

Policy Brief

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*The Heart of the Matter: Donors,
Development Assistance,
and Public Sector Reform*

by

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*Poverty is an outcome ... of the accountability and responsiveness of state institutions.*¹

1. PSR: To the Center of the Debate

The effectiveness and accountability of the public sector – concepts once at the periphery of international development assistance – are now at the heart of thinking and practice in development agencies.

In the early days of development assistance, donors took it for granted that governments played a major and direct role in economic development. They “financed almost anything in which the government chose to try its hand.”² But they did so while paying little attention to the inner workings of the public sector. “Public-sector reform” (PSR) was not seen as a major issue.

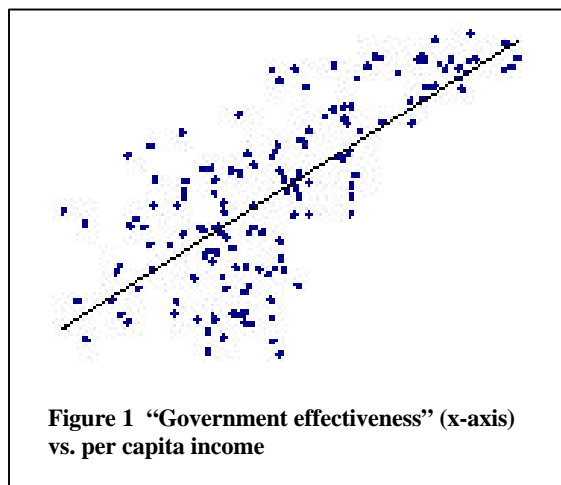


Figure 1 “Government effectiveness” (x-axis) vs. per capita income

When developing countries fell into financial crisis in the late 1970s and 1980s, donors began questioning the state-dominated model. The public sector came to be regarded as an obstacle to growth. Donors focused on curtailing the role of the state, “downsizing” the public sector, and

cutting public expenditure. But there was still little effort to understand how the public sector really worked.

By the mid-1990s there was consensus that the pendulum has swung too far in the “anti-public-sector” direction. Renewed appreciation of the public sector’s role emerged. The World Bank concluded recently that PSR has “great potential to reduce poverty”³ and that “good ... government institutions [are] associated with higher income growth, national wealth, and social achievements”⁴.

The current consensus is thus that PSR matters very much for development because it will (i) lead to better delivery of the basic public services that affect living standards of the poor, and (ii) create a climate conducive to private sector development. These conclusions are backed by a growing body of studies showing positive links between public sector performance and development outcomes. (For example, see Figures 1 and 2)⁵.

With PSR now at the heart of development assistance practice and priorities, it is useful to review what we have learned about it and where we appear to be heading. This Policy Brief provides a quick tour of the recent past in PSR, and a sketch of future directions.

2. What Does the Public Sector Do?

This paper focuses on the executive branch – the arm of government responsible for policies and programs that fulfill a government’s economic and social objectives. Most activities of the executive branch – the “public sector” for the purposes of the rest of this paper – fit under four headings:

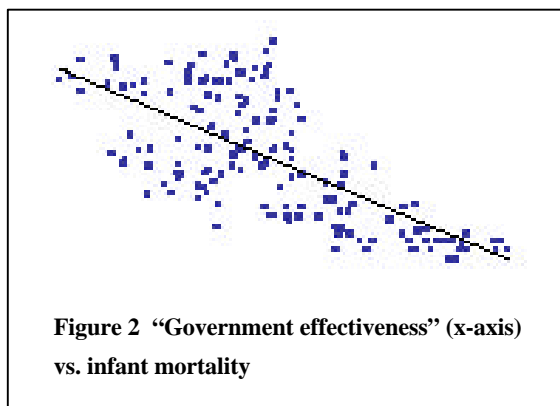
¹ World Bank, *Attacking Poverty*. World Development Report 2000/2001, New York: Oxford University Press, 2001, p. 99.

² Stephen Knack, “Aid Dependence and the Quality of Governance: A Cross-Country Empirical Analysis,” (Policy Research Working Paper 2396), Washington: World Bank, 2000, p. 5

³ World Bank, *Attacking Poverty*, p. 100.

⁴ Vinod Thomas, et. al., *The Quality of Growth*, New York: Oxford University Press, 2000, p. 136.

⁵ Daniel Kaufmann, et. al., “Governance Matters”, (Policy Research Working Paper 2196), Washington: World Bank (1999).



- ***Economic and social policies***

⇒ The public sector designs and enforces policies that cover virtually everything the government wants to achieve.

- ***Public programs***

⇒ Policy goals are realized through programs that deliver public services, produce goods, transfer resources and enforce regulations.

- ***Revenue***

⇒ The public sector collects taxes and fees that generate the revenue required by the government to deliver programs.

- ***Accountability***

⇒ Citizens demand accountability in return for the powers granted to the executive. The public sector responds by enforcing internal accountability, and by reporting to citizens on how money is spent.

3. PSR: What Has Been Tried?

Most PSR supported by donors over the past 20 years has fit into four areas: (i) administrative capacity building; (ii) strengthening policy

capacity; (iii) institutional reform; and (iv) public service downsizing.

Administrative Capacity Building. Measures under this heading respond to management and organizational problems in the public service. Activities have covered:

- organizational restructuring and renewal, including strengthening of capacity to be more responsive to citizens;
- strengthening of coordination between government agencies;
- staff training and recruitment;
- employee performance management, wage and non-wage incentives, job classification systems and payroll and personnel systems.

Strengthening Policy Capacity. These measures aim at building capacity to develop public policy. They include:

- rationalizing and standardizing the decision-making process, improving the flow of policy-relevant information, etc.
- strengthening capacity for policy-analysis.

Institutional Reform. These measures aim at making the state more open and accountable. They include:

- civil service codes of conduct and safeguards concerning public procurement;
- strengthening institutions and procedures that act as an accountability check on the executive, such as the judiciary, independent oversight bodies, and rules related to public access to information.

Public Service Downsizing. Downsizing has been motivated by fiscal restraint and a desire to move toward a more market oriented economy. Interventions have included:

- *workforce reductions* involving compensation schemes, and implemented through voluntary early retirement, hiring freezes, attrition, enforcement of the retirement age, etc;
- *wage reforms* such as wage-bill caps, wage freezes and monetization of non-cash allowances and benefits.

4. What Have We Learned?

The most readily available information on lessons learned comes from the World Bank. A recent evaluation of the Bank's support for PSR⁶ found that only about one-third of its projects had satisfactory outcomes. And even when satisfactory outcomes were achieved, it appeared unlikely in most cases that they would be sustained.

A major factor behind the failure of many PSR efforts has been the donors' "technocratic" approach.⁷ For too long, donors treated PSR as an "engineering" problem to be addressed through "textbook" solutions. They favored mechanistic interventions featuring quantitative targets for payroll and workforce reductions, redrawing of organizational charts, rewriting of job descriptions, training courses, installation of new systems for human resource and public financial management, etc.

The technocratic approach overlooked the fact that PSR, though it has important technical aspects, is a social and political phenomenon driven by human behavior and local circumstances. It is a long and difficult process that requires public servants to change the way

they regard their jobs, their mission, and their interaction with citizens.

A related flaw is the *failure of local ownership* of PSR. The donors' tendency to arrive in a developing country with a ready-made "blue-print" for PSR undermined possibilities for genuine support from local leaders. Donors often operated from the false assumption that "outsiders can build state capacity despite the lack of effective internal demand for more capable governments."⁸

Developing country governments share with donors the responsibility for PSR failures. Governments sometimes have little interest in reforming their public sectors. This can be traced to *failed accountability between government and citizens*.⁹ The channels through which governments hold themselves accountable to citizens, and citizens communicate their demands, are often dysfunctional in countries that are most in need of PSR. There is a vicious circle:

- the public sector does a poor job of delivering services;
- citizens, accustomed to unresponsive public-sector performance, feel little motivation to make demands for better service;
- the public sector, sensing little accountability pressure from citizens, continues delivering poor public services.

⁸ Deborah Brautigam, "State Capacity and Effective Governance," in Benno Ndulu and Nicolas van de Walle, eds., *Agenda for Africa's Economic Renewal*, Washington: Overseas Development Council, 1996, p. 99.

⁹ Edgardo Boeninger, "Governance and Development: Issues and Constraints," *Proceedings of the World Bank Annual Conference on Development Economics 1991*, Washington: World Bank, p. 278; Allen Schick, *A Contemporary Approach to Public Expenditure Management*, Washington: World Bank Institute, 1998, p. 39; World Bank, *Management in Development. World Development Report 1983*, New York: Oxford University Press, 1983, p. 123.

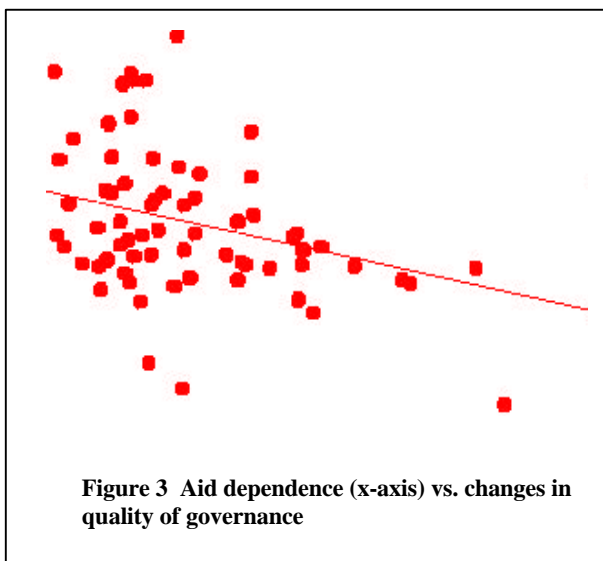
⁶ World Bank, "Civil Service Reform. A Review of World Bank Experience" (Report No. 19599), Washington: World Bank, 1999; Barbara Nunberg, "Re-thinking Civil Service Reform: An Agenda for Smart Government," (Poverty and Social Policy Working Paper), Washington: World Bank, 1997.

⁷ World Bank, *Reforming Public Institutions and Strengthening Governance: A World Bank Strategy*, Washington: World Bank, 2000; World Bank, "Civil Service Reform".

There is a failure of demand for PSR both outside and inside the government.

- *External demand* from citizens is muffled by cynicism and inadequate channels for communicating demand.
- *Internal demand* from public sector leaders does not emerge because they feel little accountability pressure from citizens.

Until this vicious circle is broken, the range of meaningful PSM actions that may be supported by donors is extremely limited. Ironically, there is a growing view that *development assistance itself is contributing to the vicious circle*. The most heavily aided countries appear to have a relatively poor (and worsening) quality of governance (Figure 3¹⁰). Countries that rely heavily for their revenue on donors rather than their own citizens are not strongly motivated to be accountable to their citizens.



¹⁰ Knack, *op. cit.*; see also Mick Moore, “Death Without Taxes: Democracy, State Capacity, and Aid Dependence in the Fourth World”, in Mark Robinson and Gordon White, eds., *The Democratic Developmental State*, Oxford: Oxford University Press, 2000.

5. What Works?

Consensus is building around PSR approaches that take into account the following elements:

1. Local Leadership and Ownership. PSR is doomed if its main source of energy and leadership comes from outside. Donors cannot play a leading role, and must not dictate the content, pace and direction of PSR. PSR is an intensely political process that affects important local stakeholders. Strong and constant local leadership is essential for overcoming the political and bureaucratic obstacles that confront a reform program.

2. Popular Pressure for Reform. Although local political and bureaucratic leadership is necessary for PSR, it is not sufficient. The public administration cannot be relied upon to reform itself. Impetus for reform must also come from local stakeholders who are outside the public sector. Organized civil society (e.g. civic associations, users’ groups, labor unions, NGOs), the private sector, political parties and other local institutions all have a role to play in pressuring the public sector to do a better job of serving society.

3. The Impact of Accountability. A strong bond of accountability between citizens and the public sector generates demand for PSR. Public sector performance is determined to an important extent by the interplay between the public sector and the country’s key institutions of accountability (IAs). PSR strategies should therefore be adapted to and (where possible) address shortcomings in the accountability environment of the public sector. Reformers must appreciate factors such as IAs’ access to information about public programs and public expenditure, their capacity to analyze information about the public sector and place demands on it for better performance, and the degree to which public agencies feel compelled to respond to IAs.¹¹

¹¹ Mark Schacter, “When Accountability Fails. A Framework for Diagnosis and Action,” (IOG Policy Brief No. 9), Ottawa: Institute On Governance, 2000.

4. The Power of Information. Wide dissemination of information that allows citizens to monitor public service delivery and public expenditure can have a powerful positive impact on the attitudes and behavior of public officials. Experience in developing countries with service-delivery and expenditure-tracking surveys has shown that putting relevant and easily understandable information into the hands of citizens promotes a more accountable and effective public sector.¹² Donors should use their influence to encourage governments to publish timely, complete and accurate information about government operations.

5. The Impact of Organizational Culture. Public sector organizations with an outcomes-oriented and “mission-driven” culture appear to have higher levels of performance.¹³ This underscores the importance of public-sector leadership styles and performance management practices that focus on results and service to the public.

6. Build Capacity for Policy-making. Providing timely and well-argued policy advice to decision-makers is a core responsibility of the public service. Capacity to fulfill this function is in short supply in many developing countries. Recent experience has yielded lessons for policy capacity building in developing countries.¹⁴

7. Take a More Sophisticated View of Downsizing. The first generation of public-sector pay and employment reforms failed to achieve its objectives. Reformers should take a more sophisticated approach to downsizing, seeing it as a means to the end of an effective and efficient public sector. This requires a

broader frame of reference that includes a view on the appropriate role of government, an appropriate system for managing public-sector performance, and a reformed pay structure conducive to attracting and retaining qualified staff.¹⁵

H. Concluding Note

An overlooked lesson is that *it takes a long time to reform a public sector*. Today’s industrialized countries took centuries to develop effective public-sector institutions. Developing countries are trying to do the same in the space of a few decades. Reformers and their donor partners require a long-term perspective because fundamental change demands sustained effort over many generations. Mistakes and setbacks are inevitable – they should be used as learning opportunities, rather than excuses for squashing reform. Growing recognition that effective public sector institutions are at the heart of economic and social development provides a powerful reason to stay the course.

This paper was based upon work commissioned by the Canadian International Development Agency.

¹² World Bank, “Using Surveys for Public Sector Reform,” (PREM Notes No. 23). Washington: World Bank, 1999.

¹³ M.S. Grindle and M.E. Hilderbrand, “Building Sustainable Capacity in the Public Sector: What Can Be Done,” *Public Administration and Development*, Vol. 15, No. 5, 1995.

¹⁴ Mark Schacter, “Cabinet Decision-Making. Lessons from Canada, Lessons for Africa,” Ottawa: Institute On Governance, 1999.

¹⁵ World Bank, “Civil Service Reform.”; Nunberg, *op. cit.*