Take cuts on projects	Divert revenue streams, e.g. oil revenues
<b>Who is most affected?</b>	The poor (more of a nuisance for the middle class); élites may use connections to receive services	The private sector (land owners etc., the middle class, the poor)	All taxpayers	All citizens

Anti corruption reforms have been pursued in many countries following the 1999 OECD Convention on Combating Bribery of Public Officials in International Business Transactions and the United Nations Convention Against Corruption, 2003.

The Global Corruption Report by Transparency International, 2006 lists the following examples of anti-corruption efforts:

- Increasing transparency in public procurement (Cameroon, Finland, France, Guatemala, Malaysia, South Korea, USA)
- Reducing corruption in politics (Croatia, Slovakia)
- Increased access to information (Slovakia, Switzerland, Panama)
- Ensuring the independence and transparency of the judiciary (Brazil, Georgia, Greece, Poland, Romania)
- Enhancing public sector integrity through code of conduct and conflict of interest rules (Croatia, New Zealand, Panama)
- Protecting ‘whistleblowers’ (Japan, Papua New Guinea, Romania)
- Improving transparency in financial services (Ireland, Malaysia, South Africa)

Many countries have very public national campaigns against corruption of both the petty and grand kind. China, for example, has a permanent anti-corruption campaign that results in the arrest of high profile politicians and officials. Campaigns in Eastern Europe, many started as part of the process of applying to join the EU, are also very public.

## Annex 2 - Diagnosing the Public Sector: An Agenda for Discussion

The purpose of this Annex is to provide a diagnostic tool-kit is to help guide the conversations prior to embarking on a public sector reform programme. These conversations routinely occur among donors and between donors and national governments, although the agenda is often based on the reforms themselves, rather than the diagnosis.

These questions and instruments are specifically targeted at guiding conversations between Commission staff and partner country politicians and civil servants about the problems with public services and their causes. The Practical Guide to Capacity Development in a Sector Context has a series of practical instruments for the analysis of capacity development needs and solutions.

Experience of less successful reform efforts has shown that an approach that assumes that there is a standard desirable set of structures and processes in all contexts, and therefore a standard set of reforms to install those structures and processes rarely works.

We need to define what the problems are, what aspects of the public sector are inhibiting the development and delivery of good services, what needs to be changed to ensure that budget support and sector support achieve their goals.

The conversations can take place at the level of a sector or service, such as education, or secondary education, or at the level of the civil service, or the public services as a whole. What is presented here is a set of questions to be used as an agenda for discussion. In addition there is a collection of more formal diagnostic instruments to be used in analysis of the organisations in the public sector, and the stakeholders likely to be involved in the reform process. Two of these, the use of the PEFA indicators and the use of governance indicators, involve accessing previously completed analysis, if available in the country.

### 1. Evidence of success and failure

The starting point should be an exploration of the evidence for success or limitations of existing services.

1. What is the geographical reach of public services, in the urban and rural areas?
2. What proportion of the population makes use of public services?
3. What proportion are excluded from access to services?
4. What proportion make their own private arrangements?
5. Does the quality of services received depend on income, class, gender, language group, religious affiliation?
6. Are there any available benchmark figures on unit costs?
7. How do citizens rate the quality of services provided?

Evidence could be available from a variety of sources:

1. Reports on individual services conducted by the government, academics or donors
2. Monitoring and evaluation reports on previous projects and interventions
3. Media reports
4. Public demonstrations or petitions about services and service quality

### 2. Financial management basics

Adequate financial management is a prerequisite for service delivery.

Instrument 1 is a list of the criteria used in the PEFA assessment: you should obtain the assessment for your country, if it is available.

Less formally, the questions to ask about the adequacy of the financial arrangements as related to public sector reform include:

1. Does the budget process enable policies to be implemented through budget allocations (a 'policy-oriented budget process')?
2. Are there adequate financial controls?
3. Are legislated taxes collected?
4. Is there a credible payroll system that contains no ghost workers and prevents fraud?
5. Are there proper audits?
6. Are the accounts produced annually and are they a true and fair reflection of the financial position of the public sector?
7. Is budget support predictable and traceable?

### 3. Human resource management basics

1. Status
  - a. Do all public employees (including teachers, doctors) have the same employment status?
  - b. Generally, does being employed by the public sector have high or low status in the country?
2. Records
  - c. Is there a reliable list of employees and their duties?
  - d. Is there a Personnel department or unit that keeps up to date employee records?
3. Resourcing
  - a. Recruitment:
    - i. Is there a competitive recruitment process?
    - ii. Can employees be recruited to specific jobs, or is all recruitment to the generic service?
    - iii. Is there corruption in the recruitment process, through which people can buy and sell jobs or appoint their friends and relatives?
    - iv. Can the public service recruit the people with the skills that it needs?
  - b. Retention
    - i. Do people leave the public service when they obtain a qualification?
    - ii. Is it possible to create incentives for people to remain as employees?
    - iii. Are the contracts and terms of employment adequate?
4. Performance
  - a. Are there accurate job descriptions?
  - b. Is there a system for measuring and managing organisational performance, group performance and individual Performance?
  - c. Are there any performance targets in place?
  - d. Are there incentives for good performance?
5. Leadership and Motivation

- a. Are staff generally motivated to do a good job?
  - b. What is the quality of leadership in the public service?
  - c. Is there training for management and leadership?
6. Development
- a. Is there a training and development programme?
  - b. Is training based on an assessment of the required skills and on job descriptions?
  - c. Is training used as a reward for individuals?
  - d. Is there any programme of management development
7. Employee Relations
- a. Are there recognised trade unions or staff associations?
  - b. Are staff consulted about changes to their work, or working conditions?
  - c. Is there a system for looking after employees' health, safety and welfare?
  - d. Is there an equalities policy, with regard to the recruitment and promotion of men and women, of particular ethnic groups, of people with disabilities?
  - e. How are the grievance and discipline procedures managed?
8. Pay
- a. Are people paid regularly?
  - b. Is civil service pay enough to live on or do people have to have second or third jobs to survive? Do employees supplement their income through petty corruption?
  - c. Is pay related to the jobs that people do?
  - d. What is the nature of the pay structure?
  - e. Is there any performance-related pay and other incentives?
  - f. Are employees given rewards other than pay, such as accommodation, vehicles, health insurance?

#### 4. What type of regime?

It is important to understand how reforms and change are managed according to what type of regime is in place.

1. Are there open, free elections?
2. Do issues of public sector performance appear in the election process?
3. Is there a ruling elite which has to approve any proposed changes in the public services, outside of the formal constitutional arrangements?
4. Is there a parallel power structure (military, party, religious, traditional) that has to approve of any reform plans?
5. Is there a free media?
6. Do the media criticise the standard of public services, or report on corrupt practices?

#### 5. The constitutional framework for public services

1. Is the basis of the constitution rechtsstaat or common law?

2. Are public services defined in the constitution and do they exist as a right attached to citizenship?
3. Are civil servants protected by law and the constitution?
4. Are there sub-national levels of government?
5. How autonomous or dependent are the sub-national tiers of government? Are they free to make their own service decisions?
6. Can sub-national government set and collect their own taxes?
7. What proportion of sub-national governments' revenues come from central government?

## 6. Organisational and national culture

Different countries have different underlying cultures (values, beliefs, attitudes) that have an impact on organisational culture. It is important to have an understanding of the national and organisational culture in order to design reforms and implementation processes.

Instrument 2 is for making a more formal diagnosis of organisational culture. In a more informal discussion you might wish to discuss these questions:

1. Does the public service generally have a 'performance-oriented' culture?
2. Are there ways of dealing with incompetence?
3. Do citizens respect and trust their public servants?
4. Are public servants oriented towards serving the people or themselves?
5. Are there sanctions against petty corruption?
6. Are public servants free to express their opinions about their jobs and their services?
7. Are public servants afraid to speak out in case they offend their superiors and lose their jobs?
8. Do public servants generally know what they are supposed to do and carry out their tasks adequately?
9. Are public servants expected to stick strictly to the rules or are they able to exercise some discretion?
10. Are there networks of people inside the public service who can override the official channels?
11. Are public servants rewarded and promoted for good performance?

## 7. Governance and institutional context

One ideal type of governance arrangement is the Weberian bureaucracy, most of whose elements are accepted as 'normal' by Europeans accustomed to this type of organisation. It is worth asking whether all or any of the elements of Weber's ideal type are present in the country:

1. Fixed and official jurisdictional areas, ordered by laws or administrative regulations
2. Activities required to run the state are distributed as official duties
3. Authority is distributed in a stable way and is delimited by rules
4. Only people who are qualified are employed
5. An office hierarchy and graded authority, resulting in super- and sub-ordination in a monocratic structure
6. Distinction between the private and the public spheres
7. Office management requires training
8. Official activity requires the full time occupation of the official

9. Management of the office follows general, stable, exhaustive rules

A common alternative is governance based on patrimonialism. The elements of patrimonialism you should look out for are:

1. Employment, contracts and other benefits are used to reward family members or other close associates of the rulers.
2. Investment, infrastructure, services are developed to pay for electoral and other support by the rulers.
3. There is support for the hierarchy with the ruler at the top, prestige and respect accorded to the position in the hierarchy.
4. Policy-making and public service delivery are heavily constrained by the need to fulfil the patrimonial requirements.
5. Presidential power is so great that the president has control over all major and many minor decisions.

Instrument 3 is a list of governance indicators that are available for public use. Your country's score on governance could provide a useful starting point for a discussion on governance issues.

## 8. Institutional arrangements

A more general set of questions is required to establish the 'rules of the game' that are observed in the country:

1. Is there general respect for laws and rules, and will people conform to the rules without close, direct supervision?
2. Are contracts, especially between government and contractors or suppliers enforceable?
3. Is petty corruption part of the everyday relationship between government employees and citizens?
4. Is petty corruption a regular part of the relationship between government employees and contractors or suppliers?
5. Is high level corruption a factor in policy towards procurement and privatisation?
6. Is there an anti-corruption bureau?
7. Do corruption cases go to court?

## 9. What are the pressures for change?

We know that successful reform programmes require some internal pressure for change and that donor demands are not sufficient. We need to establish what the domestic pressures for reforms are.

Instrument 4 is designed to help diagnose the pressures for and against change, and the micro-politics of the change process. Here we initiate a general discussion on the overall pressures for change from society:

1. Is there a well organised and free civil society?
2. Is the media free, and well informed and interested in the quality of public services?
3. Is there a political opposition who use the quality of public services as part of their opposition to the incumbent government?
4. Is the leadership of the ruling party a champion for reform and change?
5. Are there some serious and powerful resisters to public sector reform?



## Annex 3- Instruments for Diagnosis

### Instrument 1: Public Expenditure and Financial Accountability Assessment Framework

The Public Expenditure and Financial Accountability (PEFA) framework should provide adequate information on how well the public finances are managed. There are 28 indicators of financial management, plus three of donor practices. The PEFA performance indicators are listed below:

#### The PFM High-Level Performance Indicator Set<sup>19</sup>

Overview of the indicator set

- A. PFM-OUT-TURNS: Credibility of the budget
  - PI-1 Aggregate expenditure out-turn compared to original approved budget
  - PI-2 Composition of expenditure out-turn compared to original approved budget
  - PI-3 Aggregate revenue out-turn compared to original approved budget
  - PI-4 Stock and monitoring of expenditure payment arrears
- B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency
  - PI-5 Classification of the budget
  - PI-6 Comprehensiveness of information included in budget documentation
  - PI-7 Extent of unreported government operations
  - PI-8 Transparency of inter-governmental fiscal relations
  - PI-9 Oversight of aggregate fiscal risk from other public sector entities.
  - PI-10 Public access to key fiscal information
- C. BUDGET CYCLE
  - C(i) Policy-Based Budgeting
    - PI-11 Orderliness and participation in the annual budget process
    - PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting
  - C(ii) Predictability and Control in Budget Execution
    - PI-13 Transparency of taxpayer obligations and liabilities
    - PI-14 Effectiveness of measures for taxpayer registration and tax assessment
    - PI-15 Effectiveness in collection of tax payments
    - PI-16 Predictability in the availability of funds for commitment of expenditures
    - PI-17 Recording and management of cash balances, debt and guarantees
    - PI-18 Effectiveness of payroll controls
    - PI-19 Competition, value for money and controls in procurement
    - PI-20 Effectiveness of internal controls for non-salary expenditure

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19 Sylvie Trosa, *La réforme de l'État : un nouveau management ?*, Paris: Ellipses, 2008, p.110 (my translation)

PI-21 Effectiveness of internal audit

C(iii) Accounting, Recording and Reporting

PI-22 Timeliness and regularity of accounts reconciliation

PI-23 Availability of information on resources received by service delivery units

PI-24 Quality and timeliness of in-year budget reports

PI-25 Quality and timeliness of annual financial statements

C(iv) External Scrutiny and Audit

PI-26 Scope, nature and follow-up of external audit

PI-27 Legislative scrutiny of the annual budget law

PI-28 Legislative scrutiny of external audit reports

D. DONOR PRACTICES

D-1 Predictability of Direct Budget Support

D-2 Financial information provided by donors for budgeting and reporting on project and program aid

D-3 Proportion of aid that is managed by use of national procedures

## Instrument 2: Organisational Culture

This exercise is useful for diagnosing the organisational culture of a single organisation or ministry<sup>20</sup>. It can be used as an interview schedule, in whole or in part, or as a discussion starter.

### A. Stories

1. What core beliefs do stories reflect?
2. How pervasive are these beliefs (through levels)?
3. Do stories relate to:
  - ➔ strengths or weaknesses?
  - ➔ successes or failures?
  - ➔ conformity or mavericks?
4. Who are the heroes and villains?
5. What norms do the mavericks deviate from?

### B. Routines and rituals

1. Which routines are emphasised?
2. Which would look odd if changed?
3. What behaviour do routines encourage?
4. What are the key rituals?
5. What core beliefs do they reflect?
6. What do training programmes emphasise?
7. How easy are rituals/routines to change?

### C. Symbols

1. What language and jargon is used?
2. How internal or accessible is it?
3. What aspects of strategy are highlighted in publicity?
4. What status symbols are there?
5. Are there particular symbols that denote the organisation?

### D. Organisational structure

1. How mechanistic/organic are the structures?
2. How flat/hierarchical are the structures?
3. How formal/informal are the structures?
4. Do structures encourage collaboration or competition?
5. What type of power structures do they support?

### E. Control systems

1. What is most closely monitored/controlled?

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20 Sylvie Trosa, *‘La réforme de l’État : un nouveau management ?’*, Paris: Ellipses, 2008, p.110 (my translation)

2. Is emphasis on reward or punishment?
  3. Are controls related to history or current strategies?
  4. Are there many/few controls?
- F. Power structures
1. What are the core beliefs of the leadership?
  2. How strongly held are these beliefs (idealists or pragmatists)?
  3. How is power distributed in the organisation?
  4. Where are the main blockages to change?
- G. Overall
1. What is the dominant culture?
  2. How easy is it to change?
  3. Are there any linking threads through the separate elements of the diagnosis?

### Instrument 3: Governance Indicators

There is a variety of governance indicators, some of which are listed in the table on the next page. A UN paper<sup>21</sup> lists six dimensions of governance that are covered by these indicators:

1. Voice and accountability: political process, civil liberties and political rights, independence of media
2. Political instability and violence: perceptions that the government will be destabilized or overthrown by unconstitutional or violent means
3. Government effectiveness: quality of public service provision, of bureaucracy, competence of civil servants, independence of civil service from politicians
4. Regulatory burden: incidence of market-unfriendly policies
5. Rule of law: incidence of violent or non-violent crime, effectiveness and predictability of the judiciary, enforceability of contracts
6. Graft: corruption (exercise of public power for private gains)

You should look up the indicators for your country. The following table gives a list of web addresses for governance survey results.

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21 Sylvie Trosa, 'La réforme de l'État : un nouveau management ?', Paris: Ellipses, 2008, p.110 (my translation)

**Kaufmann and Kraay's<sup>22</sup> list of Governance Surveys**

<b>Name</b>	<b>Number of countries</b>	<b>Web address</b>
Afrobarometer	18	<a href="http://www.afrobarometer.org">www.afrobarometer.org</a>
Cingranelli-Richards Human Rights Dataset	192	<a href="http://www.humanrightsdata.com">www.humanrightsdata.com</a>
Country Policy and Institutional Assessment	136	<a href="http://www.worldbank.org">www.worldbank.org</a>
Doing Business		<a href="http://www.doingbusiness.org">www.doingbusiness.org</a>
Database of Political Institutions	175	<a href="http://econ.worldbank.org">http://econ.worldbank.org</a>
Global Insight DRI	178	<a href="http://www.globalinsight.com">www.globalinsight.com</a>
Economist Intelligence Unit	117	<a href="http://www.eiu.com">www.eiu.com</a>
Freedom House	120	<a href="http://www.freedomhouse.org">www.freedomhouse.org</a>
Global Competitiveness Survey	192	<a href="http://www.weforum.org">www.weforum.org</a>
Global Integrity Index	117	<a href="http://www.globalintegrity.org">www.globalintegrity.org</a>
Gallup World Poll	41	<a href="http://www.gallupworldpoll.com">www.gallupworldpoll.com</a>
Heritage Foundation	131	<a href="http://www.heritage.org">www.heritage.org</a>
Investment Climate Assessment	161	<a href="http://www.investmentclimate.org">www.investmentclimate.org</a>
Latinobarometro	94	<a href="http://www.latinobarometro.org">www.latinobarometro.org</a>
Ibrahim Index of African Governance	17	<a href="http://www.moibrahimfoundation.org">www.moibrahimfoundation.org</a>
Open Budget Index	48	<a href="http://www.openbudgetindex.org">www.openbudgetindex.org</a>
Polity IV	59	<a href="http://www.cidcm.umd.edu/polity">www.cidcm.umd.edu/polity</a>
Political Risk Services	161	<a href="http://www.prsgroup.com">www.prsgroup.com</a>
Public Expenditure and Financial Accountability	140	<a href="http://www.pefa.org">www.pefa.org</a>
Reporters without Borders	42	
World Competitiveness Yearbook	165	<a href="http://www.rsf.org">www.rsf.org</a>
World Bank Governance Matters VII	47	<a href="http://www.imd.ch">www.imd.ch</a>
		<a href="http://go.worldbank.org/12K366TAA0">http://go.worldbank.org/12K366TAA0</a>

## Instrument 4: Micro-political mapping<sup>23</sup>

**Step 1:** First, think of a change that the reform proposes. It can be small or large. Even small ones – such as changes in paperwork systems, furniture layout, meal times and so on – will illustrate the effects of power and politics very nicely. However, make sure it is a change that is important to the reform.

**Step 2:** Micro-political mapping: Who's who?

- i. Using the Who's who? worksheet below, in the first column list all the people and groups who are involved in making the change and who will be affected by it.
- ii. Now list your views of the interests of each of these people or groups in the second column. In thinking of interests it is useful to consider:
  - ➔ vested interests – salary, resources, career prospects, territory, advantages, perks, etc.
  - ➔ ideological interests – political or philosophical commitments
  - ➔ self-interests – personal values, sense of personal and professional identity.
- iii. Finally, note what you see as each person or group's main sources of power in the third column.

People/Group	Interests	Power sources

Having listed all the people and groups involved and their interests and sources of power, which do you need to pay special attention to? If you have a long list, you may feel that it would be better to 'let sleeping dogs lie' (that is, leave things the way they are). This is one of the problems with analysing situations – it can lead to paralysis. However, that is not our intention here: we hope to empower you to act with political awareness and integrity!

The next step will help you to move on.

**Step 3:** Now consider the *orientation* of each of your people or groups to the change that you have in mind. The second worksheet below has two dimensions:

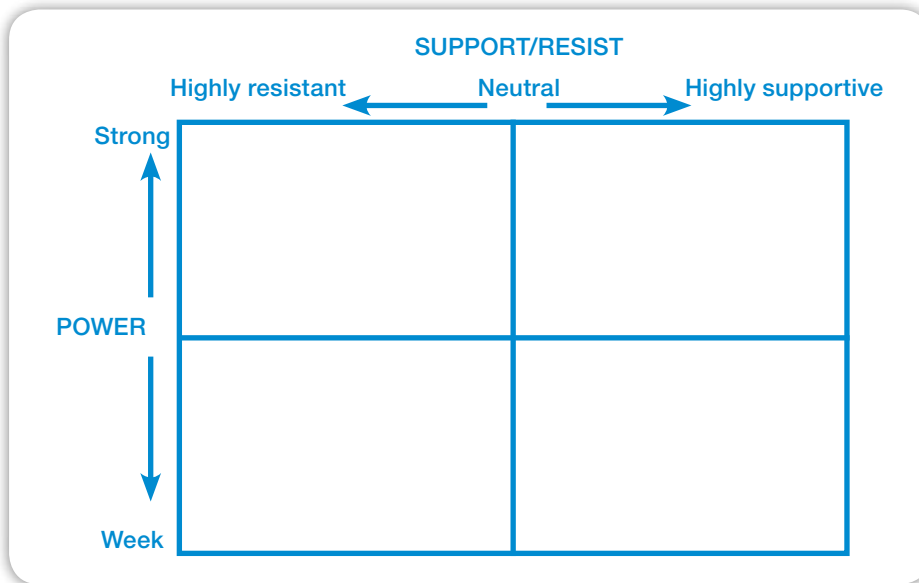
- i. Support/resist – is the person or group supportive of or resistant to the change?
- ii. Power – does the person or group have high or low power in this situation?

This gives four obvious locations:

Powerful and supportive	Powerful and resistant
Weak and supportive	Weak and resistant

Now mark your people or groups on the worksheet. You can either simply assign them to one of the quadrants, or you can grade them carefully with regard to the vertical and horizontal scales.

23 Sylvie Trosa, 'La réforme de l'État : un nouveau management ?', Paris: Ellipses, 2008, p.110 (my translation)



**Step 4:** What does your picture look like? Does it show a critical mass of support for your change or does it show solid ranks of resistance?

In the latter case, should you rethink your ideas or reconsider your plans?

If, as often, the picture is more evenly balanced, what could you do to move it towards greater support for your change? Can you approach individuals or groups, for example, to

- find out why resisters are resisting? Do they understand fully the change proposed? What are their objections? Is there anything they would like which would change their orientation?
- ask powerful supporters to approach powerful resisters to try to 'get them on board' or at least to reduce their resistance?
- help those who are supportive but weak become more powerful? Perhaps the individuals or groups in this quadrant can be brought together to reduce isolation and to develop a mission and a sense of joint identity? Can they be encouraged to speak at meetings? Can their status be raised in any way?

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