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Public Sector Restructuring: The Institutional and Social Effects of Fiscal, Managerial and Capacity-Building Reforms

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Acronyms

ACBF	African Capacity Building Foundation
ADB	Asian Development Bank
AFR	Africa
BT	British Telecom
ECA	Eastern Europe and Central Asia
ECLAC	Economic Commission for Latin America and the Caribbean
ESAF	Enhanced Structural Adjustment Facility
EU	European Union
EUA	Estados Unidos de América (United States of America)
GDP	gross domestic product
GP	general practitioner
IMF	International Monetary Fund
LAC	Latin America and the Caribbean
NGO	non-governmental organization
NHS	National Health Service
NPM	new public management
OCDE	Organisation de coopération et de développement économiques / Organización de Cooperación y Desarrollo Económicos
OECD	Organisation for Economic Co-operation and Development
OPA	old public administration
PAYE	pay-as-you-earn
PIP	Public Investment Programme
PSM	Public Sector Management
SAL	Structural Adjustment Loan
SECAL	Sectoral Adjustment Loan
SFEM	second-tier foreign exchange market
SUNAT	Superintendencia Nacional de Administración Tributaria
UK	United Kingdom
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNICEF	United Nations Children’s Fund
UNRISD	United Nations Research Institute for Social Development
US	United States
ZEMP	Zambia’s Educational Materials Project

Summary/Résumé/Resumen

Summary

There have been tremendous pressures in the 1990s to change the character and functions of the state in developed and developing countries alike. Multilateral financial agencies and neoliberal analysts question the state's nationalistic, hierarchical, redistributive and interventionist character, which they believe is partly responsible for poor service delivery and economic performance in many countries. They seek to transform the state into a market-friendly, lean, managerial, decentralized and customer-oriented institution. However, the core elements of reforms are sometimes contradictory as different social forces drive them in different contexts. There are tensions between, on the one hand, concerns for market efficiency and deregulation, and issues of accountability and equity, on the other.

This paper provides an overview of the major issues, trends and problems in public sector reform. The Programme of Action of the World Summit for Social Development does not spell out concrete strategies of public sector reform for achieving the goals of poverty eradication, employment promotion and social integration. The state's capacity to produce the desired results was generally taken for granted. But will efforts to reform the state along pro-market lines facilitate governments' pursuit of development? Are states likely to assume and sustain their responsibilities in providing good, affordable services to their citizens?

The paper addresses these issues in seven sections. The first section introduces the basic argument. Section II examines four global issues that are driving public sector reforms: financial globalization, fiscal deficits, the adjustment programmes of multilateral agencies, and democratization. Sections III to VI discuss the various components of public sector reform, which are fiscal stability, managerial efficiency, capacity building and public accountability. Reforms dealing with fiscal stability apply to all states, although they may vary across countries. In general, fiscal reforms are the most consistently pursued reforms, and have implications for public sector employees, state capacity and social development. They deal with issues of downsizing or expenditure reduction, privatization and tax reform.

Public expenditure reforms reflect differences in expenditure patterns, with the reforms in industrialized countries focusing on welfare and social services and those in developing countries on capital expenditures and government administration. Privatization, a central component of downsizing, is now a global phenomenon. More than $300 billion worth of state assets were transferred to the private sector between 1988 and 1996 around the world. Governments are surely disengaging, even if unevenly, from direct ownership of public enterprises. There are however, welfare, unemployment, ethnic and nationalist problems associated with privatization. The data suggest that although governments grew, albeit slowly, up to the early 1990s, it seems that for some regions, central governments were beginning to shrink in the mid-to-late 1990s. The massive cuts in education and health provisioning suffered by

low-income countries in the 1980s have not been sufficiently offset by the efforts of the 1990s, which seek to protect social sectors from state contraction.

Reforms in the area of managerial efficiency focus on organizational restructuring and introduction of market or quasi-market principles in the delivery of services. They address three main issues: decentralized management and creation of executive agencies out of monolithic bureaucracies; performance contracts for employees; and contracting out of services to the private sector. The most comprehensive reforms in efficiency promotion are in OECD countries, with Australia, New Zealand and the United Kingdom as the lead reformers. However, aspects of these reforms are being applied in many developing and transition countries, especially those that are heavily donor dependent. As these reforms deal with institutional issues, there is often a wide gap between expressed goals and concrete outcomes. Pre-reform methods of work, weak capacity, and market failures constrain policy implementation. Capacity-building reforms are restricted largely to developing countries, especially the "least developed countries", most of which are in Africa. They address issues relating to the technical capacities of civil servants in policy analysis and implementation; management of recurrent costs to ensure sustainability of projects; and pay reforms to motivate staff. Despite their importance in promoting development and other reforms, capacity-building reforms have not received the sustained attention they deserve.

Section VII concludes the paper by focusing on three issues that may help ensure that reforms are accountable to society and sensitive to the political realities of states, especially those with weak institutions. First, public sector reforms need sound political pacts or coalitions. The vast majority of countries that are implementing reforms are also grappling with complex programmes of democratization, which seek to lay the ground rules for the way their societies are governed. There are governance issues that have not been satisfactorily resolved in a large number of low-income countries, which raise serious questions about their capacities to implement far-reaching state reforms. In most cases, the drive for reform is more external than internal as governments are forced to meet conditions set by donors for loan disbursements. Market-oriented managerial reforms will be difficult to implement in countries that have not established a professional civil service. Without this, market reforms may further fragment the state systems of low-income countries and encourage more corruption therein. However time-consuming they are to promote, dialogue and coalitions, or social and political pacts, are essential elements of effective modern statecraft. They facilitate the establishment of sound and durable administrative systems.

Second, reform governments and multilateral agencies should also try to understand and support some of the enduring missions of states, which are nation-building in multi-ethnic societies, rapid industrialization with an appropriate role for the state in facilitating the process, social equity and wealth distribution. Although costly mistakes were made in the past in many countries, these goals are at the heart of the aspirations of broad masses of people seeking to create developmental, humanistic and harmonious societies. The failure to pay sufficient attention to them in the last decade-and-a-half of market reforms may go a long way in explaining the high incidence of failed states, civil wars and stagnant development in large parts of the world today. Third, for reforms to be institutionalized and serve the public good, they must also allow pressures to be brought to bear on public managers in service delivery. Among the instruments that have emerged for the attainment of these goals are Citizens' Charters, Ombudsmen and service delivery surveys. Parliamentary plurality, press freedom, independent judiciaries, mass-based political parties and civic action are also central to public accountability.

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Résumé

Dans les pays développés comme dans les pays en développement, des pressions énormes se sont exercées dans les années 90 pour que l'Etat change de caractère et de fonctions. Institutions financières multilatérales et analystes néolibéraux remettent en question le caractère nationaliste, hiérarchique, redistributif et interventionniste de l'Etat, responsable en partie à leurs yeux de la piètre qualité des services fournis et des résultats économiques médiocres de nombreux pays. Ils cherchent à transformer l'Etat en une institution bienveillante envers le marché, maigre, gestionnaire, décentralisée et orientée sur les consommateurs. Cependant, les éléments essentiels des réformes sont parfois contradictoires car elles ont pour moteurs des forces sociales différentes selon les contextes. Il existe des tiraillements entre les soucis d'efficacité et de déréglementation du marché, d'une part, et les questions de responsabilité et d'équité, d'autre part.

Cette étude donne une vue d'ensemble des principaux enjeux, tendances et problèmes de la réforme du secteur public. Le Programme d'action du Sommet mondial pour le développement social n'indique pas de stratégie précise pour réformer le secteur public de manière à éradiquer la pauvreté et à favoriser l'emploi et l'intégration sociale. On suppose généralement que l'Etat a la capacité de produire les résultats désirés. Mais une réforme de l'Etat qui se conforme aux lois du marché favorisera-t-elle la mission de développement du gouvernement? Les Etats ont-ils des chances d'assumer durablement leurs responsabilités et de fournir à leurs citoyens des services abordables et de qualité?

L'étude se divise en sept sections pour répondre à ces questions. La première présente l'essentiel de l'argument. La deuxième se penche sur quatre questions qui jouent un rôle moteur dans les réformes du secteur public dans le monde: la mondialisation des finances, les déficits budgétaires, les programmes d'ajustement des institutions multilatérales et la démocratisation. Les sections III à VI traitent des diverses composantes de la réforme du secteur public: la stabilité budgétaire, l'efficacité de la gestion, le renforcement des capacités et l'obligation de rendre des comptes au public. Les réformes qui visent la stabilité budgétaire s'appliquent à tous les Etats mais peuvent varier d'un pays à l'autre. En général, les réformes budgétaires sont celles qui sont appliquées avec le plus de cohérence et elles ont des conséquences sur les employés du secteur public, la capacité de l'Etat et le développement social. Elles portent sur des questions

de compression d'effectifs ou de réduction des dépenses, de privatisation et de réforme fiscale.

Les réformes des dépenses publiques témoignent des différences que l'on peut constater dans la composition des dépenses: dans les pays industrialisés, elles sont axées sur la protection sociale et les services sociaux et, dans les pays en développement, sur les dépenses d'équipement et l'administration publique. La privatisation, composante centrale de la compression d'effectifs, est aujourd'hui un phénomène mondial. A travers le monde, plus de 300 milliards de biens publics ont été transférés au secteur privé entre 1988 et 1996. Il est certain que les gouvernements sont en train de renoncer, même si c'est de façon inégale, à être directement propriétaires d'entreprises publiques. Cependant, la privatisation ne va pas sans poser des problèmes de protection sociale, de chômage, d'ethnie et de nationalité. D'après les données recueillies, il semble que, bien que les gouvernements aient connu une croissance, lente certes, jusqu'au début des années 90, les gouvernements centraux, dans certaines régions, aient amorcé un repli vers le milieu ou la fin de la décennie 90. Les efforts déployés ces années-là pour protéger les secteurs sociaux du repli de l'Etat n'ont pas suffi à compenser les réductions massives des crédits accordés à l'éducation et à la santé dans les pays à faible revenu dans les années 80.

Les réformes touchant à l'efficacité de la gestion sont axées sur la restructuration organique et l'introduction de principes marchands ou quasi marchands dans la prestation des services. Elles tournent autour de trois grandes questions: la décentralisation de la gestion et la transformation de bureaucraties monolithiques en agents d'exécution, des contrats au rendement pour les employés et la sous-traitance de services au secteur privé. Les réformes les plus ambitieuses entreprises sur le terrain de la rentabilité le sont dans les pays de l'OCDE avec, en tête, l'Australie, la Nouvelle-Zélande et le Royaume-Uni. Cependant, des aspects de ces réformes sont appliqués dans de nombreux pays en développement et en transition, en particulier chez ceux qui sont très tributaires des donateurs. Comme ces réformes touchent à des questions institutionnelles, il y a souvent loin des objectifs annoncés aux résultats concrets. Les méthodes de travail antérieures à la réforme, les faibles capacités et les défaillances du marché gênent la mise en oeuvre des politiques. Les réformes destinées à renforcer les capacités ne concernent pratiquement que les pays en développement, en particulier les "pays les moins avancés", dont la plupart se trouvent en Afrique. Les questions auxquelles elles s'attaquent ont trait aux capacités techniques d'analyse et de mise en oeuvre des politiques que l'on peut trouver dans la fonction publique, à la façon de gérer les coûts récurrents pour assurer la viabilité des projets et aux réformes salariales capables de motiver le personnel. Malgré leur importance pour la promotion du développement et d'autres réformes, les réformes axées sur le renforcement des capacités n'ont pas retenu l'attention soutenue qu'elles méritent.

La septième section, qui conclut l'étude, porte sur trois aspects qui peuvent contribuer à ce que les réformes n'échappent pas au contrôle de la société et restent en prise sur la réalité politique des Etats, en particulier de ceux dont les institutions sont faibles. Premièrement, les réformes du secteur public ne vont pas sans pactes ou coalitions politiques solides. La grande majorité des pays qui ont engagé des réformes se débattent aussi avec des programmes complexes de démocratisation qui cherchent à fixer les règles de base devant régir la société.

Il est des questions de gouvernance qui n'ont pas été réglées de manière satisfaisante dans un grand nombre de pays à faible revenu, ce qui fait sérieusement douter de leur capacité de réformer radicalement l'Etat. Dans la plupart des cas, le moteur de la réforme est plus externe qu'interne, les gouvernements étant obligés de remplir les conditions fixées par les donateurs pour obtenir des crédits. Les réformes qui se fixent pour objectif une gestion de l'Etat conforme aux lois du marché seront difficiles à mener à bien dans des pays où la fonction publique n'est pas assumée par des professionnels. Sans cela, ce type de réforme risque de morceler encore davantage le système de l'Etat dans les pays à faible revenu et d'y favoriser encore plus la corruption. Malgré tout le temps qu'ils prennent, le dialogue et les coalitions ou les pactes sociaux et politiques sont des éléments essentiels d'un Etat moderne. Ils favorisent la mise en place de systèmes administratifs solides et durables.

Deuxièmement, les gouvernements en pleine réforme et les institutions multilatérales devraient aussi essayer de comprendre et de soutenir certaines des missions éternelles des Etats, qui sont d'édifier la nation dans les sociétés multiethniques, de favoriser une industrialisation rapide et de veiller à l'équité sociale et à la répartition des richesses. Bien que des erreurs lourdes de conséquences aient été commises par le passé dans de nombreux pays, ces objectifs sont au coeur des aspirations des multitudes qui cherchent à faire naître des sociétés novatrices, humanistes et harmonieuses. L'attention insuffisante qui leur a été accordée au cours des 15 dernières années de réformes n'est sans doute pas étrangère aux nombreux Etats en faillite, aux guerres civiles et à la stagnation du développement dont souffrent de larges régions du monde actuel. Troisièmement, pour que les réformes soient institutionnalisées et servent le bien public, il faut aussi que les gestionnaires publics des services subissent quelques pressions. Les chartes citoyennes, les médiateurs et les enquêtes sur les services fournis sont parmi les instruments qui ont fait leur apparition et qui servent ces objectifs. Le pluralisme parlementaire, la liberté de la presse, l'indépendance judiciaire, des partis politiques à large base populaire et l'action civique tiennent aussi une place centrale dans la responsabilisation des autorités.

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Resumen

En el decenio de los 90 han habido presiones muy fuertes para cambiar la índole y las funciones del estado tanto en los países desarrollados como en los que están en vías de desarrollo. Agencias financieras multilaterales y analistas neoliberales ponen en tela de juicio el carácter nacionalista, jerárquico, redistribuidor e intervencionista del estado, y consideran que, en parte, es responsable de las deficiencias en la dotación de servicios y en el comportamiento económico de muchos países. Dichas agencias tratan de transformar el estado en una institución favorable al mercado, reducida, administrable, descentralizada y orientada hacia su clientela. Sin embargo, algunas veces los elementos fundamentales de esas reformas son contradictorios, puesto que fuerzas sociales diversas los impulsan según diferentes contextos. Hay tensiones entre los que se interesan en la eficiencia

del mercado y en su desregulación, por una parte, y los que se preocupan por cuestiones de rendición de cuentas y equidad, por la otra.

En este documento se proporciona un panorama de los asuntos, las tendencias y problemas principales relacionados con las reformas al sector público. En el Programa de Acción de la Cumbre Mundial para el Desarrollo Social no se especifican las estrategias concretas de reforma al sector público para lograr las metas de erradicación de la pobreza, promoción del empleo e integración social. En general, se consideró como un hecho dado la capacidad del estado para obtener los resultados deseados. Pero, ¿los esfuerzos para reformar al estado siguiendo lineamientos en pro del mercado, facilitarán la promoción del desarrollo por parte de los gobiernos? ¿Es probable que los estados asuman y sostengan sus responsabilidades para proveer servicios eficientes, a precios accesibles a sus ciudadanos?

El documento se divide en siete secciones en las que se analizan dichos temas. En la primera se introduce el argumento básico. En la sección II se examinan cuatro tendencias a nivel mundial que son causa de las presiones para reformar al sector público: globalización financiera, déficit fiscales, los programas de ajuste de agencias multilaterales, y democratización. En las secciones III a VI se analizan los diversos componentes de la reforma al sector público, a saber: estabilidad fiscal, eficiencia administrativa, forja de la eficiencia estatal, y rendición de cuentas a la población. Las reformas que se refieren a la estabilidad fiscal se aplican a todos los estados, no obstante que pueden variar según los países. En general, las reformas fiscales son las que con mayor consistencia se han tratado de lograr, y tienen implicaciones para los empleados del sector público, para la capacidad del estado y para el desarrollo social. Están relacionadas con los problemas de disminución del aparato estatal o con la reducción del gasto, con la privatización y las reformas a los impuestos.

Las reformas al gasto público reflejan diferencias en las pautas del gasto y, por lo que se refiere a los países industrializados, dichas reformas se aplican a los servicios sociales y de bienestar, mientras que en los países en desarrollo afectan los gastos de capital así como la administración gubernamental. La privatización, que es un componente fundamental de las tareas de disminución del estado, constituye actualmente un fenómeno mundial. Más de 300 billones de dólares (EUA) en el haber del estado fueron transferidos al sector privado entre 1988 y 1996 en todo el mundo. Ciertamente, los gobiernos se están desligando de la propiedad directa de empresas públicas, aun cuando lo hagan de manera dispareja. Hay, sin embargo, problemas de bienestar, de desempleo, étnicos y relacionados con el nacionalismo, que se derivan de la privatización. Los datos recabados sugieren que, si bien hasta principios del decenio de los 90 la estructura gubernamental creció aunque lentamente, tal parece que en la segunda parte de ese mismo decenio, en algunas regiones, los gobiernos centrales empezaron a reducirse. Los países de bajos ingresos que en los años 80 sufrieron recortes masivos en educación y en suministro para salud no han podido recuperarse suficientemente mediante los esfuerzos desplegados en los 90, con los que se trata de proteger a los sectores sociales amenazados por la contracción del aparato estatal.

Las reformas en el área de eficiencia administrativa se centran en la reestructuración organizacional y en la introducción de los principios de la economía de mercado o su aproximación, en la dotación de servicios. Esas reformas se refieren a tres problemas principales: administración descentralizada y creación de agencias ejecutivas derivadas de burocracias monolíticas; contratación condicionada de empleados según su rendimiento; y, contratación de servicios con el sector privado. Las reformas más amplias en relación con la promoción de eficiencia se han efectuado en los países de la OCDE, con Nueva Zelandia, Australia y el Reino Unido como principales reformadores. Sin embargo, algunos aspectos de estas reformas están siendo aplicados en muchos de los países en desarrollo y en transición, especialmente en aquellos que son sumamente dependientes de los donantes. Puesto que dichas reformas se refieren a asuntos institucionales, a menudo hay una brecha amplia entre las metas enunciadas y los resultados concretos. Los métodos de trabajo previos a la reforma, la insuficiencia de la capacidad estatal y las fallas del mercado restringen la aplicación de la política. Las reformas relacionadas con la capacitación se limitan en gran parte a los países en desarrollo, especialmente a "los que están menos desarrollados", la mayoría de los cuales se hallan en Africa. Con estas reformas se trata de resolver los problemas relacionados con la falta de preparación técnica de los empleados civiles para analizar y aplicar políticas; para administrar costos recurrentes, a fin de asegurar la sustentabilidad de los proyectos; así como las reformas al sistema de pagos para motivar al personal. A pesar de la importancia que tienen las reformas relacionadas con la capacitación, para promover el desarrollo y otras reformas, no se les ha dado la atención que merecen.

El documento termina en la parte siete enfocándose en tres temas que pueden ayudar a asegurar que las reformas permitan rendir cuentas a la sociedad y que sean susceptibles de la realidad política de cada uno de los estados, especialmente las de aquellos que tienen instituciones frágiles. En primer lugar, se necesita que las reformas al sector público cuenten con pactos o coaliciones políticas sólidas. La gran mayoría de los países que están aplicando reformas se están también enfrentando con programas complejos de democratización, con los que tratan de fijar las normas básicas para la vía más adecuada de gobernar a sus sociedades. Hay problemas de gestión de gobierno que no han sido resueltos satisfactoriamente en un gran número de países de bajo ingreso, por lo que se suscitan serias dudas sobre su capacidad para aplicar reformas estatales de largo alcance. En la mayoría de los casos, la promoción de la reforma es más externa que interna, en la medida en que los gobiernos se ven forzados a cumplir las condiciones establecidas por los donadores antes de que éstos desembolsen los préstamos. Las reformas administrativas encaminadas a promover el mercado serán difíciles de aplicar en países que no hayan establecido un servicio público profesional. Sin esto, dichas reformas pueden fragmentar todavía más los sistemas estatales de países de bajo ingreso y en consecuencia, favorecer una mayor corrupción. El diálogo y las coaliciones o los pactos sociales y políticos son elementos esenciales de un sistema estatal efectivo y moderno, no obstante el tiempo que toma promoverlos. Con ellos se facilita el establecimiento de sistemas administrativos sólidos y duraderos.

En segundo lugar, tanto los gobiernos que llevan a cabo reformas como las agencias multilaterales, deberían también tratar de entender y apoyar algunos de los objetivos fundamentales de los estados, tales como la configuración de la nación en sociedades multiétnicas, la industrialización rápida asignándole una función adecuada al estado para que facilite este proceso, la equidad social y la distribución de la riqueza. No obstante los caros errores que se cometieron en el pasado en muchos países, estas metas constituyen el núcleo de las aspiraciones de sectores masivos de población que tratan de crear sociedades capaces de desarrollarse, humanísticas y armoniosas. El no haber dado suficiente atención a dichas metas en el último decenio y medio de reformas orientadas hacia el mercado, puede ser una razón muy importante para explicar la elevada incidencia del fracaso de algunos estados, las guerras civiles y el estancamiento del desarrollo en amplias regiones del mundo actual. Tercero, para que las reformas sean institucionalizadas y sirvan al bien común, deben permitir también que se presione a los administradores públicos para lograr la dotación de servicios. Entre los instrumentos que se han elaborado para alcanzar estas metas están los Estatutos de Ciudadanos, los *ombudsmen* y las encuestas sobre dotación de servicios. Se considera además que la pluralidad parlamentaria, la libertad de prensa, los sistemas judiciales independientes de los otros poderes estatales, los partidos políticos apoyados en las masas así como la acción cívica, son factores que tienen una importancia fundamental para rendirle cuentas a la población.

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I. Introduction

The public sectors of most countries expanded a great deal between 1945 and 1980 despite differences in their economic systems, levels of development and political ideologies. As economies grew and societies became highly differentiated, the state's conventional tasks of regulation, allocation and redistribution became more complex. Public sector growth was also a function of the types of societies various governments sought to promote. For instance, commitments to the welfare state and macro-economic stability in OECD countries encouraged acceptance of the state as a central institution for redistributing wealth, protecting the vulnerable and stimulating aggregate demand. Similarly, nationalism, efforts to create cohesive societies in multi-ethnic settings and pressures for rapid growth facilitated expansion of the state in developing countries. A number of enterprises whose foreign ownership was believed to be detrimental to national development were nationalized—partially or fully. Governments also established parastatals on a wide range of activities because the private sector either was perceived to be too slow to respond to incentives or showed little or no interest in investing in preferred sectors. Social services were also expanded as part of nation-building efforts and, in many cases, to develop national elites in newly independent states. In some countries, such as those in East Asia, economic development was anchored on strong, interventionist and pro-market public sectors. The expansion of the state reached historic heights in former communist countries where policy makers suppressed private entrepreneurship and tried to promote egalitarian societies through methods of central planning.

Issues of efficiency, representation, participation and accountability, though important, were not central to the growth of the state in most countries—except where democratic forms of rule and markets were already well established. The state was essentially seen as an institution that would foster unity or solidarity, promote national development and macro-economic stability, regulate or check foreign domination, protect domestic markets and, in some cases, redistribute wealth. This vision of the state came under considerable attack during the 1980s and 1990s in practically every region of the world. An alternative vision, embraced in varying degrees by countries, has sought to create a market-friendly, liberalized, lean, decentralized, customer-oriented, managerial and democratic state. The core elements in the vision are sometimes contradictory as different social forces drive them in different national contexts and with varying levels of capabilities. There are tensions between, on the one hand, concerns for efficiency, market-soundness, deregulation, competition and stabilization, and issues of accountability, representation, participation and equity, on the other.

The Copenhagen and other United Nations summits of the 1990s did not spell out concrete strategies for public sector reform in their various plans of action for a sustainable, equitable, humane and stable world order—even though they accorded enormous responsibilities to states in the achievement of such goals. The state's capacity to act and produce the desired results was generally taken for granted in the various programme documents. Will efforts to reform the character of the state along actively pro-market lines facilitate governments' pursuit of social and other aspects of development? Are states likely to assume and sustain their responsibilities in providing adequate public services to their citizens? What can be done to ensure that state reforms match the basic aspirations and needs of countries as well as reflect political and socio-economic realities?

The argument and structure of the paper

This paper seeks to provide an overview of the major issues, trends and problems in public sector reform in the 1990s. Studies on public sector reform have remained fragmented, with scholars emphasizing different elements of state restructuring and, at best, making only passing references to others. To some, public sector reform is simply a code word for downsizing, while others associate it with managerial or civil service reforms. When applied to developing countries, the capacity building or human resource development aspects tend to gain prominence in the works of some authors. And those working on the governance or political aspects of institutional design have tended to ignore managerial issues in the dynamics of reform. This paper seeks to integrate analysis of the various elements of the reform process. Two major initiatives have been central to the process of state restructuring—public sector management reform and the distribution of governmental power among competing interests in society.

Public sector management reform deals with issues of fiscal stability, managerial efficiency, capacity building and public accountability; whereas reforms relating to the distribution of power are concerned with the promotion of plurality in the central institutions of government and dispersal of power to lower authorities. The latter set of reforms is discussed in a separate paper (Bangura and Nakamura, 1999). The present paper deals with the public sector management reforms. Both are being applied in varying degrees across regions and countries. Despite the strong calls for reform, there are fundamental differences between vision and reality and between theory and practice. The content and depth of the reforms vary considerably between developed and developing countries—and even between countries within the same region or with similar levels of development. Organizational cultures, political institutions, the nature of social segmentations, power relations and international donor pressures are important factors to consider in understanding why state authorities choose some reforms instead of others, and why some reforms have been more difficult to implement than others.

The paper is divided into seven sections. The next one examines four main global issues that are driving public sector reforms—financial globalization, fiscal deficits, adjustment programmes of multilateral agencies and democratization. Section III provides a brief summary of the various components of public sector reforms—fiscal stability and downsizing, managerial efficiency, capacity building and public accountability. Section IV discusses the social and institutional effects of two key reform measures associated with fiscal stability and downsizing—public expenditure reforms and privatization. Section V focuses on reforms dealing with managerial efficiency as well as the institutional and capacity issues related to these reforms; and section VI discusses capacity-building reforms. Section VII concludes the study and offers suggestions about how to ensure that public sector reforms are accountable to society and sensitive to the political realities of adjusting states—especially those with weak institutions.

II. The Global Pressures for Public Sector Reform

Financial globalization

Among the forces that are reorienting visions about how national public sectors should be organized, four are of special significance. The first is the spread of global markets, especially those relating to financial integration and liberalization. At the end of 1995, the world's financial markets stood at $33.5 trillion[1]—of which the equity markets accounted for $13 trillion and the bond markets $20 trillion. About three fifths of the bonds were issued by governments in OECD countries, with two fifths to cover budget deficits (Warburton, 1999). Bond issuance was seen as an alternative to central bank financing (monetization) of deficits, which was believed to be inflationary. Net capital flows to developing countries also expanded greatly from $8.1 billion in 1970 to about $200 billion in 1996 (IMF, 1998a). It is reckoned that developing country governments accounted for about 2 per cent of the bonds issued in the international capital markets in 1995.

About 30 big banks and investment institutions dominate the management of funds that flow through these markets. Within countries, there has been a major process of integration of different financial institutions—such as investment, deposit and retail banks; insurance companies; estate agencies; and pension funds. This has promoted a process of securitization—the transformation of different types of financial assets into bonds. The liberalization of capital controls in the 1980s in many OECD countries has in turn transformed the integration that has taken place in national financial markets into a global phenomenon. Today, a bond may be issued, say, in Jakarta by a public authority, funded in Amsterdam, serviced in London and held as a pension fund in New York. This has implications for the organization of public sectors and the behaviour of those entrusted to run them. While the choices of savers and borrowers have increased as a result of financial globalization, the links between the two sets of actors have become progressively weakened (Warburton, 1999).

Savers or investors often do not have adequate information about borrowers—especially new borrowers in foreign lands. Possibilities for fraud, default or poor management are thus high. These outcomes can be disastrous for savers, many of whom now include ordinary pension fund contributors or the public. This may partly explain current concerns in international financial circles for public sector transparency, protection of property rights, sound finance and deregulation. The ease with which funds can be transferred from one country to another allows financial markets to act as an agency of restraint or discipline on the behaviour of national macro-economic policy makers. The latter have to get right what the markets consider "fundamentals"—essentially, low budget deficits and low inflation rates—in order to avoid a sudden withdrawal of funds and precipitation of a financial crisis. The growth of international finance has a potential to create a standardized form of public sector in countries that are well integrated into the global economy.

[1] All references to dollars are to US dollars.

Fiscal deficits

The second type of pressure that is changing conventional ideas about the public sector is the fiscal deficits experienced by most states in the 1970s and 1980s. Whereas the average budget balances as a percentage of GDP for OECD countries between 1960 and 1969 was about 0 per cent—with countries like Germany, Japan and Sweden recording positive balances—in the 1970-1979 period average balances turned negative. Deficits were particularly high during the 1975-1978 oil price-induced recession: -4.6 per cent in 1975, -4.2 per cent in 1976, -3.4 per cent in 1977 and -3.4 per cent in 1978. A deficit of about 3-4 per cent was common for much of the 1980s, with figures averaging 5-6 per cent of GDP between 1983 and 1986. Deficits of more than 10 per cent of GDP were the norm in Belgium, Greece, Ireland, Italy and Portugal. They were also a problem in developing countries. In Africa, average deficits between 1975 and 1978 were 6.5 per cent of GDP; and about 4 per cent of GDP in the 1980s. In this region, there were many countries with deficits of more than 10 per cent for some years—Ghana, Liberia, Malawi, Mauritius, Togo, Zaire and Zambia, for instance. In Latin America and the Caribbean, the average deficit for 1975-1978 was much lower than that for Africa and the OECD countries—2.7 per cent of GDP. However average deficits increased during the 1980s to 5.8 per cent of GDP; they rose to about 8 per cent between 1980 and 1986—with Belize, Bolivia, Brazil, Jamaica, Mexico, Nicaragua and Suriname sometimes recording deficits of more than 10 and 20 per cent. Deficits in Asian countries averaged 4 per cent between 1975 and 1989. Bangladesh, Burma (now Myanmar), Indonesia, Korea, Malaysia and Singapore had deficits of less than 3 per cent (IMF, 1988).

What constitutes a fiscal crisis depends ultimately on how deficits are financed, and whether an economy is growing enough to support deficits that are financed through monetary expansion or borrowing from the central bank. However, Western policy makers and development analysts in the 1970s and 1980s associated high inflation rates, slow or negative growth, imbalances in external accounts and low domestic investments in most OECD and developing countries with the marked deterioration of government finances. The need to control budget deficits became a major issue in debates about how to get economies out of inflation and recession and promote the private sector. Issues of downsizing, marketization and privatization gained prominence as methods for controlling the fiscal deficits and restructuring the public sector.

Structural adjustment

The third pressure for reform was ideological. If globalization and the fiscal crisis provided the structural contexts for reform, it was the multilateral institutions—especially the IMF and the World Bank—that offered the arguments, policies and, in many cases, guidance for reforms leading to downsizing, marketization, privatization and transparency in the public sectors of developing countries. However, during the 1980s, the stabilization and adjustment programmes of these institutions focused on market efficiency—not on state reform. It was believed that liberalization and downsizing in themselves would produce a minimal, market-friendly and disciplined state. The social costs of adjustment as well as the less than impressive record of implementation of reform and low growth figures in many crisis economies led to a strong proactive interest in state reform in the 1990s. The 1997 **World**

Development Report, for instance, affirmed that "the state is central to economic and social development, not as a direct provider of growth but as a partner, catalyst, and facilitator", and that "the determining factor behind … contrasting developments (among regions) is the effectiveness of the state" (World Bank, 1997a:1). In the view of the World Bank, matching the role of the state to its capabilities can create effective states; and where capabilities are weak it can do so by reinvigorating public institutions.

In the field of public sector reform, the World Bank has focused on civil service restructuring, pay and employment reform, privatization, decentralization and marketization of public services. The IMF on the other hand has concentrated on aggregate fiscal balances, transparent budgetary practices, expenditure controls and tax administration. The division of labour is not watertight, as the World Bank also works in many of the Fund's core activities. The key ideas of the Bank and Fund were themselves influenced by insights from new institutional economics[2] and principal-agent theory.[3] Of importance here is the view that the public sector is overly bloated and underperforms because state officials pursue their own narrow self interests rather than the public interest; and that it is difficult to extract accountability and good performance from public servants because of the monopoly characteristics of public services, imperfect information about the abilities and interests of public employees, and the huge transaction costs that would be involved in efforts to write and monitor complete contracts.[4] It is believed that subjecting the state to greater competition may allow governments and society to overcome these problems.

Democracy

The fourth pressure for reform came largely from society and is related to the democratization that swept much of the world in the 1980s and 1990s. Social forces associated with political reforms were ambivalent about the value of markets, downsizing, privatization and transnationalization. Democratization was linked with calls for better forms of representative and accountable government, and dissatisfaction with the quantity, quality and cost of public service. Survey data in OECD countries and anecdotal evidence in the developing world suggested that civil society's opposition to the state was often at odds with the visions of downsizing and marketization held by neoliberal governments and agencies. Despite public opposition to high taxes and poor or deteriorating services—arguments used by governments and agencies as justification for the reforms—public preferences were for state involvement in the provision of more and better services. Popular pressures for democratization were also linked in some multi-ethnic societies—such as

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[2] The key issues in new institutional economics are transaction costs, uncertainties and contract enforcement. Entrepreneurs, for instance, may transact businesses within organizations (or set up institutions that are hierarchical) rather than in the open competitive market if the transaction costs are high and the activities themselves are repetitive.

[3] The principal is society and the agents are the public servants. The interests of the principal and the agents are not necessarily the same. If accountability mechanisms are weak, the agents may pursue their own interests rather than those of the principal.

[4] It is impossible to write complete contracts because of uncertainties. It is impossible to know exactly—to the smallest detail—everything that may be needed to accomplish a particular job. Besides, managers may find it difficult to monitor on a minute-by-minute basis what a public servant does at work for the eight hours he or she is paid to work.

Bolivia, Guatemala, Nigeria and Sri Lanka—with demands for decentralization, which is a central feature of public sector reform.

Donor agencies—in France, the United Kingdom and the United States, for instance—also played key roles in influencing the process of democratization in developing countries. However, such pressures were not always consistent as other foreign policy and commercial issues dictated application of the principles of democratization in specific countries. The Bretton Woods institutions—especially the World Bank—also recognized the role of democracy in public sector reform. These institutions tended, however, to adopt an instrumental view of democracy—it was useful in efforts to curb corruption, change non-reforming governments and advance liberalization policies. Populist forms of democratization that threatened the market reforms were viewed with disfavour.

There were efforts by social groups and organizations to adapt to the changes involved in public sector reform and ensure that public and individual interests were protected. Where reforms were perceived to lead to better services and offered prospects for participation in governance and development, they tended to be welcomed or not strongly opposed by the public. Where they threatened livelihoods and undermined participation and accountability they were resisted or not fully embraced. Perceptions of gains and losses vary a great deal among groups in the public sector and within society generally (Larbi, 1999a). Such ambiguity has allowed external agencies and governments to retain control of the public sector reform agenda even if they have not always obtained the desired results.

III. Public Sector Management Reforms

The public management reforms cover a range of initiatives that seek to achieve four main objectives—fiscal stability, managerial efficiency, state capacity and public accountability. Reforms dealing with fiscal stability apply to all states, although policies for achieving results may vary across countries. In general, fiscal reforms are the most consistently pursued and far-reaching of the public sector management reforms—with direct implications for the well-being of public sector employees, state capacity and social development. They deal with issues of downsizing or expenditure reduction, privatization and tax reform. Reforms that seek to promote managerial efficiency focus on organizational restructuring and introduction of market or quasi-market principles in the delivery of public services. They address three main issues—decentralized management and creation of executive agencies out of monolithic bureaucracies, performance contracts for employees and contracting-out of services to the private sector.

The most comprehensive reforms in the field of efficiency promotion and organizational restructuring are in OECD countries—with Australia, New Zealand and the United Kingdom as the lead reformers. However, aspects of these reforms are being applied in many developing and transition economies—especially those that are heavily dependent on donors for the financing of government activities. As these reforms deal with institutional issues, there is often a wide gap between expressed goals and concrete outcomes—even in OECD countries. Pre-reform administrative styles or methods of work, bureaucratic rivalry, institutional inertia, weak capacity and, in some cases, market failures act as serious constraints on implementation.

Capacity-building reforms tend to be restricted largely to the developing world, especially the "least developed countries"—most of which are in Africa. They address issues relating to the technical capacities of civil servants in policy analysis and monitoring, management of recurrent expenditure costs to ensure sustainability of projects, public investments and pay reforms. Reforms dealing with public accountability seek to improve transparency in public policy and at the same time promote popular participation in the delivery of public services. Among the instruments that have emerged for the attainment of these goals are Citizens' Charters, Ombudsmen and service delivery or user surveys. Issues of parliamentary plurality, press freedom, independent judiciaries, development of mass-based political parties and civic action are also central to public accountability. It is important to see the links between the goals and the reforms as an integral whole rather than as discreet elements that demand different reform instruments for each of the goals. For instance, some of the fiscal reform instruments are often justified as efficiency enhancing, while the managerial reforms are believed to contribute to fiscal stability. Of the four broad areas of reform, the international financial institutions attach primary importance to fiscal stability, followed, in descending order, by managerial efficiency reforms, capacity-building reforms and public accountability. The bulk of the discussion will focus largely on the first three areas of reform, and the concluding section will address the fourth.

Box 1: Policy goals and reforms in public sector restructuring

Goals	*Reforms*
Fiscal stability	• *Expenditure reduction* • *Privatization* • *Tax reform*
Managerial efficiency	• *Decentralized management* • *Executive agencies* • *Quasi-markets* • *Corporate board of directors* • *Performance contracts* • *Contracting-out*
Capacity building	• *Human resource development* • *Policy analysis and monitoring* • *Management of recurrent costs* • *Management of public investment* • *Pay reform*
Public accountability	• *Citizens' Charters* • *Ombudsmen* • *Service delivery surveys* • *Plural parliaments* • *Press freedom* • *Independent judiciary* • *Mass-based political parties* • *Civic action*

IV. Fiscal Stability

There have been concerted efforts by governments and multilateral financial institutions to reduce the size of the state and restructure the various components of its spending activities. Policies have focused on the expenditure and revenue sides of the fiscal problem. In addition, privatization has been used as an instrument to support the goals of fiscal stability and state contraction. How have governments gone about pursuing these goals? What results have they yielded? Is the state contracting or still growing in various regions of the world? Has fiscal stability been achieved? And what are the social implications of the fiscal reforms?

Public expenditure reform

During the 1980s, average central government spending as a percentage of GDP varied between 25 per cent in South Asia and 39 per cent in the Middle East and North Africa—with sub-Saharan Africa (27 per cent), East Asia and the Pacific (26.5 per cent) and Latin America (26.5 per cent) occupying intermediate positions. The figure for the industrialized countries was 35 per cent (World Bank, 1997a). All regions arrived at these levels of expenditures from relatively low figures of less than 20 per cent during the 1960s. Levels of state expenditure did not correlate with levels of economic development. However, there were marked differences in the expenditure patterns of developed and developing countries. On average, the largest share (more than 45 per cent) of central government expenditure in industrialized countries was accounted for by social security transfers and social service (especially health) provisioning (IMF, 1996). In developing countries—except for those in Latin America—social security and welfare occupied minor roles in public expenditure profiles. Instead, the largest shares were taken up by capital expenditures (on average, more than 30 per cent), government administration (15 per cent) and wages (26 per cent). Expenditures on education (11.4 per cent on average) and health (about 5 per cent) were much lower than capital expenditures. The emphasis on capital expenditure in developing countries should be understood in the light of the strong need expressed by new states for rapid infrastructure development and growth. Debt repayment also constitutes a substantial part of the expenditures of low-income countries—especially those that are heavily indebted.

Expenditure reforms in OECD countries

Public expenditure reforms in the 1980s and 1990s have reflected these differences in expenditure patterns. In industrialized countries, the emphasis has been on the welfare and social service components of state expenditures, although the extent of adjustment has varied among countries. In these countries, expenditure reforms seek to address the problems associated with changes in demographic trends and high dependency ratios; [5] unsustainable tax burdens; and informalization, tax evasion and erosion of the tax base—as well as high wage costs and rigid labour markets that may undermine national competitiveness as countries become further integrated into the global economy. Trends in welfare expenditure reforms reflect differences in welfare

[5] Labour force participation rates are falling due to high levels of unemployment, whereas the proportion of the aged is increasing—raising the problem of unsustainable state-financed pension schemes and other traditional welfare services.

state systems. Countries that have opted for wide-ranging neoliberal reforms—Australia, Canada, New Zealand, the United Kingdom and the United States—have pursued policies of labour market and wage flexibility, greater selectivity in welfare support and gradual erosion of benefits and coverage.

Scandinavian countries, on the other hand, have been concerned about how to adjust their traditionally active labour market policies, relative gender equality and high rates of labour force participation—as well as their generous benefit schemes—to problems of declining revenues and growing public dissatisfaction with high taxes. Fiscal reforms in these countries have focused on reducing unemployment benefits and marginal tax rates;[6] extending pension contribution years; tying benefits closely to contributions; privatizing some aspects of service delivery; and promoting workfare schemes as a central component of unemployment benefits. Most other European countries have traditionally supported high social transfers at the expense of social services—although there are trends in recent years to carry out more radical reforms of their welfare systems. In these countries—especially the Latin ones in southern Europe—social expenditure policies are oriented towards protection of the male employee who is expected to shoulder the responsibilities of the family. They have also tolerated large-scale unemployment, early retirement and high pension payments, even though their sustainability has been seriously questioned (Esping-Andersen, 1996).[7]

There is controversy among scholars on the question of whether public expenditures in industrialized countries—especially those relating to welfare and social services—have declined. Data for the 1980s suggest that total and central government expenditures grew, albeit marginally, from 45 to 47 per cent and 30 to 33 per cent of GDP, respectively; and expenditure on social security and health as a percentage of GDP rose in most countries. This has led to the conclusion that the welfare state has shown a remarkable degree of resilience; and that social expenditure reforms have been modest (Pierson, 1996; Esping-Andersen, 1996; Stephens, 1996). Pierson attributes this resilience to three main issues:

- Since the welfare state is believed to represent the current *status quo*, radical reform is difficult to implement in political systems where a coalition of parties share power.
- Despite the costs of the welfare system, it continues to enjoy high public support.
- Some of the beneficiaries of welfare have proven to be well organized in protecting benefits.

Data for the 1990s and new insights on patterns of social expenditure restructuring have challenged this view of welfare state resilience. Clayton and

[6] The Swedish government announced big income tax cuts in its 2000 budget proposals in September—the $1.2 billion tax cuts are targeted at middle- and low-income earners ("Sweden unveils big income tax cuts", **Financial Times**, 21 September 1999).
[7] It has been estimated, for instance, that 60 per cent of Italy's expenditure on welfare goes on pension payment. The European average is 45 per cent. Because of the high pension share of public expenditure, Italy finds it difficult to finance a system of unemployment benefits. Economists contend that the welfare programme rewards the old and punishes the young, by making the latter immobile, averse to risk and dependent on parents. See Blitz, 1999.

Pontusson (1998:69) report that when issues of inequality, mass unemployment and wider public sector reforms are factored into the analysis, "major changes ... in the scope and organization of public welfare provision [have occurred] ... across the OECD area ... generally". In Sweden, since some benefits—such as the supplementary pension scheme, sick pay and parental leave insurance—are tied to employment, a doubling of the unemployed population in the first half of the 1990s increased the number of people who were excluded from universalistic welfare programmes. Total social spending per poor person grew less than real GDP per capita in Britain, Germany, Sweden and the United States between 1979 and 1992; and the average annual growth of total social spending per aged and unemployed person fell sharply in those countries between 1980 and 1993. Using current socio-economic data from the OECD's **Historical Statistics**, Clayton and Pontusson reveal a consistently downward trend in the growth rate of real government expenditure for the years 1960-1973 (3.6 per cent), 1973-1979 (2.8 per cent), 1979-1989 (2.4 per cent) and 1989-1994 (1.2 per cent). The size of the public sector labour force also fell sharply for most countries during the 1990s.

In 15 OECD countries for which data are available, wage inequality between the top and bottom income groups increased among men in 12 countries and among women in 9 between 1975 and 1995; the percentage of the population earning less than 40 per cent of the median income grew between 1980 and 1991 in the four countries that are often used to illustrate different models of welfare state systems—Britain (20.0-25.7), Germany (13.1-14.1), Sweden (16.4-20.6) and the United States (18.8-21.0); and the percentage of individuals receiving means-tested social assistance increased in all but three OECD countries between 1980 and 1992. In European OECD countries, it would seem that social expenditure restructuring has affected the social services much more than social security transfers. The public share of total health expenditure fell or remained the same in 9 out of 12 European countries during the 1990s.

Expenditure reforms in developing countries

Public expenditure reforms in developing countries have focused largely on cutbacks in capital expenditures, the wage bill, employment and administration. The IMF and the World Bank have played major roles in influencing the size and composition of expenditures in these countries. The IMF has tried to achieve this through its Enhanced Structural Adjustment Facility (ESAF)—which was established in 1987 and is targeted at low-income countries. Its loans carry lower interest rates and longer repayment periods than normal IMF stand-by arrangements. By 1997, about 80 countries were eligible for ESAF loans and 35 ESAF arrangements were in operation. The World Bank's work in public expenditure reform is carried out through its Structural Adjustment Loans (SALs) and Sectoral Adjustment Loans (SECALs). Between 1979 and 1994, about 250 of these loans in 86 countries addressed fiscal reforms. A total of 51 per cent of the loans went to Africa and 23 per cent to Latin America. Other regions, including transition economies in Eastern Europe, accounted for less than 10 per cent each. However, the share in value of loans was roughly equal between Africa (30 per cent) and Latin America (29 per cent)—with transition economies accounting for 16 per cent of the total (World Bank, 1997b).

For loans that are directly related to expenditure reforms, which fall under the World Banks' Public Sector Management (PSM) portfolio, the distribution has been different. Even though Africa attracted more of these loans—implying more intense reform activities—half of their value went to Latin America in 1995-1997, more than 25 per cent to transition economies and only 12 per cent to Africa. The African share had dropped from about 20 per cent in the period 1988-1992 (Berg, 1999; World Bank, 1997c). A World Bank evaluation report (1997b:84) on fiscal management reported that "low income countries tended to face more binding conditions than high-income countries, and conditions tended to be stronger in AFR (Africa) and ECA (Eastern Europe and Central Asia) than in LAC (Latin America and the Caribbean)". Table 1 highlights the distribution of loan conditions by expenditure reform goals in 1980-1994. The reforms dealing with direct expenditure reduction objectives account for more than half of the total activities (126). The single largest number of reform activities (52) was in capital expenditure.

Table 1: Loan conditions by expenditure reform objective, 1980-1994

Condition	Number of countries on which condition was imposed
Expenditure reforms	126
Streamline budgetary processes and accounts	42
Civil service reform	42
Privatization and marketization	43
Social sector restructuring	60
Poverty alleviation	10
Participation	1
Others	26

Source: Adapted from World Bank, 1997b.

What have been the outcomes of expenditure reforms in developing countries? Reductions in overall fiscal deficits became visible for most regions only during the 1993-1997 period—from -6.3 to -2.9 per cent for Africa; -2.9 to -2.4 per cent for Asia; and -8 to -3.6 per cent for the Middle East and Eastern Europe. Latin America achieved fiscal stability by 1990 (-0.2 per cent); fiscal deficits rose to -0.9 per cent in 1993 and -1.9 per cent in 1994 before declining to -1.7 per cent in 1996 and 1997 (IMF, 1998a). Both the IMF and World Bank report that adjustment has taken place largely on the revenue side of the fiscal equation[8] (IMF, 1998b). However, data for Africa from the World Bank's **African Development Indicators** (1998/99) suggest that public expenditure as a percentage of GDP fell consistently from 30.8 per cent in 1992 to 21.8 per cent in 1996, even though it rose to 22.3 per cent in 1997. ECLAC (1996-97) data for Latin America suggest that expenditures have been fairly stable, with

[8] The IMF has been pursuing a wide range of tax reforms in developing countries. The core of these reforms focuses on simplification of the tax system, reforming and granting autonomy to the tax administration system, bringing more taxpayers into the tax system, promoting value added tax or consumption tax and reducing states' dependence on international trade taxes.

periodic minor contractions and overruns during the 1990s for some countries. Only in Honduras and Mexico have expenditures fallen consistently and sharply during the review period. In Mexico, public expenditure as a percentage of GDP dropped from 31.8 per cent in 1990 to 23.6 per cent in 1997. Expenditure cuts of about 4 per cent of GDP were also recorded in the Middle East and North Africa between 1979 and 1994 (World Bank, 1997a).

Table 2 provides insights into government expenditure trends in various regions. The data suggest that, although governments grew, albeit slowly, up to the early 1990s, it seems that for some regions, governments were beginning to shrink in the mid-to-late 1990s. For OECD countries, it is the rate of growth of public expenditures as a percentage of GDP—rather than the absolute level—that has been declining. Given the marginal changes involved, it is difficult to establish whether the decline observed in other regions—such as Asia, North Africa and sub-Saharan Africa—is a sustainable trend. It should be noted that despite the importance given to expenditure adjustment by the IMF and the World Bank, fiscal data are not always accurate—especially for developing countries. Public expenditure data produced by the key international financial institutions are often incomplete for many countries, which makes it difficult to assess the effects of reforms across regions (see Therkildsen, 1999, for a discussion of data problems). Regional averages also conceal country differences in performance, which can sometimes be significant. Fiscal adjustment on both the expenditure and revenue sides of the equation has been particularly difficult for low-income, highly indebted and primary commodity exporting countries, despite each being a recipient of more than three adjustment loan programmes and intense fiscal surveillance from the Bank and the IMF (World Bank, 1997b; IMF, 1998c).

Table 2: Are central governments shrinking?—Trends in public expenditure in various regions of the world (as a percentage of GDP)

	1980	1990	1993	1994	1995	1996	1997
Sub-Saharan Africa [(a)]	25.5	26.3	27.0	26.8	23.5	21.8	22.3
North Africa [(a)]	39.0	29.4	34.4	32.5	30.7	28.9	30.4
Latin America [(b)]		24.5	21.7		23.6	23.4	23.6
South and East Asia [(c)]	29.4	37.3			30.2	26.2	

Note: Sub-Saharan Africa does not include South Africa.
Sources: (a) World Bank (1999); (b) ECLAC (1997); (c) ADB (1997 and 1998).

Public expenditure reviews and cash budgets

Problems of expenditure restructuring in low-income countries encouraged development of two major reform instruments—public expenditure reviews and cash budgeting. Public expenditure reviews examine all aspects of a loan recipient's public expenditures—including sectoral allocations, investment programmes and budget policies. They are seen as a way of checking expenditures that are likely to escape verification of public investment programmes. The number of reviews grew considerably in the 1990s. Between 1987 and 1998 more than 200 reviews were carried out in loan recipient countries. However, it has been found that most expenditure reviews are prepared by Bank staff or foreign consultants and lack national participation (IMF, 1998c); and that impacts have been modest or negligible. Critics—including independent Bank-sponsored evaluation teams—maintain that reviews are often delayed and hardly match a country's budget cycle; their recommendations are unprioritized and sometimes even duplicate the failed policies of governments in several contexts (Berg, 1999; World Bank, 1998a).

Cash budgeting acts as an agent of restraint on the spending habits of ministers and bureaucrats. It aims to stop government treasuries from printing money or borrowing from the central bank to meet their obligations. Cash budgeting creates new rules and procedures on fiscal management—finance and line ministries can only spend what they have in the bank; overdrafts are disallowed. Variants of the cash budget rule include proposals for balanced budgets—which most states in the US have adopted; and numerical limits on fiscal deficits and debt—which the EU has imposed on members for monetary union and participation in the European Monetary Union. A growing number of fiscally distressed economies are currently implementing cash budgets—including Bosnia-Herzegovina, Malawi, Peru, Tanzania, Uganda and Zambia, (Therkildsen 1999; Bolnick, 1997; Stasavage and Moyo, 1999; Chiwele et al., 1999; Carlson, 1999).

In Zambia, which is the most celebrated case, the Joint Data Monitoring Committee was created, comprising officials from the Ministry of Finance and the Central Bank, to ensure that the cash budget was effectively implemented (Bolnick, 1997). The committee meets daily to vet fiscal and monetary data and submits weekly reports to top government officials concerned with economic policy making. In the case of Uganda, considerable authority is given to the Ministry of Finance to determine appropriate monthly spending levels as well as the distribution of funds to line ministries. Under the Ugandan scheme, the finance minister is not prohibited from borrowing from the Central Bank and the president can intervene on spending policies.

The cash budget has contributed to a reduction of budget deficits in the countries that have used it. In Zambia, for instance, during the first year of the policy the government turned a deficit of 69 billion kwacha into a surplus of 24 billion (Bolnick, 1997). The sustainability of the policy is, however, open to serious doubt. First, governments have found it difficult to stick to the cash budget rules all year round because of their negative implications for public service provisioning. Studies on Zambia's cash budget have revealed wild fluctuations in expenditures, with cash outflows outpacing cash inflows during some months in the budget cycle. Political leaders have intervened at critical periods to request central banks to lend money to ministries in order to prevent cash problems turning into political crises. For instance, the Bank of Zambia gave the Ministry of Finance 5 billion kwacha to avert a major catastrophe in maize marketing and crop financing in the 1993-1994 cropping season. The government had overestimated the capacity of the private sector to take over the parastatals' functions of crop financing and marketing. High interest rates were a severe constraint on private traders and service providers to participate in the liberalized agricultural sector. A food crisis was averted only when the government stepped in to assist the private traders and violated its own cash budget principles (Chiwele et al., 1999; Bolnick, 1997).

Second, Bolnick (1997), and Stasavage and Moyo (1999) have shown that cash budgets can distort the composition of expenditures. Faced with a cash constraint, ministries are likely to spend money on non-essentials—there may be money for foreign travel instead of rural extension work; workers may not be paid but officials may still receive their perks and have their offices refurbished, etc. Stasavage and Moyo demonstrate that cash budgets may punish social ministries and reward offices associated with the presidency. In Zambia, the presidency had expenditure overruns equivalent to 1 per cent of total expenditures in 1994. This was roughly the same as the 12 per cent shortfall experienced by the Ministry of Health in the same period. In Uganda, expenditure overruns in the president's office were almost equal to the combined shortfalls of the Ministries of Agriculture (-51 per cent) and Education (-29 per cent). Third, cash budgets may make it difficult for line ministries to plan properly. They may undermine efforts to introduce performance targets for employees as well as social pacts to minimize industrial conflicts.

Social effects of expenditure reforms in low-income countries

In general, expenditure reforms had strong negative effects on the social sectors of adjusting countries in the 1980s (Cornia et al., 1987; World Bank, 1994). In Africa, for instance, government and World Bank expenditures on education as a percentage of GDP in 21 countries for which data are available show a sharp deterioration—they fell from 4.6 per cent in 1980 to 2.6 per cent in 1985 and rose slightly to 2.7 per cent in 1990. Education's share of total government budgets fell even more sharply—from 20 per cent in 1980 to 9.8 per cent in 1985; it only recovered in the late 1980s, recording 13.6 per cent in 1990. Obsessed with fiscal and other problems of economic stabilization, the World Bank considerably reduced its lending to the education sector, introduced more intrusive rules for its loan programmes, and encouraged "non-sector specific" cuts on civil service wages and employment levels that further hurt labour-intensive sectors like education (World Bank, 1994).

An evaluation report in 1994 on the World Bank's role in human resource development in Africa found that the Bank's annual loans on education fell from $0.50 per person (in 1990 dollars) for the period 1972-1981 to $0.32 per person during the period 1982-1988 (World Bank, 1994:44). The World Bank's contribution as a percentage of the education budgets of a panel of 21 countries actually collapsed from 37.3 per cent in 1975 to 0.9 per cent in 1985 (World Bank, 1994:103). Following criticisms from international organizations, such as UNICEF, civil society groups and social democratic governments and parties, the Bank did a rethink of its expenditure reform policies in the late 1980s and early 1990s.

Since then the Bank's focus has been not only to demand lower aggregate expenditures from loan recipients, but also to recommend restructuring of the composition of expenditures—shifting resources in favour of non-wage activities, maintenance and social expenditures; and ensuring that primary education and health care are protected or enjoy superior funding at the expense of tertiary services. Recent IMF data suggest that some progress has been made in achieving these objectives. Despite the insistence on aggregate expenditure controls, 32 low-income countries under ESAF experienced an increase in real per capita spending on health and education by an annual average of 2.8 per cent between 1985 and 1996.[9] However, although this is an improvement on the record of the 1980s, it may not represent substantial progress when set against the very large unmet needs for education and health services as well as the diminishing or stagnant incomes that are still a feature of the 1990s in many low-income countries.

Privatization

Privatization, or the transfer of state assets to the private sector, is a central component of downsizing. It contributes to fiscal stability in two main ways. First, gains can be made on the expenditure side by withdrawing subsidies to loss-making companies and imposing hard budget constraints on the economic decisions of managers. A privatized loss-making enterprise can also contribute to government revenues through taxation if its activities turn out to be profitable. Second, the revenue derived from selling state enterprises to the public can help governments close their fiscal gaps. In general, however, fiscal problems are cash flow problems, which may not be eliminated by one-off sales. Privatization may improve a country's fiscal position only if the public enterprises account for high fiscal expenditures (Hachette, 1996).

The expenditure reduction goal of privatization has been important in most countries that have implemented privatization programmes. Many state enterprises in developing and transition economies have enjoyed what Kornai has referred to as "soft budget constraints"—unlimited access to subsidies and grants, soft credit systems and preferential treatment in tax rates (Raiser, 1996). A soft budget constraint encourages managers to believe that the state would come to their rescue if ever they encountered difficulties. It reduces the incentive to minimize costs. One feature of the privatization policies of countries faced with these problems has been to corporatize the enterprises and withdraw or minimize government support as a first step towards full privatization.

The revenue-raising aspect of privatization has largely been limited to Latin American and OECD countries that have implemented big privatization programmes, using methods of direct public auctions on stock markets. In the Middle East, North Africa and sub-Saharan Africa, privatization has been very slow, involving mainly small and medium-sized enterprises. As table 3 shows, privatization receipts in these two regions are the lowest in the world. The role of privatization as a revenue-generating instrument has also been limited in the transition economies because of the voucher scheme that has been used to facilitate sales. Vouchers have been distributed to the adult population, often at

[9] Concerns have been expressed about the IMF's methodology on social spending reviews, which uses GDP deflators instead of social sector wage deflators. The latter would be a more accurate measure of real trends in education and health expenditures since 90 per cent of education and most of health expenditures are wage-related. See exchange between N. Alexander (Director of Globalization Challenge Initiative) and S. Gupta (Chief, Expenditure Policy Division) of the IMF. Gupta concedes the point but states that wage deflators are hardly available for most countries. For 10 countries for which the IMF has such data, which are not revealed, he states that their expenditures on health and education increased on average by 2 per cent (**Financial Times**, 12 and 19 July 1999).

give away prices (Rodinelli, 1994), to deflect public criticism of privatization and encourage popular participation in the evolving market economies.

Table 3: Privatization revenues in developing and transition societies ($ millions)

	1990	1991	1992	1993	1994	1995	1996	Total
Latin America and the Caribbean	10,915	18,723	15,560	10,487	8,198	4,615	14,143	82,641
Transition countries	1,262	2,551	3,626	3,988	3,956	9,741	5,466	30,591
East Asia and Pacific	376	835	5,161	7,155	5,507	5,411	2,697	27,123
South Asia	29	996	1,557	974	2,666	917	889	8,028
Sub-Saharan Africa	74	1,121	207	640	602	472	745	3,861
Middle East and North Africa	2	17	70	419	782	746	1,477	3,510

Source: World Bank (1998b).

Between 1985 and 1995, 11 European Union countries[10] netted almost $97 billion from privatization, which was an average of about 3 per cent of their GDPs. The greatest gains, as a percentage of GDP, were made by the United Kingdom (9 per cent), Portugal (5.8 per cent) and Sweden (3.9 per cent). Privatization became a useful tool of budget deficit reduction as countries struggled to meet the Maastricht budgetary criteria for joining the European Monetary Union. Privatization receipts were seen as less politically risky in efforts to reduce the public debt than public expenditure cuts or tax increases. Cash-strapped governments often announced targets for annual privatization revenues as part of budget forecasts, underlining the direct link between privatization and fiscal policy (Parker, 1998).

The financing of fiscal deficits and attraction of foreign investment were important goals in the privatization strategies of Latin American countries. Data for Argentina (1985-1991), Chile (1983-1986) and Mexico (1983-1990) suggest the use of privatization as a deficit-financing instrument—including financing of current expenditures. Peru and Venezuela have also relied on privatization receipts to overcome severe fiscal constraints. Argentina, Chile and Mexico have used privatization receipts to reduce the stock of their domestic public debt. In Mexico, for instance, a special fund was created in 1990 to retire some of the government's domestic debt obligations using privatization revenues—$7 billion was retired in 1991 and $5 billion in the first quarter of 1992 (Devlin, 1994).

Privatization is now a global phenomenon. Between 1990 and 1996, states in developing and transition economies divested $155.654 billion of their assets to

[10] Austria, Denmark, Finland, France, (West) Germany, Italy, Netherlands, Portugal, Spain, Sweden and the United Kingdom.

the private sector. If we add the privatization transactions of industrialized countries, which had a value of about $175 billion between 1988 and 1993, it is clear that governments are disengaging, even if unevenly, from direct ownership of business enterprises. Indeed, the number of privatization transactions multiplied more than threefold from 696 in the period 1980-1987 to 2,655 in 1988-1993—with all regions showing positive change. Even though the share of public enterprises in the gross domestic products of all developing regions changed little in the 1980s, the 1990s have witnessed distinct reductions for most regions. The share of public enterprises in the GDPs of industrialized countries has declined consistently since 1982.

Welfare effects of privatization

The arguments for privatization seem compelling when enterprises are located in competitive markets and governments do not have to worry about the social or welfare objectives of public enterprises. Examples of such businesses are hotels, bookshops, sugar industries, textiles and taxi-cab companies. Under such conditions, a privatized company is judged largely by the criterion of productive efficiency—is the company able to keep supply costs as low as possible? Insights from principal-agent theory affirm that private companies are likely to be more productively efficient than public enterprises because private managers can be held accountable to only one objective that may limit discretionary or opportunistic behaviour by managers—profitability. A private company with low profits will also experience a declining share price and be exposed to takeover threats from competitors. Furthermore, they may have large shareholders who are likely to be active monitors of company performance; and managers' pay in a private firm may be tied to performance, thus encouraging efficient decisions and work practices. Empirical studies that have compared the two types of enterprises seem to support these theoretical insights (Brown 1998; Parker, 1998; Vining and Boardman, 1992). However, the advantages that private firms enjoy over public enterprises may be eroded if equity holdings are widely dispersed, large firms can postpone or immunize themselves from takeover bids, and public enterprises can be corporatized or made to operate like private firms.

Besides, a large number of the enterprises that were privatized in the 1990s operate in monopolistic or quasi-monopolistic markets and produce goods and services that have strong implications for welfare—electricity, telecommunications, water, post, railways and energy. In developing and transition societies, infrastructure privatization accounted for about 42 per cent of the privatization receipts between 1990 and 1996 (World Bank, 1998b). Privatization of utilities also gained momentum in European Union countries during the 1990s (Parker, 1998). In dealing with these types of enterprises, public welfare may be negatively affected if governments are only concerned about cost reduction or productive efficiency. Since many of these enterprises are monopolies, the new private owners may raise prices substantially above their marginal costs and reap monopoly profits. This will affect consumers, especially poor social groups, which may be excluded from the consumption of basic goods and services. Therefore, when issues of allocative efficiency, or the setting of prices at marginal cost levels, are considered the ownership form is not significant in determining public welfare outcomes. In other words, private forms of ownership are not inherently superior to public ones.[11]

One way in which governments have tried to overcome the constraints of monopoly and defend public welfare in privatization programmes is by unbundling the various components of enterprises,[12] stimulate competition and establish regulations. Advances in information technologies—especially in such areas as fiber optics, cellular and satellite phones, long distance phone calls and data transmission—have greatly increased competition in the telecommunications sector. Where effective regulations are in place—such as in Chile (World Bank, 1995; Betran and Sera, 1996) and New Zealand (Halligan, 1997)—it has been shown that companies do not just make good profits but that services to consumers can also improve. However, data on competitiveness in the global telecommunications industry suggest that even in this increasingly competitive sector there is no correlation between ownership-type and economic performance. Brown reports that in 1995, although the US telecom industry, which is completely privately owned, charged the least fixed prices for business customers globally, the state-owned telecommunictions company in Iceland had the lowest prices for call charges; and, even though the United States scored best in global multifactor productivity, the state-owned Swiss company led in "revenue per employee" and "revenue per line" (Brown, 1998). Where regulations are weak—as in the Philippines telecommunictions industry—privatization has led to very high profits for the new owners but less network expansion and poor services to consumers.[13]

Studies on the experience of the United Kingdom—a pioneering country in privatization—suggest questionable outcomes for a number of privatized utilities. Privatized enterprises have continued to enjoy incumbency or monopolistic advantages—even after 12 years of privatization, British Telecom (BT) controlled 90 per cent of the revenue from household calls and 83 per cent of the total telecom market in 1996; prices paid by consumers for BT services fell by only 1 per cent in four years compared to a drop of 20 per cent for businesses; the Consumer Association in Britain found that for a sample of tickets it bought in 1996 to test whether the new rail companies were charging fair prices, it paid about 73 per cent more than the real price, and that individual tickets "were overpriced by more than £50" (Meek, 1998:109);[14] unmetered water bills rose by 39 per cent between 1989/90 and 1995/96 in

[11] A World Bank study by Galal et al. (1994) reports that in 11 of its 12 case studies, privatization produced on average net welfare gains for consumers. Brown (1998) has recently challenged the methodology used for the study because of its subjective judgements in dealing with counterfactual arguments. The Galal study fails to separate gains attributed to privatization from gains due to other factors.

[12] For railways, for instance, different lines will be allocated to different companies; for electricity, generation will be separated from distribution; for water, competition will be encouraged by allowing different companies to supply different regions, etc.

[13] In the Philippines telecom industry, for instance, rates of return are estimated to be 25.7 per cent.

[14] The new UK strategic rail authority announced this year that the 25 privatized train operators showed signs of improvement in the four-month period to July 1997 compared with the same period last year: more trains ran on time and cancellations were fewer; of the 77 route groups into which the rail system is divided, 41 reduced cancellations, 18 increased cancellations and 18 stayed the same. On punctuality, 40 route groups showed improved performance and 30 recorded a worse performance ("Privatised rail groups show improvement", **Financial Times**, 16 September 1999).

England and Wales; the only visible gains in the privatized utilities were in the gas sector where prices fell by 20 per cent, but this was thought to be related to the sharp drop in natural gas costs (Meek, 1998). The situation in many developing countries where regulatory regimes are weak suggests that the welfare effects of privatization in many utilities may be negative even though privatized companies may be making profits.

A recent World Bank publication on privatization in Africa notes that "in not one country with a privatization program has there been an effort to develop a regulatory framework as an integral component of that program ..." (World Bank, 1998d:5). A study by Manuel Angel Abdala (1994:45) arrives at a similar conclusion for Latin America even though a few countries have made progress in establishing regulatory regimes: "Widespread privatization has been encouraged all over the region. With a few exceptions, however, the transfer of ownership was hurried and performed under constraints imposed by economic and political objectives that tended to overlook the importance of regulating private monopolies". In Brazil, the regulatory institutions were taken over or "colonized" by the very interests they were designed to control. In Argentina, the privatized public utilities were so large and commanded so much market clout that they were more powerful than the regulatory bodies (Mairal, 1996). Chile has been the exception—a regulatory framework was established before privatization and the close links between the regulators and the supervisory ministries were severed, which has allowed the autonomous regulatory commissions to develop arms-length relations with the privatized companies (Betran and Serra, 1996; World Bank, 1995).[15]

Unemployment effects of privatization

There are additional social problems associated with privatization—unemployment and inequality, ethnic and regional imbalance, and loss of national wealth of a strategic nature to foreign interests. Privatization is often associated with short-term retrenchment as new managers seek to restructure what are believed to be overly bloated enterprises, minimize costs and change the terms of employment from permanent tenure to one based on performance and profitability. For instance, in the celebrated case of New Zealand, the state-owned Telecom Company laid off 30 per cent of its workforce in two years before the company was sold to the public; British Telecom lost 100,000 workers between 1989 and 1994; and more than 150,000 workers lost their jobs in Ghana's top public enterprises between 1984 and 1991.

The unemployment effects of privatization must be a cause for concern in developing countries, especially low-income countries and economies in transition, which are reputed to have very large public sector employment outlays. In 1990, public enterprise employment accounted for about 11 per cent of total employment in developing countries; the African average, which was the largest, was 22 per cent; and most people in Eastern and Central Europe were employed in public enterprises under communism. However, the persistence of monopolistic market structures even under privatization has made it possible for governments and privatized companies to minimize the incidence of retrenchment in some cases. For instance, fears of massive retrenchment and salary decreases associated with Chilean privatization in the

[15] These examples are taken from Hutchful's 1999 study for UNRISD.

first half of the 1980s, led most governments in Latin America to extract guarantees of job stability from new owners of privatized companies during the early years of asset transfers. Petrazzini (1996) argues that companies tended to respect these guarantees because they inherited a monopoly market and did not have to be competitive to make profits. Workers' militancy may also check the pace and volume of retrenchment as has been reported in the case of Ghana, which witnessed declining levels of retrenchment and wide differentials between planned and actual retrenchments as the privatization programme progressed (World Bank, 1995). In aggregate terms, however, the 42 largest state enterprises in Ghana experienced a drop in employment from 241,000 in 1984 to 83,000 in 1991.

The situation in transition economies is even more serious because of the strong links between social welfare benefits and employment—under communism, state-owned enterprises offered their employees paid vacation, sickness benefits, health services, subsidized rent and kindergartens, loans, retirement assistance, supplementary pension and subsidized food and transport (Standing, 1996). In the absence of state provision, retrenchment may result in loss not only of income, but also of access to social services. Countries that have been concerned about the welfare effects of privatization have tried to protect some of these benefits, even at huge costs to their economies. The voucher scheme that most countries in the region have used to facilitate privatization has ensured that managers and employees can resist outside pressures for competition if they are determined to do so. Recent studies on privatization in Russia confirm this point. Managers and employees, or insiders, owned 64.26 per cent of the total shares in 314 sampled companies in 1994 after privatization. Filatochev et al. (1999) report that expectations that insiders would divest their shares to outside interests or foreign corporate investors have been unfounded. Both managers and workers want to keep their jobs and have colluded to restrict outside penetration of the firms. In 1995/96 the percentage of shares controlled by insiders went down to only 61.48. Where employees have sold their shares these have gone largely to managers who work in the companies—not to outside interests.[16]

Ethnicity and nationalism

Privatization can also affect ethnic relations and stability especially in deeply divided multi-ethnic societies. The transfer of state assets to the private sector through market instruments often creates winners and losers of a highly lopsided nature. If the privatization outcomes are perceived to reflect strong ethnic or racial biases, losers may seek to obstruct the programme or use the perceived losses as an excuse to stoke up ethnic feelings in the wider body politic. The early efforts at privatization in Nigeria in the late 1980s met with strong criticisms from business groups and elites in the north of the country, who complained that public auctions of federal assets through the Nigerian Stock Exchange would result in a high number of the assets going to business groups and individuals in the south-west region who were believed to have benefited from the enterprise indigenization programmes of the 1970s. Northern state governments set up trust funds to buy up some of the assets

[16] Contrast the Russian experience with that of Hungary where voucher-mediated privatization ultimately led to the formation of corporate mutual fund banks and higher levels of outside participation in the privatized companies.

divested by the federal government, leading to the anomalous situation where privatization was occurring at the centre, whereas governments at the subnational level were increasing their stakes in public assets. The fears of northern businessmen were allayed when the chairman of the largest northern state enterprise, Northern Nigerian Development Corporation, was made director of the federal privatization commission and a scheme was devised to allocate some of the shares on non-competitive terms (Olukoshi, 1990).

Goh and Sundram (1998) report that, in Malaysia, the government allocated 30 per cent of the shares of all privatized companies to the Bumiputera, or indigenous Malay, whose marginalization in the economy had contributed to the race riots of 1969. Prior to privatization, the government had tried to promote Malay interests largely through public sector jobs and scholarships while allowing Chinese business groups to dominate the private sector. Privatization without quotas would have further strengthened Chinese dominance of the economy, provoked hostilities from the Malay, and racialized the debate on retrenchment and restructuring in the newly privatized companies. A similar problem emerged in Tanzania during the debate on privatization in the late 1980s and early 1990s. The African elites who dominate the public sector complained that the previous Ujama or socialist development strategy had made it difficult for Africans to set up private businesses as the minority Asian business community had done. In their view, privatization would, therefore, empower Asians at the expense of the African majority (Booth, 1990). One prominent politician even tried to mobilize popular support and votes on this platform as the political system itself was being liberalized, leading to strains between the two communities. Similarly, the Kenyan government opposed the privatization of maize marketing in the 1980s because of fears that the benefits would largely accrue to the Asian business community (Mkandawire, 1994; Mosley, 1988). The rapid rate of acquisition of public assets in Southern African countries in recent years by white South Africans—especially in Mozambique and Zambia—may provoke a backlash and further poison race relations in that region.

Closely related to the problems of ethnicity are developing country concerns about the transfer of national assets of a strategic nature to foreigners (Mkandawire, 1994). World Bank (1998b) data suggest that foreign investors accounted for 44 per cent (or $69.782 billion) of the revenue from privatization between 1990 and 1996. More than half of this went to Latin America, followed by the transition countries of Europe and Central Asia. The least—about 0.8 per cent—went to the Middle East and North Africa. South Asia and sub-Saharan Africa accounted for slightly over 2 per cent each. The foreign takeover of national assets may be seen as an inevitable outcome of the process of globalization or the transnationalization of states in the world economy. It may help the growth of stock markets in developing countries, provide new sources of capital to depressed economies and contribute to the performance of ailing public enterprises. However, a high proportion of the foreign capital that participates in these enterprises is of the portfolio- (not foreign direct investment-) type—which has proven to be highly volatile and disruptive of national economies. Between 1990 and 1996, such investments accounted for about 38 per cent of foreign participation in privatization transactions in developing countries; in 1996, this was about 50 per cent. Vital national infrastructure and other key economic sectors, which citizens may regard as "national industrial champions", may be exposed to serious crises if there is sudden flight of capital. Indeed, there was a sharp drop in portfolio investment in privatized enterprises in developing countries in 1995—from $5,965 billion in 1994 to $2,959 billion in 1995—following the Mexican financial crisis of that year.

V. Managerial Efficiency

Reforms dealing with managerial efficiency focus largely on the core, non-enterprise, sector of the public service—central administrative, economic and social service ministries; the police; prisons; and local government. Issues of managerial efficiency have also emerged in public enterprises that governments have been unwilling or unable to privatize. In general, privatization is believed to be an inappropriate instrument of reform in the core civil service sector. However, in the last 10-15 years efforts have been made—especially in industrialized countries that are wedded to neoliberal reform—to subject this core public sector to market pressures or restructuring. As problems of administrative efficiency, accountability and corruption emerge or become entrenched in many countries, governments have sought to reform their civil services in order to be competitive in the world market as well as respond better to public demands for improved services.

Some countries, such as those in Scandinavia, have focused largely on better systems of evaluation, corporatization of public agencies and introduction of user charges (Lane, 1997). Others, especially developing countries, have tried to reduce the number of ministries through mergers and reorganizations. Other forms of managerial reforms include clarification of the mandates of ministries and top officials with a view to enhancing policy co-ordination and analysis, strengthening cabinet offices, redefining the relations between political heads and bureaucrats, and introducing good budgetary and audit systems, as well as computerization, to ensure efficient managerial and productive outcomes. Here, the focus will be on the reforms that seek to alter the behaviour of the public service along market or quasi-market lines. These are discussed under three areas—decentralized management, performance contracts and contracting-out of public services to the private sector.

Decentralized management, performance contracts and contracting-out [17]

Scholars in public policy and development administration have categorized the use of market principles in administrative restructuring as "new public management" (NPM). This is distinguished from "old public administration" (OPA), in which ministries and departments are arranged hierarchically and supervised in top-down, commandist ways; employees are guaranteed full-time employment; the civil service is run as a single organization in which bureaucrats can be transferred from one ministry to another; a standard system of remuneration is established for the entire public service; and employees are

[17] This section relies heavily on the following studies commissioned by UNRISD on public sector reform and crisis states: Larbi, 1999b; Therkildsen, 1999; Hutchful, 1999; Carlson, 1998; and Nickson, 1999.

subject to common rules and regulations, including matters relating to promotions and discipline.

The rise of new public management

The old public administration has been under attack since the 1970s in the writings of public choice theorists[18] such as Niskanen, Buchanan and Mueller (Larbi, 1999b). The attacks gained momentum in the 1980s and 1990s as neoliberal governments emerged in key Western countries and adjustment programmes became the dominant instruments for restructuring crisis economies. Public choice theorists argue that the rewards system in the public sector is not oriented towards improving performance and that there are no incentives for politicians and bureaucrats to control costs. There is waste and overexpenditure, with public managers focusing more on delivery of services than on productivity. Niskanen (1971; 1973) and Downs (1967), for instance, contend that the absence of markets as a disciplinary force on the behaviour of government agencies encourages oversupply of public goods and services and large budgets.

Budget maximization may lead to "rent-seeking"[19] behaviour on the part of bureaucrats, politicians and their clients. Society (the principals), on whose behalf politicians and bureaucrats (agents) are supposed to govern, would then be unable to hold the latter accountable because of insufficient information, the incompleteness of the contracts of employment and the problems of monitoring behaviour. The growth of bureaucracies requires ever-expanding hierarchical authority structures to produce results. This may lead to bureaucratic failure as ultimately there are limits to top-down methods of control.

Public choice theorists contend that relying on methods of old public administration cannot solve the problems of bureaucracy. Instead, reformers should import private sector management techniques and practices into the public sector if citizens are to get value for their taxes and hold politicians and bureaucrats accountable to the public interest. Even though public choice ideas were at the fringes of the debate on the reform of government in the 1970s, by the 1980s they had moved to centre stage with the advent of neoliberal governments in the United Kingdom and the United States, and subsequently in Australia and New Zealand. In the case of developing countries, despite acceptance of neoliberal adjustment policies in the 1980s, new public management techniques were not part of their package of economic reforms. However, in the 1990s, the principal agency concerned with adjustment and public sector reforms in these countries—the World Bank—gradually, though sometimes ambiguously, embraced new public management ideas in its policies. This will affect the character of public sector reforms in loan recipient countries.

[18] Public choice theorists assume that individuals make rational decisions based on calculations of self-interest. Public servants should not, therefore, be expected to pursue a public interest that does not coincide with their own self-interests.

[19] Rent-seeking includes, but is not restricted to, corruption. A public official may seek rent if he or she skews the budget in favour of activities—travel, for instance—that enable him/her to make extra money.

Hutchful (1999) highlights policy debates within the Bank that have led to the shift from old public administration to new public management in Bank policy—including sources of internal opposition to the new institutional perspective. The shifts in policy reforms are said to mirror those in power relations within the Bank. The main actors in public sector reform were traditionally located in the Public Sector Management Division and the Economic Development Institute. The Operations Evaluation Department is reported to have gained strength in public management reform following the change in focus.[20] International management consultants, such as Lybrand and PricewaterhouseCoopers in the UK, as well as the Public Administration Service in the US, have become important mediums for exporting NPM to developing countries.

An UNRISD Discussion Paper (Larbi, 1999), from which much of the discussion in this and subsequent sections is drawn, highlights two broad strands in new public management reforms—managerial improvement and organizational restructuring, and marketization and competition—both of which may sometimes overlap. In contrast to the old public administration model of rigid, rule-bound bureaucracies, the new public management approach extols the virtues of small and flexible service delivery agencies, which would be forced by market pressures to be cost-sensitive, lean, user-responsive and outcome-oriented. Organizational survival under competition would require flatter bureaucratic structures or layers and devolution of authority to managers. Staff would be placed on performance contracts and many services would be contracted out. The end result would be to diminish or blur the dividing line between public and private sectors.

Agencification, organizational unbundling and quasi-markets

Decentralized management has five main dimensions—breaking up of monolithic bureaucracies into multiple autonomous agencies; devolution of budgets and financial controls; promotion of quasi-markets in public sector transactions; separation of production and provisioning functions; and development of new forms of corporate governance and board of directors model for the restructured public service.

The creation of executive agencies involves separation of strategic policy-making units (retained in central ministries) from large operational departments, which are to be granted managerial autonomy. The departments, or agencies, will be required to conduct businesses with each other and with the central ministries or policy units on a contractual rather than an administrative basis. Agencification demands devolution of budgets and financial controls to the new autonomous units. Budget centres or spending units may be created, giving managers increased control over budgets for which they are held responsible through adoption of explicit performance targets. The growth of executive agencies in countries where they have been adopted has led to major changes in the organization of government. Agencies enjoy considerable flexibility in human resource allocation in exchange for greater accountability

[20] The losers—who have political science, public administration and other non-economics backgrounds—highlight the need for reforms to be sensitive to regional heterogeneity. They call for greater understanding of weaknesses in the "administrative" and "social" infrastructure of developing countries.

for results. One additional feature of these agencies is their adoption of corporate forms of governance or a board of directors model, which reduces the power of elected representatives and unions on management.

A key feature of agencification is the development of quasi-markets in public sector transactions. Bartlett and Le Grand (1993) highlight three features that distinguish such markets from normal ones. In quasi-markets non-profit organizations compete with profit-oriented ones for public contracts, consumer preferences are expressed through a central purchasing agency or a voucher scheme rather than cash, and instead of consumers operating directly in the market they may be represented by special agents. Quasi-markets require a clear separation of production and provisioning functions of departments—the central policy units or ministries may be entrusted with provisioning (or paying for the service) and the executive agencies with production (or providing the service). An example is the reform of the UK National Health Service where autonomous hospitals (called NHS Trusts) produce services that are bought by the District Health Authorities or GP fund holders (doctors who are general practitioners) on behalf of patients. Under the educational reforms in the United Kingdom, schools can opt out of local authority control and apply for grants from the central government; such grant-aided schools become semi-independent providers and are free to manage their resources as they deem fit; parents, operating through a quasi-voucher scheme, become purchasers, as they can choose, under certain constraints, where they would like to educate their children (Le Grand and Bartlett, 1993).[21]

Decentralized management reforms have been most effectively pursued in Australia, New Zealand and the United Kingdom—with the reforms in New Zealand generally regarded as the most revolutionary and successful (Halligan, 1997; Scott, 1996; OECD, 1996). In the United Kingdom, it has been reported that the total number of civil servants working in executive agencies in 1995 was about 66 per cent in 108 agencies and was expected to reach 90 per cent or more at the turn of the century (Larbi, 1999b). In New Zealand, where the reforms are believed to be driven by a strong commitment to transaction cost economics and principal-agent theory, efforts have been made to separate activities that have a clear commercial content from administrative ones, and to corporatize the former in a relentless search for profitability in the delivery of services (Halligan, 1997).

In comparing Australia and New Zealand's reforms, Halligan concludes that "contractualism permeates the [New Zealand] public sector and the reliance on market testing is extensive. Contracting out is well developed at the local level and extends to welfare services". Two innovative institutional features of the New Zealand model are the separation of policy-making institutions and processes from service delivery leading to the establishment of 17 policy ministries, 11 delivery departments and three mixed policy/delivery departments, in addition to the traditional central agencies (the cabinet office, the State Services Commission and the Treasury); and the separation of the political roles of ministers from the managerial roles of chief executives or

[21] Carol Propper (1994) provides an interesting case study of the development and performance of quasi-markets in the US health sector where such markets have been in operation for more than two decades.

permanent secretaries, with ministers responsible for outcomes and chief executives for outputs—"the minister selects the outcomes, and purchases the outputs from the chief executive who selects the inputs" (Halligan, 1997:24).

Studies by the OECD suggest that managerial reforms gained prominence in most industrialized countries during the 1990s (OECD, 1995). However, the content and pace of the managerial reforms in continental Europe have varied considerably and the reforms are definitely less ideologically driven than the British or New Zealand ones (Ferlie et al., 1996; Kickert, 1997; Lane, 1997). For instance, the Swedish reforms are still concerned about issues of democratic accountability and social responsibility. The Dutch reforms are said to have moved in the 1990s from managerialism to concern for what Kickert (1997) has called "public governance"—which seeks to improve the steering powers of ministries and parliament. And the French are wary about agencification, given their traditional *esprit de corps*, or Mandarin-type, closed system of centralized administration.

In the 1980s and early 1990s, decentralized management reforms were rare in developing countries. If contracting out programmes were excluded, decentralized management reforms were restricted largely to the health sector and revenue generating ministries, such as customs and excise and internal revenue or tax offices. Autonomous hospitals with independent hospital management boards were established in a number of countries, including Botswana, Chile, Ghana, Sri Lanka and Venezuela (Larbi, 1998; Montoya-Aguilar and Vaughan, 1990; Maganu, 1990). Key aspects of these health reforms were the perceived need to improve responsiveness to users' preferences by charging (user) fees and reducing the financial and managerial burden of big hospitals on health ministries, which retained responsibility for policies. The use of quasi-markets was not, however, developed in the health sectors of these countries. On the other hand, the creation of executive agencies in revenue-generating departments was associated with the tax reforms for increased revenue piloted by the IMF and supported by the World Bank under structural adjustment or ESAF programmes (IMF, 1998b). The tax offices of many adjusting countries are now autonomous of national civil services, and enjoy different rules of employment as well as better incentives that are linked to performance. Box 2 provides case studies on the use of executive agencies and consultants in tax administration reforms in Nigeria and Peru.

In recent years, however, developing countries, especially crisis-ridden and aid-dependent ones, have started to embrace more extensive forms of decentralized management reforms in their restructuring programmes. Bilateral donors and multilateral agencies have been the main drivers for these reforms (Therkildsen, 1999). Therkildsen reviews some of these experiences in Tanzania, Uganda and Zimbabwe in a paper commissioned by UNRISD on public sector reform. Managerial reforms, which come under the rubric of "Organization and Efficiency Reviews", were initiated in Tanzania in the mid-1990s. The aim was to separate the core policy-making and regulatory functions of ministries from those dealing with implementation. Implementation was to be handled by executive agencies or local governments, not the ministries. The result has been a 25 per cent reduction in the number of ministerial

Box 2: Executive agencies and consultants in tax reforms: Peru and Nigeria

SUNAT in Peru provides a striking example of the possibilities and problems of introducing NPM-type reforms in Latin America. A bout of hyperinflation and serious macro-economic mismanagement had reduced Peru's tax ratio to 4.9 per cent of GDP by the first half of 1990. The 3,000 staff members of the tax office were badly paid and corruption was rife in the organization. Under strong external pressure, the incoming government of President Alberto Fujimori introduced a radical reform in the tax administration in an effort to comply with harsh fiscal targets imposed as a condition for IMF assistance. A new tax authority was created in mid-1991: SUNAT, which was independent of the Ministry of Economy and Finance and accountable only to the presidency. A top-class managerial team was recruited on merit; the bulk (2,034) of the 3,025 staff was dismissed. Recent graduates selected on the basis of open competition replaced them. A specialized training institute was established to train the new recruits. All staff were placed on short-term contracts, subject to six-monthly performance evaluations, and two consecutive failure ratings led to instant dismissal. The new SUNAT leadership simplified the tax system, reducing the number of taxes from 60 to 9. A strict "level playing field" was introduced in the treatment of taxpayers. As a result, the tax ratio rose to 13 per cent by 1993. The financial autonomy of SUNAT was guaranteed by a ruling that enabled it to retain 2 per cent of tax proceeds for its own personnel and capital expenditure needs. By 1992, staff numbers had returned to the 1990 figure of 3,025, but the staff profile had changed dramatically. Average monthly salaries had risen from $150 in 1990 to $1,200 in 1993. A strong sense of esprit de corps *developed among SUNAT staff members, who were soon regarded as the elite corps within the service. However, the external IMF pressure was reduced as the national tax effort and overall macro-economic situation improved. This led to a return of the traditional features of the public administration in SUNAT by 1996. The government repeatedly changed the head of SUNAT, leading to a loss in managerial cohesion. Plans for a wider reform of the public administration were abandoned in 1997. As its "mystique" began to wear off and internal staff controls were loosened, an uneven playing field re-emerged within SUNAT, with growing evidence of political favouritism in the treatment of taxpayers.*

In Lagos, a consultancy approach to tax reform was adopted by the state government in the 1990s to boost its shrinking revenues and enable payment of salaries and provision of services. Colonel Muhammed Marwa, the military governor, hired the services of a private "tax consultant", Adekanola—a chartered accountant. The consultant's mandate covered all categories of businesses and organizations in the state. The formula on the basis of which he was recruited was simple—in return for whatever extra revenue he was able to generate beyond the "pay-as-you-earn" (PAYE) tax revenue, he would be entitled to a 10 per cent share, deductible at source. To give muscle to his activities, the state government made police and soldiers available to him. He was also given operational independence, including complete autonomy from the state tax and revenue board. An edict was passed by the governor providing legal cover for his activities. Adekanola moved swiftly to carry out his mandate, undertaking a census of all businesses, registered and unregistered, and tagging them with plastic revenue identity numbers. Businesses were categorized for tax assessment. Private firms that had failed to remit the PAYE revenues they had checked off from their employees over the years were also identified and presented with a bill. In one spectacular case, the head offices of the United Bank for Africa, one of the biggest banking conglomerates in the country, were shut down by armed personnel on the orders of Adekanola for failing to remit outstanding PAYE revenues. By 1997, Adekanola had brought more than 1 billion naira into the coffers of the state government. His services were sought in other states—Kaduna, Kano, Katsina, Niger and Ogun. However, he faced stiff opposition from powerful individuals and organizations who complained about his unfair assessment criteria. Officials of the Lagos state tax office, whose powers he had usurped, supported the opposition, which accused him of being "unaccountable", "poorly supervised" and "overcompensated". Public demonstrations and strike threats from the civil service union forced the federal military government to abrogate the use of private tax consultants by state governments. Governor Marwa responded to this by announcing the integration of Adekanola into the state tax and revenue administration.

Source: Nickson (1999); Olukoshi (1999a).

departments. Activities that are unsuited for privatization or provisioning are planned to be transferred to 47 agencies, which would be concerned with delivery. The government's reform programme stated unambiguously that the aim of the exercise was "to reduce the role of the public sector and make it efficient". The British aid agency, the Department for International Development, provides substantial support for the reforms.

A similar process is underway in Uganda. Therkildsen (1999) highlights three major restructuring exercises in the 1990s. The last exercise, which started in 1998, deals with "results-oriented management" and "output-oriented budgeting". It seeks to divest all service delivery functions from the central government. This has necessitated a major restructuring of local governments and reorganization of central ministries. Out of a total of 22 ministries, 12 have lost about 50 per cent of their functions. It is anticipated that at the end of the restructuring exercise there will be 17 ministries, various commissions and tertiary institutions, and 107 autonomous and semi-autonomous agencies with self-accounts and powers to hire and fire. Services that cannot be privatized or devolved to local governments will be corporatized; and ministries will only be concerned with policy making, co-ordination, national standard setting, monitoring and support for local governments. A total of 54,000 civil servants are expected to lose their jobs at the end of the exercise.

The reforms in Zimbabwe are not so sweeping. They have focused mainly on downsizing and organizational rationalization. The number of ministries has been reduced from 27 to 16. By 1993, public sector jobs had declined by more than 10,000. The high cost of paying retrenchment benefits and resistance from civil servants and their unions called for restraint in the restructuring programme. But the process of subcontracting and commercialization of public sector activities and jobs has continued—even though results have not been impressive.

In most of Latin America, the introduction of managerial reforms has been piecemeal. The centralist tradition of *caudillismo* (political bossism) still holds sway in the public sectors of most countries. The top layer of the civil service is not professionalized as those who serve in those positions often lose or vacate their jobs when new administrations are established. As Nickson (1999) notes in an UNRISD-commissioned paper on public sector reform in Latin America, the system encourages a "pork-barrel political culture" in which public sector employment is not viewed as an "input required in order to produce outputs for citizens in the form of service provision. On the contrary, it is viewed as an output in its own right—a just reward for favours rendered or to be rendered". Patron-client networks are deeply embedded in the bureaucracy, rendering personnel systems weak and highly fragmented. It is instructive to note that this situation is not peculiar to Latin America. It obtains in many other developing regions, including in Africa, which has a "career-based" civil service system inherited from its colonial powers. Nickson reports that, in Latin America, only Chile has a real civil service career system, although frequent changes at the top tend to produce a truncated career path for public servants.

Nickson states that only Brazil has made serious attempts to introduce managerial or NPM-type reforms in its public sector. Fernando Cardoso's government launched an ambitious programme of public administration reform when it took office in 1995. The head of the reform, Carlos Bresser Peireira, was a leading exponent of British-style NPM reforms before his appointment. The programme had four main components. The first was the separation of the core institutions of government, which were charged with the functions of strategic policy making, from the rest of the bureaucracy. The second was the division of the operational ministries into autonomous executive agencies. The third was special activities—hospitals, universities, museums and research centres—that would operate through social (public non-state) organizations, such as not-for-profit foundations. And the fourth was market-based activities that were slated for privatization. The institutions in the strategic core sector would use management contracts and performance indicators to define and monitor the work of the executive agencies and social organizations, as well as provide the necessary resources for them to carry out their tasks. Heads of executive agencies and social organizations would enjoy financial independence as well as the power to hire and fire. The government expected that public service providers would view the citizen as a client rather than merely a taxpayer.

However, in practice very little reform has been achieved. By 1999 only one executive agency, the National Institute of Measurements and Technical Norms; and two social organizations, a federal broadcasting service and a laboratory in the Ministry of Science and Technology, had been established. There were plans to establish three other executive agencies, an anti-trust law supervisory agency and four more social organizations—all dependent upon funding from the Inter-American Development Bank. The reforms have been slow because of resistance from lower and medium level workers of the bureaucracy, acting through their public sector unions. They question the uncertainties associated with the flexibilization of employment, the elimination of tenured employment, and changes in social security policy, such as extension of the retirement age and tying of pension benefits to contributions. There has also been opposition from politicians who do not wish to lose control over their patron-client networks in the allocation of public sector jobs. At the federal level, a coalition of university teachers and administrative employees has developed, which has made it impossible to implement the programme on social organizations. The coalition sees the plan to turn hospitals and universities into social organizations as another form of privatization. The government has, thus, been unable to change key aspects of the 1988 constitution that would have provided the legal basis for the administrative reforms.

Performance contracts and contracting-out

An important feature of new public management reforms is the development of performance contracts. A performance contract is a written agreement between government and public managers or between government and private managers of public assets in which quantifiable targets are specified and performance is measured against targets at the end of a period (Larbi, 1999b; World Bank, 1995). Performance contracts have been used extensively in public enterprise reforms as part of efforts to improve productivity and service delivery. During the 1980s, francophone Africa accounted for an overwhelming number of these contracts in Africa. A World Bank (1995) study identified 385 performance contracts in 28 countries—of which 211 were in Asia, 136 in

Africa, 16 in Latin America, 12 in the Middle East and North Africa and 10 in Central Europe. China is reported to have well over 100,000 such contracts in its state-owned enterprises.

Despite the well-known problems[22] associated with performance contracts in the state enterprise sector, there have been efforts to promote them in the core public sector itself as managerial reforms take root in developed and developing countries. For instance, the expenditure planning process in the United Kingdom involved 2,500 performance and output measures in 1993. South Africa's new public service regulations of 1998 emulated the New Zealand model by calling for the establishment of performance contracts between ministers and their chief executives and performance management mechanisms for all employees (Therkildsen, 1999). In Tanzania, a "performance improvement component" scheme will constitute a central aspect of the managerial reforms—ministries are expected to make annual plans with budget ceilings and set clear targets, including performance indicators. In Uganda, concrete and measurable performance targets are to be set for all ministries, departments, units and officers under its "results-oriented management" scheme. A performance management system, involving top civil servants only, was introduced in Zimbabwe in 1994. Ministers and the president's office were to review the work plans of chief executives, which were expected to specify outputs and targets. The scheme was, however, abandoned in 1996 because of problems of implementation.

Related to the issue of performance contracts is the policy of contracting-out of public service provisioning to the private sector. Like performance contracts, contracting-out also involves a legal agreement or a contract, but this is with non-state actors who will undertake to provide the service. Contracting-out is often regarded as the most advanced form of marketization in managerial reforms especially where privatization has been ruled out. Because of its emphasis on market competition, the World Bank (1995) rates it best in its survey of three types of contracts in developing and transition economies, the others being performance contracts and regulatory contracts. Contracting-out policies are believed to stimulate competition on the supply side and offer governments greater choice in the provision of public services. They can take several forms—private companies may be hired to manage, for instance, solid waste disposal, hotels, hospitals or water distribution, with the public sector controlling the enterprise and the staff; private firms may be given contracts to supply temporary staff for specific government tasks; or private firms or non-governmental organizations may be contracted to manage, using their own staff, services that were previously provided by the state—such as health, education, hotels, airlines, airports, sports stadiums, road construction and security.

Municipal services in a number of countries are now being contracted out as part of wider efficiency-enhancing public sector reforms. This has led to an explosion of service-oriented non-governmental organizations—especially in countries where the private sector is too weak to respond to the new reforms. Ghana, Uganda, Zambia and Zimbabwe are among the countries in Africa

[22] Problems are the same as in the core public sector; they are reviewed under the following subsection on institutional and capacity issues.

where these reforms are being implemented with some participation from the NGO sector. But there are also cases of strong private sector participation in contracting-out schemes—the management of Ghana's urban water supply system; road maintenance in Brazil; non-clinical health services in Zimbabwe; port management in Malaysia; plantations in Sri Lanka; airports in the Philippines; sugar companies in Guyana and Kenya; and hotels in Bulgaria and Egypt, for instance.

Institutional and capacity issues in managerial reforms

How have managerial reforms fared to date? Have they brought about changes in the way government bureaucracies operate? Have markets developed sufficiently enough to change the way agencies do business in the public sector? Has efficiency improved? Is the public better served by these reforms? Given the relatively short period in which countries have embraced market-focused managerial reforms, empirical studies on the subject are limited and good surveys are only beginning to emerge. Most of the good case studies on decentralized management and quasi-markets focus on the United Kingdom and, to some extent, New Zealand experiences. Data on performance contracts and contracting-out are more extensive, and some cover developing countries. The analysis that follows will draw on developed country data in assessing the effects of new public management types of reforms and will be supplemented by insights from studies on developing countries to illustrate the strengths and weaknesses of managerial reforms in general. The discussion will centre around issues of institutional change and capacity problems.

It is widely believed that the managerial reforms have radically changed the structure and behaviour of New Zealand's public sector, which, as has been noted, is regarded as the world leader in public sector reforms—contractualism is now a fact of life in the bureaucracy, and the public sector measured in terms of expenditure as a percentage of GDP and public employees per total employment outlays is among the lowest in OECD countries. Indeed, the size of the public sector is believed to have declined by 60 per cent during the first 10 years of reform (Halligan, 1997). Such changes are also reflected in a sharp reduction in the number of unionized workers—making the country one of the least unionized in the industrialized world. The reforms are also credited with improved productive efficiency, falling prices for utility services, higher ratings in international competitiveness, stable macro-economic indicators and good GDP growth rates in the 1990s.

It is important to contrast New Zealand's "success story" with the reforms in the Netherlands, which have also produced remarkable results but without the former's dogmatic attachment to market-based reforms. Kickert (1997) reports that even though the Netherlands started out with explicitly market-focused managerial reforms, the government was forced to change gear after a 1994 National Audit Office report that was highly critical of agencification. The report found that the most elementary mechanisms for supervision, inspection and monitoring were absent in more than half of the agencies. It was particularly critical of the lack of financial information from, and regulation of, executive agencies. The findings of the report became a basis for both Cabinet and Parliament to assert the need for "democratic control" and "the primacy of politics" in public sector reform. The new focus on public governance, or proper supervision and democratic accountability of reforms, is buttressed by a form of policy concertation or social pact with unions (Schmitter and Grote, 1997), which has allowed the country to reform its institutions without much hostility from unions and the wider public. Labour market reforms combine flexibility with generous welfare protection for workers if things go wrong. The Netherlands also boasts of stable macro-economic indicators, good GDP growth figures, falling unemployment and improved international competitiveness. It has the additional advantage of not having created a divided society in the reform process, as some critics think has happened in New Zealand (Kelsey, 1995; Halligan, 1997).

The United Kingdom has produced some of the best empirical studies on managerial reforms. This may be related to its longer history of such reforms, starting from the early 1980s and culminating in the major 1988 Ibbs report, **Improving Management in Government: The Next Steps**. In perhaps one of the most detailed research reports on the subject, which focuses on the National Health Service, Ferlie et al. (1996) observe the following changes in the UK public sector:

- Professionals, such as teachers and doctors, have lost some of their autonomy, as new public sector managers impose standards, programmes and remuneration[23] on professions.
- Public sector managers have gained the most and constitute the core constituency for the reforms.
- There has been an increase in the number of non-elected elite members on the new boards of directors;
- Unions have lost influence in collective bargaining and workplace representation.
- Problems have emerged about how to ensure that public managers remain locally accountable as in the old system of administration.

Even though management costs are believed to have gone down in the health sector, the operation of quasi-markets has been imperfect because of problems on both the supply and demand sides: few powerful purchasers face few powerful providers; information is imperfect; and the choices of the ultimate purchasers, patients, have not been enhanced because of their lack of technical knowledge in health issues and the power of fund holders.

Research on the UK experience also suggests that management devolution has not led to substantial changes in the bureaucracy's power structure. There is still a high level of centralized control as ministers and civil servants within the policy stream of the bureaucracy resist what they see as a fragmentation of the public service and dilution of their traditional dominance. The Treasury, in particular, is reported to have been reluctant to reduce centralized control over budgets (Walsh, 1995). It has also been reported that concerns for strategic capacity or the ability of the government to direct the bureaucracy centrally also became important issues in the New Zealand reforms in the mid-1990s.

[23] It is reported that some professionals are also becoming managers.

For developing countries, a study by Larbi (1998) of Ghana's health sector reveals more complicated problems. Devolved units lack powers to hire and fire or to manage their own budgets independently of central authority. Centralization is linked to the wider structural adjustment programme itself, which demands strict fiscal control and centralized supervision to contain costs. The result is that Ghana's decentralized units in the health sector "tend to have no incentive to economize on payroll costs because any resulting savings cannot be retained or transferred to other items of expenditure" (Larbi, 1998:382). Studies on Sri Lanka's and Zimbabwe's health sectors also point to problems of institutionalizing managerial reforms. In Zimbabwe, the health sector still operates within centralized civil service commission regulations and treasury expenditure controls (Larbi, 1999b).

Capacity problems have emerged in the decentralized management reforms in both developed and developing countries. Decentralized management requires good monitoring, inspection and information systems, sound budgetary control systems, development of reliable performance indicators and measurements, and capacity to manage relations between central ministries and the multitude of decentralized agencies, including extraction of harmonization and accountability from the new institutions (Larbi, 1999b; Walsh, 1995; Nickson, 1999). Where these capacities are weak or non-existent—as in developing countries—decentralized management may encourage arbitrariness and corruption. Gross abuses have been identified in Ghana's decentralized management units (Larbi, 1999b; Ayee, 1994).[24] The performance management system was discontinued in Zimbabwe because ministers were worried that top civil servants would use it to create "personal empires", "regional cliques" and "ethnic enclaves" (Therkildsen, 1999).

Studies have shown that managers can manipulate information on performance management indicators—targets may be set low; and, especially in the core public service, it is difficult to establish objective and meaningful quantifiable indicators for workers and managers. Governments can also fail to set clear objectives and priorities or, indeed, be fully committed to the contracts. Patronage methods of employment in the public service may act as important constraints (Larbi, 1999; Ayee, 1994; World Bank, 1995; Shirley and Zu, 1997; Mallon, 1994). Serious capacity issues ranging from non-competitive markets to problems of patronage and poor regulatory and monitoring institutions also affect contracting-out policies.

VI. Capacity-Building Reforms

All reforms—fiscal, managerial and political—face capacity problems. Change is disruptive; those who stand to benefit may be weakly organized or not

[24] It has been observed by Nigerian colleagues that attempts by Nigeria to introduce a variant of managerial reforms in its 1988 civil service reform programme intensified corruption in the civil service; under the reforms, heads of ministries enjoyed enormous powers in the allocation of resources but the necessary regulations for enhanced performance and accountability were not instituted. These were comments made by J. Ibrahim and A. Fadahunsi on a paper by this author, entitled "New Directions in State Reform", at a Stockholm conference on globalization, civil society and democratization in September 1998. Their views are echoed in Olukoshi, 1999b.

strategically located to defend the reforms; doubts may exist about the commitment of reforming governments; losers may fight back or withdraw support; the reform programmes may be poorly conceived; and infrastructure may not be in place to ensure smooth transition or success. The capacity to manage change may be limited even in countries with the most advanced public administration systems. In cases where reforms are broadly accepted, old bureaucratic work methods and traditional forms of behaviour may still influence those entrusted to implement them. Capacity problems are, however, more serious in low-income crisis-ridden countries where state systems either are in disarray or have suffered serious erosion following long-running recessions, globalization pressures and poorly thought-out structural adjustment policies.

In 1998, 79 countries were classified as poor by the IMF and qualified for concessional assistance under the organization's ESAF facility. About 55 of these countries fall under the UNDP's "low human development" classification in its Human Development Index—they do rather poorly in a composite index that combines GDP per capita, longevity and education. Forty-eight countries with a total population of 550 million account for UNCTAD's least developed countries, which are given special focus in the organization's work on trade and development. About two thirds of these countries are in Africa. A World Bank (1997b) review of public expenditure reforms in low-income countries found that least developed, highly indebted and primary commodity-producing countries had great difficulties meeting expenditure targets. Key features of these countries are very low GDP per capita; poor growth records; high levels of aid dependency; intense exposure to exogenous shocks in commodities markets; high debt and capital flight; weak formal state structures; entrenched and widespread patronage networks; increasing informalization of economies and societies; and collapsing incomes for public servants. A majority of these countries are multi-ethnic and currently account for most of the civil wars, collapsed states, refugees and displaced people in the world. Many of those that have tried to transit from authoritarian to democratic rule have faced very serious setbacks.

The issue of stateness, or state capacity, is thus central to any reforms or development programmes that these countries seek to advance. The institutional reforms relating to privatization, performance contracts, decentralized management and contracting-out are so complex and demanding that it is doubtful whether low-income crisis-ridden states would be able to implement them without major improvements in capacities. As many scholars have pointed out, low-income crisis states face a dilemma—they are being asked to undertake complex institutional tasks at a time when their capacity to do so is not only limited, but also being undermined by programmes of downsizing (Mkandawire, 1994; Mkandawire and Soludo, 1999; Olukoshi, 1999b; Hutchful, 1997; 1999).

Three issues are central to the capacity problems of low-income countries—developing the necessary technical expertise that will enable national bureaucrats to formulate, implement and monitor public policies, projects and programmes independently; tackling the enormous problems of recurrent costs associated with state expansion and economic crisis; and paying public servants adequate remuneration that can motivate them to offer good public service and minimize their current propensity to "moonlight".

Building technical capacity

The development of technical capacity is tied to issues of training and retraining, and the funding of universities and public administration institutes. During the 1980s, the tertiary institutions of crisis states experienced profound crisis as salaries slumped, facilities for teaching and research became scarce, infrastructures were left unrepaired and teachers left in droves to join the private sector or tap into overseas opportunities. The problem was compounded by the reform policies of leading financial agencies involved in adjustment and institutional reform. These placed less attention on universities in low-income countries, which were believed to be inequitable and to offer low rates of return, and which subordinated the needs of education in general to the requirements of market-oriented adjustment based on the misguided belief that adjustment would be temporary.

A case in point was the World Bank's (1988) policy document **Education in Sub-Saharan Africa**. An independent Bank review found that Bank strategies "seldom attempt to link and integrate educational and national development plans; it almost seems, at times, that they run parallel, but independent tracks" (World Bank, 1994:45). It was very critical of the tendency to make "across-the-board recommendations without adequate country-specific justification" (World Bank, 1994:46), such as "the near universal recommendation to reallocate within the education budget from higher to primary education and the strong tendency (in 13 of the 19 projects reviewed) to recommend increased user charges" (World Bank, 1994:46). The report concluded that "such recommendations are unlikely always to be correct" (World Bank, 1994:46).[25] Bank support for higher education in Africa plunged dramatically in the 1980s even though it rose in the rest of the developing world. In the period 1969-1979 higher education lending to Africa was $0.93 per capita—higher than that for the rest of the world at $0.78; but in 1980-1987, the period when adjustment policies were being pushed relentlessly, lending to Africa dropped to $0.51 per capita whereas that for the rest of the world rose to $0.86 per capita (World Bank, 1994:annex table 7). The fall in lending is even more pronounced for universities—from $0.38 per capita in 1969-1979 to $0.10 in 1980-1987.

Adjustment encouraged heavy reliance on expatriate technical staff. This was basically for two reasons—the programmes were initially very unpopular

[25] This evaluation report also found that the Bank's recommendations in Tanzania and Zaire to increase the burden of education costs borne by parents and local communities did not take into account the fact that parents were already contributing large shares (more than 60 per cent in Zaire and 30 to 35 per cent in Tanzania, and that children were being withdrawn from school because of these costs. The equity argument against funding universities was also questioned on the following grounds—there are large differentials in unit costs among the three tiers of education "not only because of differences in student subsidies but also because of differences in student-teacher ratios and teacher salaries, which arise from differentials in educational goals, teacher qualifications, and labor market conditions, plus the relative absence of economies of scale at the tertiary level" (World Bank, 1994:53). The inequity argument would be compelling if different social groups had unequal access to higher education, but the Bank does not provide evidence in this area. A large number of graduates, probably the majority, still come from humble backgrounds in most countries.

among large segments of the professional classes and funding agencies wanted governments to act quickly to contain domestic resistance, alter the state's role in the economy and stimulate markets. The heavy reliance on expatriates to formulate, write and monitor adjustment programmes in crisis-ridden countries undermined national ownership of such programmes and further weakened state capacities. The World Bank has estimated that about 100,000 resident foreign advisors were employed in the public sectors of Africa in the 1980s at a yearly cost of more than $4 billion—representing roughly 35 per cent official development assistance to the region (Jaycox, 1993).[26] This figure does not include the exponential growth of short-term foreign consultants employed by multilateral agencies and other donors to undertake short visits to countries implementing adjustment and other related programmes. In a well-publicized speech in 1993, the former vice president of the World Bank's Africa Region, Edward Jaycox, denounced expatriate technical assistance as "a systematic destructive force, which is undermining the development of capacity in Africa" (Jaycox, 1993). A similar assessment of technical assistance was made in the same year by UNDP in an influential and highly critical publication **Rethinking Technical Co-operation** (UNDP, 1993).

As an alternative policy, the World Bank and UNDP sought in the 1990s to reduce their dependence on resident technical experts and "projectize" civil service reform; they also suggested compensatory schemes for top level civil servants as well as support for training and equipment. However, despite efforts to rectify the dependency problem in the field of technical capacity, the new emphasis on national ownership and local capacity building and utilization has not yielded much output because of the continued need for quick results in adjustment programmes. There is much discussion about rebuilding African universities and institutes and using national researchers and consultants in externally funded development programmes, but not much in the way of comprehensive strategies and actions. The Bank and other bilateral and multilateral donors seem to have taken a shortcut by launching the African Capacity Building Foundation based in Harare. The ACBF provides grants to autonomous and semi-autonomous policy-oriented research centres as well as to government policy units geared towards improving the analytical skills of nationals—many of whom may be called upon to assist governments in the formulation and monitoring of public policies.

By 1998, the ACBF had supported 36 projects in 29 institutions in 20 countries. Among the institutions supported were 6 training projects and 17 policy units. However, the funds at the disposal of the ACBF to carry out its work are meagre, which should underscore the point that policy should be oriented towards vigorously reviving national universities and public administration institutes—of a projected income of $103.67 million over a five-year period only $56.363 million had been received by October 1998. Participation of public sector officials in the ACBF seminars is reported to

[26] The UNDP puts the figure at 40,000 in its report **Rethinking Technical Co-operation** (UNDP, 1993). An independent IMF-sponsored review of ESAF by Botchwey, Collier, Gunning and Hamada (IMF, 1998c) singled out the issue of programme ownership as one of the most important problems that work against Fund programmes in low-income countries. Donor representatives are reported to have said they saw ownership as "acceptance by the recipient country of what donors want" and that "ownership exists when they do what we want them to do voluntarily" (IMF, 1998c:37).

have increased from 3,524 in 1997 to 6,648 in 1998. However, the government policy units and autonomous institutes funded by the Foundation have been found to be ineffective and some institutions still rely excessively on external resource persons for their work (ACBF, 1998). The Foundation itself is wholly donor-funded and maintains very close institutional ties with the World Bank.

Managing recurrent costs

Closely linked to the issue of technical capacity is the problem that has arisen in most crisis states about recurrent costs. The policy reforms of the 1980s did not focus on this issue as the main concern was with macro-economic stability. As budgets dried up or got squeezed by stabilization programmes the physical damage on infrastructure became glaring—roads and public utilities were in disrepair; schools lacked teachers, books, pens or other supplies; salaries were unpaid or delayed; vehicles for health and agricultural extension were without fuel or spare parts; and government offices were without paper, typewriters and photocopiers, etc. Carlson (1999) reports that, in the transport sector, it has been estimated that pot-holed roads in Zambia raised vehicle operating costs by 17 per cent, and in Kenya a shortfall of $40 million in road maintenance expenditures in 1993 increased vehicle operating costs by $140 million.

Foreign aid programmes can complicate the problems of recurrent costs especially in crisis-ridden states that are aid-dependent. Foreign aid often involves development of new physical and social infrastructure, which can generate high levels of recurrent funding requirements for the aid recipient government. It has been estimated that annual recurrent costs in poor countries can be up to 70 per cent of the initial investment. Most donors have failed to recognize the problem. They insist that governments pay counterpart and recurrent costs even when adequate measures have not been taken to facilitate this at the inception of projects, and recipients have demonstrated a poor record of compliance. In order not to harm the survival of the projects, donors are forced to set up parallel structures in the bureaucracy—such as supporting local salaries, creating special project management units and providing equipment as well as other facilities necessary for the functioning of their projects. This may distort the incentive structures of local bureaucracies.[27] Saasa and Carlson (1996) demonstrate this problem in a case study of Zambia's Educational Materials Project (ZEMP). ZEMP was largely run by a group of foreign experts as an enclave within Zambia's educational system. The government failed to mobilize the necessary resources to ensure full participation in the project—local staff were poorly paid, lacked transport facilities and opted instead to allow the foreign experts to run the show even when it was clear to them that this was unsustainable.

The World Bank's Public Investment Programme (PIP), which aims to protect high priority development expenditures from spending cuts, has tried to resolve this problem, but the rigid pro forma calculations on rates of return that it has tried to impose of loan recipients have been a serious constraint. Under PIPs ministries are urged to develop forward budgets that would reflect

[27] An additional problem of foreign aid in low-income countries is its tendency to increase the workload of scarce bureaucrats. The President of the World Bank, James Wolfenson, recently stated that Tanzania prepares about 2,400 progress reports quarterly every year for all its donor partners (**Financial Times**, 30 September 1999).

accurate costs of projects, including operating and maintenance costs. As Berg (1999) states in his review of this scheme, there are conceptual and practical problems in its implementation. At the conceptual level, it is difficult to make assumptions about staffing levels, salaries and productivity, as well as levels and types of maintenance—including whether capital replacement costs should be estimated. Ministries thus sometimes return the pro forma forms with many blank or uncompleted spaces.

The World Bank's own review of PIPs (1998c) suggests that poor countries do not have the capacity to make the detailed calculations required under the Bank's format. The end result has been that recurrent costs have not been given sufficient attention by ministries and most estimates are biased and low. At the practical level, PIPs encourage the development of a two-track budget system—ministries pile projects that have high recurrent costs in the PIP, not in the regular budget, as a way of accumulating donor funds even though estimates of these costs and ways of financing them may not have been properly worked out. These strategies have further complicated the recurrent costs problems—projects have been funded by donors on the understanding that these have been properly costed, only for the recurrent costs crisis to show up later. Much remains to be done in the area of recurrent costs management in crisis states if the public bureaucracies of low-income countries and the projects they support are to function properly.

Pay reform

Capacity building also requires provision of adequate remuneration to public sector employees. Modern bureaucracies are founded on the premise that individuals who work in them will serve the public good as opposed to catering to personal or sectional interests. This presupposes a basic income that will allow public servants to carry out their duties without succumbing to extraneous pressures. However, the real incomes of public servants in crisis-ridden states have fallen sharply over the years. Data by Schiavo-Campo (1998) suggest that pay declined somewhat as a proportion of GDP per capita in developing countries as a whole between the early 1980s and early 1990s. The average central government wage bill as a percentage of GDP per capita is estimated to have fallen in Africa from 6.1 per cent in the early 1980s to 4.8 per cent in the early 1990s; in Latin America from 2.7 per cent to 2.3 per cent; and in OECD countries from 1.7 per cent to 1.6 per cent. The data for Asia show an increase from 2.9 per cent to 3.8 per cent over the same period. The IMF reports that real wages declined in 9 out of a panel of 18 ESAF countries during its loan disbursement period, although a few countries, like Bolivia and Uganda, showed significant increases. The complex ways in which many public servants have responded to the pay crisis—diverting time and resources to private ends and the floating of sideline activities in the informal economy—have further eroded the administrative capacities of these states.

In a paper commissioned by UNRISD under the public sector reform project, McCourt (1999) highlights five principal problems governments have identified with respect to pay—inadequate pay across the board, opaque remuneration systems, unclear links between pay and responsibilities, ambiguous links between pay and performance and insufficient attention to retain employees with scarce skills. Reform-oriented governments have addressed these problems in different ways—from across-the-board pay increases to consolidation of remuneration, job evaluation, promotion of performance-related pay and pay decompression.

The move from opaque to consolidated systems of remuneration involves calculation of real market values for such benefits as housing, transport, health and education grants and adding them to the nominal wage to arrive at a consolidated package for employees. One exercise in this direction in Uganda transformed a previous compression ratio between the highest and lowest paid staff of 1:6.8 to 1:100. The policies of linking pay to responsibilities and to performance are somewhat similar to the managerial reforms considered in previous sections. Except for Malaysia, where such schemes are believed to be fully operational, not many countries have embraced performance-related pay reforms in their core public sector. The problems are similar to those discussed under managerial reforms—capacity deficiencies, problems of fairness, nepotism and difficulties in quantifying the real performance of civil servants. It is reported that, even in Malaysia, the civil service union and some senior officials are very hostile to the scheme (McCourt, 1999).

Pay decompression has been a central policy of governments and donor agencies. Pursuit of relatively egalitarian pay policies at independence in some countries and the economic crisis of the 1970s and 1980s led to a massive compression of wages between civil servants at the top and at the bottom of the scale in most crisis states. In Zambia, for instance, there was a distinct process of wage compression in the 1970s and 1980s—from 17:1 to 3.7:1. However, there has been a trend in the 1980s towards a policy of decompression in many countries. In Ghana, for instance, the ratio changed from 2.2:1 in 1984 to 10:1 in 1991; and in 1993, the government of Tanzania pursued a policy of raising the compression ratio from 5.74:1 to 12:1 (McCourt, 1999).

The World Bank and other agencies have tried to link the policy of wage decompression to retrenchment in order to encourage governments to pay living wages to the small number of public employees who will remain in the service, as well as offer attractive salaries to senior officials. This policy has only been vigorously pursued in a few countries—Bolivia, Uganda and, to some extent, Ghana in the 1980s, for instance. In these countries, governments have made a strong commitment to get out of the low wage-corruption-low morale-low performance trap that has bedevilled their public services. They have done this by carrying out massive retrenchments. Other countries have been ambivalent in pursuing this policy because of the problems of unemployment and severance costs, as well as resistance from potentially affected groups. Governments that opt for massive retrenchment of employees are faced with very large compensation packages, which they must offer to staff to obtain compliance. It has been estimated that redundancy benefits accounted for no less than 2 per cent of government expenditure during the first five years of Ghana's voluntary retirement scheme. There is also a manpower substitution problem even when staff have agreed to retire from the service—they get re-employed as consultants. McCourt (1999) has observed this development in Malaysia, South Africa and Sri Lanka.

Even in countries that have made big strides in restoring living wages in their public services, the problem of paying competitive wages that will retain or attract the best staff remains. It is interesting to note that one of the attributes of countries, such as those in East Asia, that are reputed to have strong, developmental states has been payment of competitive salaries to their public servants to enable them to supervise the process of industrialization and development. In Singapore, for instance, top civil servants enjoy even superior salaries to their counterparts in the private sector. Salaries are still much too low in most crisis-ridden and adjusting countries and hardly compare with what they were in real terms in the early 1970s. An additional problem is that the wage share of recurrent expenditures has increased significantly in many countries. This is found to have been the case in seven out of eight countries in East and Southern Africa examined in an UNRISD-sponsored study on public sector reform (Therkildsen, 1999). Such increases may, of course, affect resources for other service delivery inputs. Thus, low-income countries face two serious problems in pay and recurrent costs reforms—wages are too outrageously low to motivate staff, and even where increases have occurred they have not been enough to meet basic living costs; yet the increases that have occurred seem to have been at the expense of other vital recurrent inputs. How to improve public sector pay and the quantity of other inputs that are essential for efficient service delivery is a challenge that crisis states need constantly to confront in their reform programmes.

VII. Conclusions and Suggestions

This paper has provided a survey of the complex public sector reforms that governments and multilateral agencies have tried to pursue in the 1990s, the problems such reforms have encountered in various countries and regions, as well as their social and institutional effects. There are tremendous global pressures to change the character and functions of states. Neoliberal reformers have attacked the state's post-war nationalistic, hierarchical, redistributive, developmentalist and interventionist character. They seek to transform the state into a market-oriented, liberalized, lean, managerial, decentralized and customer-friendly institution. Some countries have made much progress in this transformation but the majority of states, especially those in developing countries, have problems implementing the reforms because of capacity and institutional constraints. There is a wide gap between reform visions and realities, declarations and operations, and theory and practice. It is true that most countries have implemented at least some aspects of the reforms during the 1990s, but in many cases results have not been positive. The biggest efforts in reforms have been in downsizing and fiscal stability.

There is evidence that the sizes of central governments measured in terms of government expenditure as a percentage of GDP and public employees per total employment outlays have shown signs of shrinkage in the late 1990s in some regions despite their stable, in some cases growing, levels in the 1980s, and that fiscal imbalances are less than they were for most reform governments in the late 1990s. It is not clear, however, whether this trend will be sustained in most countries. Low-income, highly indebted and primary commodity-producing countries have had difficulties maintaining stable fiscal balances.

There are also welfare, employment, ethnic and other social factors associated with downsizing and marketization, which are likely to affect the sustainability of the reforms. Managerial reforms have been more prominent in OECD countries, especially countries such as Australia, New Zealand and the United Kingdom, which have embraced neoliberal market ideologies. However, decentralized forms of management have not weakened the central roles of government.

The gradual, though sometimes ambiguous, acceptance by the World Bank of new public management reforms and the role of bilateral donors with experience of such reforms in their own countries have led to the export of managerial reforms in low-income societies. Whether these reforms will be effective in making civil servants deliver good services to the public is open to question because of the weak institutions and capacities of crisis states. Capacity-building reforms that would improve the pay and technical skills of public servants as well as facilitate proper management of recurrent costs—though extremely important and a precondition for serious reform and development—have not received the sustained attention that they deserve.

The remainder of the paper provides suggestions about how to ensure that reforms are socially accountable and sensitive to political realities in developing countries.

Public sector reforms need sound political pacts or coalitions

Sustainable reforms require the formation of pacts among the major interests and actors of society. The adjustment literature has shown that it is possible for committed governments to carry out major reforms without the full consent of the populace, as has happened in Chile under Pinochet, Britain under Thatcher, Ghana under Rawlings, and to some extent Poland in its transition to a market economy. What March and Olsen (1989) call "persistent political will" may, indeed, bring radical change even in highly conflictual societies where reformers do not enjoy the necessary support for change. However, March and Olsen also note in their rich survey of institutional reforms that the administration of shock therapy is often the easy part; its sustainability cannot be taken for granted. Reformers always have problems controlling or influencing the complex institutions and practices that will emerge from the reforms. Indeed, bold policy reforms by US presidents, for instance, are regularly defeated or aborted, irrespective of the level of commitment shown in early phases of the reform process.

As Therkildsen (1999) also notes, public sector reforms may appear technical, but they are always "highly political and conflictual" as they "go to the heart of who governs". Their actual implementation is always strongly influenced by local agendas. It is, thus, important to build the necessary political support base if reforms are to stand any chance of being institutionalized in the long run. The vast majority of countries that are implementing public sector reforms are also grappling with complex programmes of democratization, which seek to lay ground rules for the way their societies are governed. There are outstanding issues of governance that have not been resolved satisfactorily in the vast majority of low-income crisis societies, which raise serious questions about their capacities to implement far-reaching reforms in their state sectors. These outstanding governance problems relate to the organization of free and fair elections to ensure that elected representatives reflect the will of the people; the protection of basic civil and political rights that will enable the public to hold representatives accountable to the public interest; the willingness to accept the principle of alternation of power and ensure that opponents play by the rules and do not resort to unconstitutional methods in the struggle for power and in responding to public policies; and the creation of effective public channels through which civil servants and politicians can be pressured by society to deliver good public services.

It is instructive to note that it has been difficult for single parties in established industrial democracies to command majority support either in terms of popular votes or parliamentary seats. Most successful reforms in continental Europe in particular have been based on leading parties governing in alliance with other parties and constructing broad social support systems for their policies. Political data for emerging democracies in Latin America and Eastern Europe also suggest that most leading parties in government do not have working parliamentary majorities—government has been possible only by pursuing a policy of concertation or coalition among multiple parties or ruling by presidential decree, which carries high risks, as many Latin American governments are believed to have done in the 1990s (O'Donnell, 1994). Parliamentary data for 1997, which measure the percentage share of seats held by parties other than the largest party, reveal the following—59.8 per cent for Western democracies; 56.7 per cent for Eastern and Central Europe; 56.9 per cent for Latin America; 34.8 per cent for Africa; and 46.3 per cent for South and East Asia (Bangura, 1998). The low figures for Africa and Asia may give the impression that ruling parties in those regions have strong mandates to govern. This is not the case, however, especially in Africa where a large number of incumbents have denied opponents fair access to the rules of political competition.

Radical institutional reforms have been possible in New Zealand and the United Kingdom because of their first-past-the-post electoral rules, which may give governments overwhelming majorities even when they do not enjoy even half the popular votes. However, even in these cases, there are still dangers of a backlash when reform governments lose elections. In the case of the British tax system, Steinmo (1994) has demonstrated how the alternation of power between the Labour and Conservative parties, which in the past held diametrically opposed views on many issues of public policy, has distorted the evolution of tax policy in the United Kingdom. The tax system changes "faster, more frequently, and more radically" than any other tax system in the industrialized world, resulting in what the author has described as a "pattern of fiscal incoherence". In the United States, on the other hand, it has been shown that even when presidents enjoy a landslide victory, radical reform may still be difficult to pursue. This is because of the strong pluralist character of the political system, implying constant negotiations between the President and Congress, and the active roles of well entrenched vested interests in influencing public policy.

Many developing countries, especially crisis-ridden states, are carrying out institutional reforms for which they do not enjoy a popular mandate. In most cases, the drive for reform is more external than internal as governments are forced to meet conditions set by donors for loan disbursements. Given the fractured nature of the political systems of many of these countries and their ambiguous or contentious mandates, it should not be surprising why the commitment to full reform is often weak or even lacking. As Nickson (1999) has persuasively argued, NPM-type managerial reforms will be difficult to implement in countries that have not firmly established a professional civil service. A shared professional culture and common ethical standards are necessary for the flexibility and deconcentrated administrative structures advocated by the managerial reforms.

Introducing market-based managerial reforms without a professionally developed service risks further fragmentation of the state systems of low-income countries and encouraging the growth of corruption and unchecked interests of powerful groups with superior access to the state. In other words, it is difficult to move from "old public administration" (OPA) to "new public management" (NPM) when countries are still grappling with the tasks of constructing the "classic" system of old public administration. Only those countries that have established a professional civil service—the foundations of OPA—may be in a position to move towards NPM. OPA provides the foundations upon which countries may be able to build NPM. Governments and multilateral agencies should also be sensitive to the point made above that most modern democratic systems do not grant majority powers to single parties to govern alone. Reforms based on narrow mandates are often difficult to sustain. However time-consuming and difficult they are to promote, dialogue and political coalitions or pacts are essential elements of modern statecraft. They facilitate the establishment of sound and durable administrative systems.

Reforms need to reaffirm the missions of states

Reform governments and agencies should also try to understand and support some of the enduring missions of states. In the quest to solve chronic fiscal crises and other ills like corruption, weak accountability and poor service delivery, there has been a tendency by reformers to ignore or underplay the vital missions accorded to states in the post-war or post-independence periods. Two myths need to be exposed. First, the so-called revolution in managerial reforms or new public management is grounded in the belief that globalization and market competition will produce a standardized state system, which every country that wants to participate productively in the global economy will have to embrace. The global convergence of public administration systems is a strong message that comes through in the highly influential book by Osborne and Gaebler (1992), **Reinventing Government: How the Entrepreneurial Spirit is Transforming the Public Sector**.

It is difficult to see how this dream of global convergence can be realized in the field of institutional development when countries still differ in terms of how they practice capitalism and the benefits and costs they derive from it. Even the practice of so-called "old public administration" in its Weberian ideal form not only presented problems for countries with strong public administration systems, but also had significant variations in its application in low-income countries where issues of patronage and informality were well entrenched.

Imposing a standard set of reforms in countries with different institutional traditions because of an assumed global imperative may create empty managerial shells out of current poorly performing administrative systems. To satisfy donors, governments may proclaim they are implementing reforms when, in fact, nothing substantive is really happening as far as institutionalization is concerned. Old practices may continue and the state may appear missionless and directionless.

The second myth that needs to be exposed is the so-called search for the right size of the state. Countries differ so much in history, social preferences and developmental goals that there can never be a right state size. Efforts to look for one—as implied in the standard expenditure reduction policies of some multilateral agencies—are fruitless and diversionary. Three arguments have been advanced for a small state in a competitive global economy:

- State expansion crowds out private investments.
- State growth requires high taxes, which will undermine incentives and productivity and force individuals to evade taxes or exit highly taxed countries.
- Poor countries do not have the money to support big states and should learn to cut their coat according to their size, or in World Bank parlance tone down their ambitions and match the state's role to its capabilities or resources (World Bank, 1997a).[28]

Private investments and price stability may suffer if states indulge in high levels of overexpenditure and borrow heavily in domestic markets to finance deficits, but the extent to which this can actually harm economies is debatable; furthermore, it has been shown that state expenditures can also facilitate or crowd-in private investments especially under market environments that are uncertain to private investors. It is quite possible that in industrialized countries, such as those in Scandinavia, where tax rates are really high, there may be a need to stabilize public expenditures and lower marginal tax rates to stimulate competitiveness, but this should not be seen as a general rule that should apply to all countries.

Many countries in the developing world have low corporate and income tax rates and opportunities for other types of taxes—especially land taxes in countries with highly unequal land distribution systems—remain untapped. States in many of developing countries lack the territorial and social reach of their advanced counterparts. Many of them are hardly overblown even though they have been less than careful in the way they have spent public funds. Their limited social and territorial reach may explain why simple social and political conflicts often become unmanageable and threaten the state system itself. It is, of course, true that states should learn to balance their ambitions with their capabilities to avoid the problems of recurrent expenditure costs, fiscal crises and failed projects. But there is no hard and fast rule about how this should be

[28] Despite the Bank's critical stand on some aspects of new public management and increasing recognition of capacity issues, its approach to reform is still managerial as it does not pay sufficient attention to the goals, aspirations or missions of states in its "role-capability" thesis for reshaping the state in a changing world.

done in a global economy that can reward some countries and at the same time harshly punish others through commodity price fluctuations, high debt burdens and capital flight. It has repeatedly been shown that even when countries make progress in getting their domestic macro-economic "fundamentals" right, exogenous factors—such as terms of trade shocks, changes in weather conditions and capital flight—may wreak havoc on public finances.

While cost issues should be central to discussions of state endeavours, reform policies should also strongly focus on the kinds of problems different state systems have tried to solve in the post-war period—national integration or nation building in multi-ethnic societies, such as in Africa; rapid industrialization in developing countries, with the East Asian countries providing appropriate state-led institutional models for this purpose; social equity in former Soviet countries; and wealth redistribution and welfare in Western Europe. These are in line with the current ideas on development that have questioned the "Washington Consensus" of deregulated markets and a minimal state. Gore (forthcoming) has summarized them as "strategic integration" of national economies into the global economy, with developments in national production capabilities serving as a basis for trade liberalization; the combination of macro-economic policy and "productive development policy", with the latter focusing on technology and financial policies, human resource and infrastructure development, and industrial organization and competition policy; a "pragmatic development state"; and a growth strategy that has distributional dimensions.

Costly mistakes were made in the past in different countries in the pursuit of some of these goals, but the goals themselves remain impeccable. They are at the heart of the aspirations of broad masses of people to create developmental, humanistic and harmonious societies. Important though some of their prescriptions are, it is hard to see how the new market-based institutional reforms will lead to the realization of the social and developmental goals outlined above in a very large number of countries. The failure to pay sufficient attention to these goals in the last decade and a half of market reforms may largely explain the high incidence of failed states, civil wars, political violence and stagnant development in large parts of the world today.

Reforms need robust systems of public accountability

For reforms to be institutionalized and serve the public good, they must also allow for effective pressures to be brought to bear on public managers in service delivery. Agent-principal theorists assume that by emphasizing the role of markets in service delivery, the reforms themselves will empower users of services who will punish bad providers and reward good ones by spending their money or public vouchers as they deem fit. The accountability-yielding powers of new public management have, however, been seriously questioned by a host of authors (see Ferlie et al., 1996, for a review). Quasi-markets are imperfect, application of reforms is uneven, and powerful interest groups or individuals may collude with managers to reap rent or offer low quality and reduced services. This has led to calls, including among individuals that support NPM, for more explicit accountability-focused reform policies. These policies include the Citizens' Charter in the United Kingdom, which is being copied by South Africa and Zimbabwe (Therkildsen, 1999); creation or strengthening of public complaints commissions, such as Ombudsmen in Malawi, South Africa, Tanzania, Zambia and Zimbabwe; and service delivery or user surveys, which are being implemented in Bolivia, India, Mali, Nicaragua, Tanzania and Uganda, for instance.

Citizens' Charters seek to ensure that citizens are consulted and offered adequate information about the quantity and quality of public services to enable them to make rational decisions about whether to support such services or demand changes in policies. Under the Ombudsman system, which predates new public management in many countries, governments establish an independent authority that will receive and forward complaints from the public to governments and the legislature. Service delivery or user surveys are a recent development. The US-based international NGO, CIET-International, whose goal is to build community voice in development planning, has promoted service delivery instruments in several countries in Africa, Asia and Latin America where, with government support, it conducts surveys on how consumers or citizens feel about a range of services provided by local and central governments. Results are disseminated among civic groups and the print media and given to governments for action. The expectation is that governments will improve upon their performance based on the survey findings. The most advanced application of this instrument of accountability is the Public Affairs Centre's Report Card, pioneered in the Indian cities of Ahmedabad, Bangalore, Calcutta, Madras and Prune (Paul and Sekhar, 1997), which solicits citizens views about how satisfied they are with services such as telephones, electricity, water, health, postal service, public transport, the police, public banks and food distribution systems. The extent to which report cards or survey findings have influenced government policies is unclear.

Citizens' Charters, Ombudsmen and service delivery surveys are important instruments of accountability and efforts should be made to improve their performance. However, reforms that focus on public accountability should strongly include the self-organization of citizens to influence public policies and improve the delivery of government services. If citizens do not act on information, individually and collectively, public services are unlikely to improve especially in societies where public servants believe they are doing society a favour by being put in charge of services. Collective and individual actions for public accountability entail deepening and defending the civil rights of citizens; promoting a free press and an independent judiciary; as well as improving the organizational capacities of groups that act on behalf of citizens in bringing pressure to bear on government officials. It also means that parliamentary parties that have emerged in democratic transitions are transformed from their current character of being narrow, elitist, electoral bodies to organizations that reflect, and can act on, broad social interests in pursuing public policies.

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