



UNITED NATIONS RESEARCH INSTITUTE FOR SOCIAL DEVELOPMENT

## **The New Public Management Approach and Crisis States**

George A. Larbi

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**United Nations Research Institute  
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Palais des Nations  
1211 Geneva 10  
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**Fax: +41(0) 22 917 06 50**

**E-mail: [info@unrisd.org](mailto:info@unrisd.org)**

**World Wide Web Site: [www.unrisd.org](http://www.unrisd.org)**

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## ◆ Summary/Résumé/Resumen

### *Summary*

New public management (NPM), management techniques and practices drawn mainly from the private sector, is increasingly seen as a global phenomenon. NPM reforms shift the emphasis from traditional public administration to public management. Key elements include various forms of decentralizing management within public services (e.g., the creation of autonomous agencies and devolution of budgets and financial control), increasing use of markets and competition in the provision of public services (e.g., contracting out and other market-type mechanisms), and increasing emphasis on performance, outputs and customer orientation.

NPM reforms have been driven by a combination of economic, social, political and technological factors. A common feature of countries going down the NPM route has been the experience of economic and fiscal crises, which triggered the quest for efficiency and for ways to cut the cost of delivering public services. The crisis of the welfare state led to questions about the role and institutional character of the state. In the case of most developing countries, reforms in public administration and management have been driven more by external pressures and have taken place in the context of structural adjustment programmes. Other drivers of NPM-type reforms include the ascendancy of neoliberal ideas from the late 1970s, the development of information technology, and the growth and use of international management consultants as advisors on reforms. Additional factors, in the case of developing countries, include lending conditionalities and the increasing emphasis on good governance.

Until recently, NPM was largely seen as a developed country, particularly Anglo-Saxon, phenomenon. The 1990s have, however, seen applications of variants of NPM techniques and practices in some developing and transitional economies. Elements discussed in this paper include management decentralization within public services, downsizing, performance contracting, contracting out and user charges. These are being applied in crisis states, but not in a very comprehensive and consistent manner.

Downsizing and user fees have been most widely introduced, especially in Africa, and have been closely associated with structural adjustment programmes. Autonomous agencies within the public sector are being created in some countries. Examples include autonomous hospitals in Ghana, Zimbabwe and Sri Lanka, as well as the hiving-off of the customs and excise, and internal revenue departments to form executive agencies in Ghana and Uganda.

Performance contracting and contracting out have become common policy options in a number of crisis states. The latter has been adopted as an instrument to reform state-owned enterprises (SOEs), granting SOE managers more operational freedom while holding them accountable for the performance of the enterprises through a system of rewards and sanctions. Performance contracts are used across a number of sectors including utilities, transport, telecommunications and agriculture (e.g., in Ghana, Bolivia, Senegal and India). Contracting out is increasingly being adopted in the delivery of public services including urban services (e.g., solid waste management), ancillary health services such as cleaning, laundry and catering (e.g., in Zimbabwe), and road maintenance.

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While the adoption of these NPM practices seems to have been beneficial in some cases (e.g., cost savings in contracting out road maintenance in some African countries and in Brazil), there are both potential for and real limitations to applying some elements in crisis states. The limited experience of NPM in such states suggests that there are institutional and other problems whose persistence may be binding constraints on implementation. The capacity concerns include the ability to manage a network of contracts, the development of monitoring and reporting systems, and the difficult governance and institutional environment which may constrain implementation capacity.

While the new public management approach may not be a panacea for the problems of the public sector in crisis states, a careful and selective adaptation of some elements to selected sectors may be beneficial.

George A. Larbi is Lecturer at the School of Public Policy, University of Birmingham.

### *Résumé*

La nouvelle gestion des affaires publiques (NGAP), qui désigne des techniques et pratiques de gestion empruntées essentiellement au secteur privé, apparaît de plus en plus comme un phénomène mondial. Les réformes allant dans ce sens mettent l'accent non plus sur l'administration publique traditionnelle mais sur la gestion des affaires publiques. Elles ont pour composantes essentielles diverses formes de décentralisation de la gestion dans les services publics (par exemple, la création d'institutions autonomes et la délégation de budgets et du contrôle financier), un recours plus fréquent aux marchés et à la concurrence dans la prestation des services publics (par exemple, externalisation et autres mécanismes fondés sur le marché) et une plus grande importance accordée aux résultats, au rendement et à l'écoute de la clientèle.

Ces réformes ont été motivées par une combinaison de facteurs économiques, sociaux, politiques et technologiques. Les pays qui s'engagent dans cette voie ont un point commun : leur économie et leurs finances publiques ont traversé une crise, ce qui les a incités à rechercher la rentabilité et des moyens de réduire les coûts des services publics. La crise de l'Etat-providence a amené à s'interroger sur le rôle et la nature des institutions de l'Etat. Lorsqu'ils ont engagé des réformes de l'administration et de la gestion publiques, les pays en développement, pour la plupart, l'ont fait sous la pression extérieure, dans le cadre des programmes d'ajustement structurel. D'autres forces ont aussi concouru à ce type de réforme : l'emprise des idées néolibérales de la fin des années 70 par exemple, le développement des techniques de l'information, la vogue des consultants internationaux en gestion, qui se faisaient conseillers en réformes. Dans le cas des pays en développement, d'autres facteurs ont pu entrer en ligne de compte, tels que les conditions liées aux prêts et l'importance croissante attachée à la bonne gouvernance.

Récemment encore, la NGAP apparaissait dans une large mesure comme un phénomène spécifique aux pays développés, en particulier anglo-saxons. Au cours des années 90, on a vu néanmoins certains pays en développement et économies en transition appliquer des variantes des techniques et pratiques de la NGAP. Sont traités dans cette étude notamment la décentralisation de la gestion dans les services publics, la réduction des effectifs, les contrats avec obligation de résultats, la sous-traitance ou externalisation et le système des redevances à la charge des

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utilisateurs. Ces méthodes sont appliquées dans des Etats en crise, mais pas de manière très systématique ni très suivie.

La réduction des effectifs et le système des redevances à la charge des usagers ont été les options le plus largement retenues, en particulier en Afrique, et ont été étroitement associés aux programmes d'ajustement structurel. Dans certains pays, on a vu des établissements autonomes se créer dans le secteur public, par exemple des hôpitaux autonomes au Ghana, au Zimbabwe et en Sri Lanka, les douanes et l'administration des impôts indirects se séparer et la direction générale des impôts faire appel à des agents d'exécution au Ghana et en Ouganda.

La sous-traitance et les contrats avec obligation de résultats sont devenus des options politiques courantes dans nombre d'Etats en crise. La première a été l'instrument adopté pour réformer les entreprises d'Etat, ce qui laissait à la direction de ces entreprises une plus grande liberté de manoeuvre tout en les tenant pour responsables des résultats des entreprises par un système de récompenses et de sanctions. Les contrats avec obligation de résultats ont cours dans divers secteurs, notamment ceux des services d'utilité publique, des transports, des télécommunications et de l'agriculture (par exemple au Ghana, en Bolivie, au Sénégal et en Inde). On retient de plus en plus souvent la solution de la sous-traitance dans la prestation des services publics, notamment en ville (par exemple, la gestion des déchets solides), les services sanitaires annexes tels que le nettoyage, la blanchisserie et la restauration (au Zimbabwe par exemple) et l'entretien des routes.

Si l'adoption de ces nouvelles pratiques de gestion semble avoir été bénéfique dans certains cas (par ex. le fait de confier l'entretien des routes à des entreprises extérieures a permis de réduire les coûts dans certains pays d'Afrique et au Brésil), la mise en pratique de certaines de leurs composantes, bien que prometteuse, se heurte à de vraies limites dans les Etats en crise. Si ces Etats n'ont qu'une expérience restreinte de la nouvelle gestion des affaires publiques, on peut se demander s'il ne subsiste pas des problèmes institutionnels et autres qui en entravent l'adoption de manière rédhibitoire. Des problèmes de capacité peuvent se poser, par exemple la capacité de gérer un réseau de contrats, la mise au point de systèmes de surveillance et de rapport, un environnement institutionnel difficile et un climat peu propice à la gouvernance peuvent limiter les possibilités d'application.

Cette nouvelle conception de la gestion des affaires publiques n'est sans doute pas la panacée aux problèmes du secteur public dans les Etats en crise mais il peut être utile d'en adapter certains éléments à des secteurs donnés, pour peu qu'on fasse preuve de prudence et de discernement.

George A. Larbi est chargé de cours à la School of Public Policy, Université de Birmingham.

### ***Resumen***

La nueva gestión pública (NGP), prácticas y técnicas de gestión extraídas principalmente del sector privado, se considera cada vez más como un fenómeno mundial. Las reformas que encierra la NGP transfieren el énfasis que recaía en la administración pública tradicional hacia la gestión pública. Los elementos fundamentales incluyen varias formas de descentralización de la gestión dentro de los servicios públicos (p. ej.: la creación de agencias autónomas y la transferencia

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del control presupuestario y financiero), el incremento de uso de mercados y la creciente competencia en la provisión de servicios públicos (p. ej.: el sistema de contratación y otros mecanismos de la índole del mercado), así como el énfasis cada vez mayor en: actuación, producción y orientación hacia el consumidor.

Las reformas de la NGP han sido impulsadas por una combinación de los factores económico, social, político y tecnológico. Los países que han seguido la ruta de la NGP tienen una característica en común: haber sufrido crisis económicas y fiscales, lo que ha provocado la búsqueda de eficacia y de modos para disminuir los costos en la entrega de servicios públicos. La crisis del estado benefactor llevó a que se cuestionara el papel del estado y su carácter institucional. En cuanto a la mayoría de los países en desarrollo, han sido las presiones externas las que han tenido mayor peso en empujar las reformas de la administración pública y la gestión, y han tenido lugar en el contexto de programas de ajuste estructural. El auge de las ideas neoliberales desde finales de los 70, el desarrollo de la tecnología de la información, y el crecimiento y uso de consultores y asesores en gestión internacional que han participado en las reformas, son también otros impulsores de reformas tipo NGP. Entre los factores adicionales, en el caso de los países en desarrollo, se destacan las condicionalidades crediticias y el creciente hincapié en la buena gobernación.

Hasta hace poco la nueva gestión pública se consideraba un fenómeno que ocurría en gran parte en los países desarrollados, en especial en los anglosajones. Sin embargo, en la década de 1990, en algunas economías en desarrollo y de transición, se han visto aplicaciones de variantes de las técnicas y prácticas de la NGP. Algunos elementos que se discuten en este documento, incluyen la descentralización de la gestión dentro de los servicios públicos, la reducción de tamaño, contrato por resultados, contratación e imposición de tarifas a los usuarios. Tales elementos se han aplicado en estados en crisis, pero no de manera muy exhaustiva o constante.

La reducción de tamaño y las tarifas para los usuarios se han introducido de manera vasta, especialmente en África, en estrecha asociación con los programas de ajustes estructurales. En algunos países, se han creado agencias autónomas dentro del sector público. Los ejemplos abarcan hospitales autónomos en Ghana, Zimbabwe y Sri Lanka, así como también la escisión de los departamentos de administración de aranceles aduaneros y de rentas públicas para formar agencias ejecutivas en Ghana y Uganda.

En una serie de estados en crisis, el contrato por resultados y la contratación se han convertido en la norma. La contratación se ha adoptado como instrumento para reformar las empresas de pertenencia estatal (EPE), lo que ha brindado mayor libertad de acción a los gestores de las EPE, a la vez que, mediante un sistema de premios y sanciones, les hace responsables de la actuación de tales empresas. Los contratos por resultado se utilizan en varios sectores entre los que figuran los servicios públicos, transporte, telecomunicaciones y agricultura, (p. ej.: en Ghana, Bolivia, Senegal y la India). Los servicios públicos han incrementado el sistema de contratación, entre ellos (p. ej.: el manejo de residuos sólidos), servicios sanitarios auxiliares como limpieza, lavandería y de alimentación (p. ej.: en Zimbabwe), y el mantenimiento de caminos.

Si bien la adopción de estas prácticas de la NGP parecen haber sido provechosas en algunos casos (p. ej.: ahorro en los costos del mantenimiento de caminos mediante la contratación, en algunos países africanos y en Brasil), existe, a la vez, potencial

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y limitaciones reales para la aplicación de algunos elementos en estados en crisis. La experiencia limitada de la NGP en tales estados sugiere que hay problemas institucionales y de otra índole, y que si persisten pueden significar restricciones vinculantes con la implementación. Algunas de las preocupaciones relativas a la capacidad, atañen a la habilidad de manejar una red de contratos, al desarrollo de sistemas de seguimiento, y a la difícil gobernación y entorno institucional que pudiese restringir la capacidad de implementación.

Aunque el enfoque de la nueva gestión pública puede que no sea una panacea para los problemas del sector público en los estados en crisis, la adaptación atenta y selectiva de algunos elementos para sectores selectos, podría ser beneficiosa.

George A. Larbi es profesor en la School of Public Policy, Universidad de Birmingham.



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## ◆ Abbreviations and Acronyms

CSPIP	Civil Service Performance Improvement Programme (Ghana)
ERP	Economic Recovery Programme (Ghana)
FMI	Financial Management Initiative
ILO	International Labour Organization
IMF	International Monetary Fund
MTM	market-type mechanism
NHS	National Health Service (United Kingdom)
NIC	newly industrialized country
NPM	new public management
ODA	Overseas Development Administration (United Kingdom)
OECD	Organisation for Economic Co-operation and Development
PEL	public enterprise reform loan
QUANGO	quasi non-governmental organization
SAL	structural adjustment loan
SAP	structural adjustment programme
SECAL	sectoral adjustment loan
SOE	state-owned enterprise
SSA	sub-Saharan Africa
TAL	technical assistance loan
UNDP	United Nations Development Programme
USAID	United States Agency for International Development



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# 1. INTRODUCTION

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For over two decades a wave of public sector management reforms has swept through developed, transitional and developing countries. The role and institutional character of the state and of the public sector have been under pressure to be more market-oriented and private sector-oriented, initially in developed countries and later in some developing countries in the context of International Monetary Fund/World Bank-supported structural adjustment programmes (SAPs). This has been a product of a number of factors, including the economic and fiscal crises of the state that called the post-war consensus on the active role of the state in the economy into serious question. In developed economies such as the United Kingdom, Canada and Australia, the crisis in the Keynesian welfare state led to the search for alternative ways of organizing and managing public services and redefining the role of the state to give more prominence to markets and competition, and to the private and voluntary sectors. In a similar vein, the economic and fiscal crisis that engulfed most developing countries in the 1970s and 1980s led to a rethinking of state-led development which had increased the size, functions and power of the state and its bureaucracy.

A survey by the Organisation for Economic Co-operation and Development concluded that new management techniques and practices involving market-type mechanisms associated with the private for-profit sector are being used to bring about changes in the management of public services in countries that have widely varying governance, economic and institutional environments (OECD, 1993a). These practices and techniques have conventionally been labelled the new public management (NPM) or the new managerialism (Hood, 1991; Dunleavy and Hood, 1994; Pollitt, 1993; Ferlie et al., 1996).

The components of NPM have evolved over the years. However, as Moore et al. (1994:13) point out, "The central feature of NPM is the attempt to introduce or simulate, within those sections of the public service that are not privatized, the performance incentives and the disciplines that exist in a market environment." The assumption is that there are benefits in terms of efficiency and effectiveness in exposing public sector activities to market pressures and in using markets to serve public purposes, and that government can learn from the private sector despite contextual differences (Metcalf and Richards, 1990:155). Some observers have argued that there are convergent trends (Kickert and Beck Jørgensen, 1995:501) or "diffusion of reforms" (Halligan, 1997) or a "globalization" of public sector management (Flynn, 1997) as an increasing number of crisis and non-crisis states in Africa, Asia and Latin America are also embracing elements of the new public management approach. A noticeable trend in public sector reforms, in the context of economic crisis and structural adjustment, is that a wider range of administrative functions and the delivery of public services are being subjected to the approach (Bienefeld, 1990; Mukandala, 1992).

This paper will provide an overview of the evolution of NPM, its potential and limitations. The paper is structured as follows: section 2 reviews the combination of factors driving NPM reforms, drawing insights from both developed and developing countries. The third section outlines the key components of new public management, while section 4 discusses in detail selected new public management practices, highlighting issues of institutional constraints and capacity in their

application. Section 5 outlines the limitations of the new public management approach, leading to a revival of interest in a capable state.

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## 2. FACTORS DRIVING NEW PUBLIC MANAGEMENT REFORMS

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In reviewing the factors driving NPM reforms, there is need to look beyond crisis states in developing countries to developed market economies where the “new public management revolution” started. This will provide useful insights and enable us to understand better the pressures for, and influences on, public sector management reform in crisis-ridden and adjusting economies. Public sector management reforms in crisis states cannot be disassociated from the international context and influences, particularly the involvement of international financial institutions, donor agencies and international management consultants and technical advisors.

### ◆ Insights from Developed Market Economies

The large and growing literature on public sector management reforms in Western countries (e.g., Australia, Canada, New Zealand and the United Kingdom) has emphasized that changes in the economic, social, political, technological and administrative environments combined to prompt and drive radical changes in public administration and management systems (Zifcak, 1994; Greer, 1994; Mascarenhas, 1993; Lane, 1997; Kettl, 1997). The central objective of change was improvement in the ways in which government is managed and services delivered, with emphasis on efficiency, economy and effectiveness (Metcalf and Richards, 1990). These factors will now be discussed briefly in turn.

#### *Economic and fiscal crises of the state*

One common feature of countries going down the NPM route is their concern about balance of payments, the size of public expenditure and the cost of providing public services (Greer, 1994; Zifcak, 1994; Mascarenhas, 1993; Walsh, 1995). The fiscal crisis in the United Kingdom, for example, led to an IMF intervention in the 1970s with a demand for financial reforms and some of the blame placed on the “unreformed” Whitehall (the civil service) (Caiden, 1991:19).

As the indicators of economic weakness became more significant and governments’ fiscal crisis deepened, the active role of the state in the management of the economy and in the direct provision of services was seriously called into question in most Western countries (Zifcak, 1994; Boudiguel and Rouban, 1988; Dunsire and Hood, 1989). The Keynesian paradigm was confounded with stagflation, and this led to the ascendancy of the monetarist alternative. This paradigmatic shift<sup>1</sup> meant that the market economy was best left to correct itself without active governmental intervention.

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<sup>1</sup> The term paradigm, as defined by Kuhn, means the “entire constellation of beliefs, values, techniques and so on shared by members of a given community” (cited in Massey, 1997:3). Rondinelli (1995:232) defines a paradigm shift as “a change in the conceptual framework that allows large numbers of people to perceive problems and opportunities in very

Faced with fiscal crisis, and buttressed by a “counter-revolution in economic thinking” (Fry, 1985:5), most Western governments initiated measures not only to cut, but also to control public spending. As illustrated in the cases of the United Kingdom (Dunsire and Hood, 1989; Marsh and Rhodes, 1992; Greer, 1994; Stewart and Walsh, 1992; Clark and Newman, 1997), and Australia and New Zealand (Mascarenhas, 1993; Zifcak, 1994; Halligan, 1997), the fiscal crisis and the quest for efficiency and effectiveness were elaborated into a general crusade to reorganize and modernize public bureaucracies and thus moved public sector management reforms to the top of the political agenda.

### *The influence of neoliberal ideas and criticisms of the old public administration*

By the late 1970s there was increasing criticism by the New Right/neoliberals of the size, cost and the role of government, and doubts about the capacity of governments to rectify economic problems. The Keynesian welfare state was seen as a monopoly provider of services and as fundamentally inefficient. There was also little regard for customers and results (Bereton, 1994). According to the neoliberal view it is only through market competition that economic efficiency can be achieved and the public offered free market choice (Bereton, 1994:14). In extolling the virtues of the market, Lindblom (1977), for example, argues that the market is an effective allocator of resources, an efficient co-ordinating mechanism, a rational decision-making process and, in addition, encourages resourcefulness and enterprise.

There is some consensus among writers on public sector management reforms (e.g., Flynn, 1993; Ferlie et al., 1996; Walsh, 1995; Pollitt, 1993), that the New Right critique of the welfare state, and of the public management based on it, was strongly influenced by the ideas of economic liberals such as Hayek (1973), and by public choice theorists such as Niskanen (1971), Buchanan (1975) and Mueller (1979).

According to Jordan (1995) public choice theory is one of the New Right’s most effective weapons. The central criticism of public choice is that the reward system in the public sector does not promote effective performance and that politicians and bureaucrats have no incentives to control costs (Chapman, 1979). This often leads to waste of resources and an in-built tendency for expenditure to grow and for delivery to take precedence over productivity. In the absence of any automatic disciplining mechanism (i.e., market forces) government agencies oversupply collective goods because of budget maximization behaviour (Niskanen, 1971; 1973; Downs, 1967). This also permits rent-seeking behaviour (Tullock and Eller, 1994) by bureaucrats, their clients and politicians. There is concern about what Dixon et al. call

... ‘opportunism’ in traditional public administration. This refers to the ‘self-serving’ (rent-seeking), even deceitful and dishonest, behaviour by bureaucrats, their clients and politicians created either because environmental uncertainty makes contracts incomplete or because ‘principals’ cannot effectively monitor the behaviour of their ‘agents’,

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different ways than they had done in the past or to conceive of responses to problems and opportunities in a new context”.

who do not have identical interests and who have information that is not accessible to them (Dixon et al., 1998:165).

A related problem is that in pursuing their own self-interest, bureaucrats promote the growth and expansion of governmental functions that then become oversupplied and over-extended. This then creates an ever-expanding bureaucracy that requires a hierarchical authority structure based on rational rules (Hayek, 1960). Over time, however, the capacity for top-down control diminishes as bureaucratic expansion gets to a point where it becomes impossible to fully control or even co-ordinate large organizations, leading inevitably to bureaucratic failure (Downs, 1967; Breton and Wintrobe, 1975). According to Perlman, the usual response to bureaucratic failure is “to create another bureau to oversee those who have lapsed into sin. Bureaux are piled on bureau and the bureaucracy grows on” (cited in Dixon et al., 1998:165-166).

Confronted with bureaucratic failures of old public administration, politicians (as principals) face the task of creating organizational arrangements (incentives, sanctions and monitoring) that minimize the costs of the undesirable behaviour of agents and of the activity undertaken to control it (Weimer and Vining, 1991:132). In addition, bureaucracy has harmful restraints that need to be removed in order to improve performance and encourage innovation (Chubb and Moe, 1990). There are too many rules limiting initiative, with the result that good people are trapped in bad systems (Osborne and Gaebler, 1992).

In the quest for efficiency and effectiveness in government, not only reforms were necessary: the adoption of private sector management techniques and practices was also advocated to deal with the problems of the old public administration, i.e., private sector solutions were sought for public sector problems. The anti-bureaucratic view of public choice theorists found an audience in the political leadership of Western countries looking for alternatives to resolve the crisis in the active and welfare state. As Flynn points out:

. . . ideas that questioned state intervention and reasserted the importance of market forces were clearly going to have a sympathetic hearing among politicians who were looking for reasons for curbing state intervention (1993:9).

Until the mid-1970s, these ideas had remained on the fringes of debate about the role of government and outside the mainstream of policy making. By the 1980s they moved to the centre stage of government thinking and collectively provided “a framework within which privatization, expenditure controls and the introduction of markets all hang together” (Flynn, 1993:12).

### *Changes in political context*

Changes in the political and ideological context were powerful factors for reforms in some Western countries. For example, the New Right ideas found audience in the Conservative government that came to power in the United Kingdom in 1979, and in the three subsequent Conservative governments (Farnham and Horton, 1996; Greer, 1994). In analysing the United States case, Pollitt (1993) notes that Reagan’s election in 1978 provided some impetus for market-oriented reforms in the public sector, which was already under pressure to reform. Similar changes in the political context took place in Australia (Zifcak, 1994; Marsh, 1994) and New Zealand, which both brought in pro-reform governments. However, in the case of

New Zealand, it was a Labour government that embraced new management reforms in response to the pressures on the state to cut back expenditure and for public services to be more efficient.

Caiden (1991:4) notes that strategies to cut the size of the public sector were buttressed by “an ideological campaign to reverse the growing reliance on the administrative state and to get government off people’s backs”. Thus, the assertion of New Right ideology, political change and party programmes partly provided impetus for change in public sector management (Marsh and Rhodes, 1992).

### *Development of information technology*

The literature on public management reforms also points to the development and availability of information technology as providing the necessary tools and structures to make workable managerial reforms in the public sector (Greer, 1994). For example, refined information systems are pivotal to the principle of management decentralization through the creation of executive agencies. In order to decentralize and, at the same time, have greater accountability, it is important to have confidence in reported performance information (Greer, 1994).

### *Growth and role of management consultants*

NPM reforms have also been “globalized” by change agents. These include large international management consultants, accountancy firms and international financial institutions, all of which have been instrumental in the increasing “importation” of new management techniques from the private into the public sector. They have played an important role in packaging, selling and implementing NPM techniques (Greer, 1994), as state agencies contemplating institutional change or strengthening often enlist the services of expert consultants to clarify available options — and recommend courses of action (Bevan, 1997).

From the above review one can conclude that a combination of factors coincided to produce a seemingly irresistible pressure for management reforms in the public services in developed market economies. Changes in the political context, buttressed by New Right ideas, and the search for efficiency and effectiveness in public services were key driving forces for change toward more market-oriented policies. If markets were to function well then there was the need to renew organizational and administrative rules and to modernize structures so that public administration institutions could assist the economy to be competitive.

In what follows it will be argued that this paradigmatic shift in the Western countries from the late 1970s was superimposed on crisis states in developing regions, particularly in countries that embarked on IMF/World Bank-supported structural adjustment programmes. This was necessitated by the severe economic and fiscal crises in these countries, and worsened by political and policy instability.

## ◆ Insights from Crisis and Adjusting Economies

### *Economic and fiscal crises*

As right-wing, Conservative governments came to power in the United Kingdom and the United States in the late 1970s, emphasis and strategy within the IMF and the World Bank shifted toward a more market-oriented philosophy. Both the Conservatives in the United Kingdom and the Republicans in the United States were seen as anti-public sector and pro-market (Christensen, 1988). There is little empirical evidence of the extent to which the shift in policy in the World Bank and the IMF was influenced by Western governments. However, the concurrent shift was to have a profound influence on the package of reforms that developing countries in crisis were to undertake in the 1980s and 1990s under the auspices of the two multilateral lending institutions.

The literature provides evidence that in many, if not the majority of, developing countries, economic crisis has been by far the most important factor driving the introduction of ambitious reforms in the public sector since the early 1980s (World Bank, 1997:151). In sub-Saharan Africa (SSA) economic and fiscal crises preceded economic reforms, which also triggered public sector management reforms. Many African and Latin American countries suffered from unsustainable external and domestic debts, deteriorating real terms of trade, increasing real interest rates on international financial markets, high inflation, low levels of savings and investment, and shortages of basic consumer goods (Cassen, 1994; World Bank, 1989; Krueger, 1993; Loxley, 1987). More recently, the economic and fiscal crises in the Asian “tiger economies” have promoted major reforms in the public sectors of countries such as Indonesia, Malaysia and South Korea. Most countries, especially in Africa, had debilitating underlying problems — severe institutional weaknesses, fiscal indiscipline and weak external competitiveness (Teriba, 1996).

In the above circumstances, many countries had been pushed to crisis by sudden outside disturbance, such as a deterioration in terms of trade (Schadler, 1996:14). By comparison with the context for change in developed market economies, many developing countries found themselves in much deeper and crippling economic and fiscal crises over which they had little or no control and for which governments were unable to come up with viable solutions of their own. In some countries in Africa (e.g., Uganda, Sierra Leone, Sudan, Somalia and Mozambique), the economic and fiscal crises were worsened by political and ethnic conflicts. With dwindling aid flows, mounting debts and rising interest rates, a number of countries turned to the IMF and the World Bank as lenders of last resort.

### *Structural adjustment and conditionality*

Going first to the IMF and then to the World Bank meant accepting stabilization and structural adjustment packages with their accompanying conditionalities in order to obtain credits and debt rescheduling from creditor banks and multilateral lending institutions.<sup>2</sup> Policy-based lending by multilateral institutions was used as

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<sup>2</sup> A conceptual distinction may be made between “stabilization” and “structural adjustment” even though the two are closely linked in practice. The former is generally associated with the IMF and concerned with short-term measures to improve macroeconomic balance and stability — i.e., measures to eliminate disequilibrium between aggregate demand and



an instrument to encourage crisis states to embark on reforms that were pro-market and pro-private sector.<sup>3</sup> IMF and World Bank-supported stabilization and structural adjustment programmes, which were responses to the crises, provided both the context and the imperative for change in public sector management in most developing countries (Nunberg, 1990; Engberg-Pedersen et al., 1996; Havnevik, 1987), in transitional economies in eastern Europe and the former Soviet Union and, recently, in the newly industrialized countries (NICs) of Asia.

The commitment of SAPs to efficiency and growth was limited to a reduction of public deficits and re-orientation toward a “minimal state” by cutting down the size, expense and responsibilities of public sectors (Grindle, 1997:4). In line with neoliberal arguments, the roles of governments — their direct interventions in the economy and the performance of the state-owned enterprise (SOE) sector, plus the quality of economic management and policy making — were seen as the key sources of the problem. This view is in sharp contrast to the interventionist-modernizing perceptions of the role of the state in the 1950s and 1960s.

Reducing the size and role of government by allowing the private sector a greater share of economic activity was hailed as a new solution during the 1980s (Cassen, 1994; Engberg-Pedersen et al., 1996). It was judged that the private sector and its participation in the economy could not be expected to recover while key public sector institutions such as the civil service, state banks and SOEs remained unreformed (Harvey, 1996:130).

### *Public administration and management context*

In crisis and adjusting economies, the failure of public administration institutions is believed to have triggered the crises of the late 1970s and early 1980s. Their reform was therefore widely thought to be critical to recovery and adjustment (Bienefeld, 1990; World Bank, 1989). Besides, administrative failure or incapacity was seen as a threat to the success and sustainability of adjustment.

Internally, policy deficiencies, bad and excessive management of the economy, large-scale institutionalized corruption, weak and demoralized public services, low productivity and political instability, all contributed to a worsening of the crises. Loss-making SOEs contributed significantly to budget deficits and thus to the fiscal crisis (World Bank, 1995; Adam, 1994). To illustrate, in the case of Ghana, there were 235 SOEs at the beginning of the Economic Recovery Programme (ERP) in 1983, most of which piled up considerable losses and hence made little contribution to state revenue. Government subventions to the SOE sector increased considerably from 1.1 billion cedis in 1982 to 7.35 billion in 1986 (Hutchful, 1996:182). By June 1987 18 key SOEs owed 40 billion cedis (about US\$ 227.2

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supply, which manifests itself in balance of payments deficits and rising prices. Structural adjustment is dominated by the World Bank and consists of comprehensive medium- to long-term measures to increase economic growth. Stabilization is usually seen as precondition for adjustment. In practice the IMF and the World Bank impose overlapping conditions, so the distinction breaks down.

<sup>3</sup> Structural adjustment lending was introduced in early 1980 in the immediate aftermath of the second oil price shock in July 1979, which triggered a deterioration of the external economic circumstances confronting most developing countries throughout the 1980s.

million) to the Ghanaian government and 5.2 billion cedis (about US\$ 29.5 million) to each other (Boachie-Danquah, 1990:90).

The implementation of SAPs put pressure on most states in crisis to embark on complementary public administration and management reforms. There are three principal reasons for linking SAPs and public administration and management reforms. First, in the view of the World Bank and IMF the apparatus of government in many crisis states is far too extensive, intrusive, expensive and inefficient. There was a problem of “too much state” (Grindle, 1997). In particular, the size of public sector employment and the wage bill were considered too large; the wage bill constituted an increasingly high share of government expenditure at the expense of critical operating expenditure. With this as the basic assumption, the improvement of management in the public sector has given primary attention to reducing public deficits through reduction in the size of employment and the wage bill (ILO, 1995; Nunberg and Nellis, 1995; Adamolekun, 1991; Lindauer and Nunberg, 1996). In practice, reducing budget deficits has meant reforming the tax system and the civil service, abolishing subsidies, and reforming or privatizing public enterprises.

The second reason for SAP-related public administration and management reforms has to do with the weak capacity of government and its administrative apparatus. This was reflected in “weak policy making, pervasive delays . . . the deterioration of public infrastructure, the poor quality of public services, high transaction costs, and widespread corruption” (ILO, 1995:10; see also De Merode, 1991; De Merode and Thomas, 1996).

In other words, many countries were faced with the dilemma of having “too much state” and “too little state” at the same time, and “the reality that these large and intrusive public sectors often showed little effective capacity to formulate policy, implement it, and perform routine administrative functions” (Grindle, 1997:3). Reforms were necessary to restore capacity and promote effectiveness and efficiency (Bienefeld, 1990; Nunberg, 1990; Paul, 1990), and to search for ways in which public administration systems could be made adequate to the task of recovery and adjustment (Wamalwa, 1991; Balogun and Mutahaba, 1991).

While the earlier wave of reforms in the 1980s responded to the problems created by “too much state”, they paid little attention to the problems of “too little state”. As Grindle has noted:

Only after a decade of experimentation with reducing government did economic reformers become explicit about the importance of strengthening government by infusing it with the capacity to be efficient, effective, and responsive, and with the capacity not only to manage macroeconomic policy, but also to regulate some forms of market behaviour (1997:4).

From the late 1980s, public sector management reforms became integral parts of structural adjustment loans (SALs), often with companion technical assistance loans (TALs) to provide institutional support (Nunberg, 1990).

The third reason for linking SAPs to public administration and management reforms is the fact that most public economic and social services were poorly managed and their infrastructure had suffered serious decay due to years of neglect and lack of funds for maintenance. As a result of these deficiencies, there was inefficient delivery of a wide range of social (e.g., education and health) and

economic (e.g., water and electricity) services which were heavily subsidized by the state. In addition there was resistance to applying commercial and financial discipline to a large number of SOEs. The reform of these public services therefore became imperative under SAPs in order to improve their performance (Shirley and Xu, 1997) and to apply cost recovery measures.

Thus, economic and fiscal crisis and the subsequent adoption of SAPs called for a radical rethinking of the role of the state in the economy and how to restructure policy, planning and implementation institutions. Although the objectives of SAP-related public administration and management reforms are not entirely new, what is new is “the urgency with which reforms are being addressed” and the increased belief among multilateral and bilateral agencies that effectiveness “. . . must — and can — be primarily achieved by allowing an ever wider range of administrative functions to be subjected to competitive market pressures, either directly or by proxy in some way” (Bienefeld, 1990:19).

The underlying philosophy is similar to that of developed market economies. Just as the economy must open itself up to competition, public service organizations must also lend themselves to the discipline of the market.

### *The political context for reforms*

Unlike the context in developed countries, the political environment in some developing countries (especially in Africa) in the 1970s and 1980s was marked by political instability and policy inaction. In countries such as Ghana, Malawi, Zambia and Zimbabwe, the orientation of the political leadership was not particularly pro-market or pro-private sector; in some cases it was directly the opposite. This partly explains why needed economic reforms were delayed until things got out of hand. Once the economic situation reached a crisis point and there were no immediate alternative solutions, some political leaders (e.g., in Ghana) were ready to take the risk of reform along lines prescribed by multilateral lending institutions. Thus for most crisis states, the political environment did not enable the leadership to take independent initiatives for market-oriented public sector management reforms. As Corkery et al. (1995) have noted in the case of Africa, even when reforms were introduced it was the externally driven and supported SAPs which were the main catalyst for the introduction of public sector management reforms. This partly explains the lack of public ownership of adjustment and weak government commitment to reforms.

## ◆ Good Governance and Public Sector Management Reforms

From the late 1980s<sup>4</sup> the debate on good governance and its requirements also provided an impetus for new approaches to public sector management reforms. Good public management and administration with emphasis on accountability and responsiveness to customer needs has been seen as an aspect of good governance

<sup>4</sup> It should be noted here that it was only after the collapse of communism and the end of the Cold War that issues of good governance became prominent on the reform agenda. Major donors and international development agencies reviewed their aid policies, requiring recipient countries to introduce political liberalization and restructure the framework for governance.

by donor agencies (e.g., United Kingdom's ODA and USAID) supporting reforms in developing countries (Turner and Hulme, 1997; Polidano and Hulme, 1997:1-2; Lamb, 1994; Bangura and Gibbon, 1992). To the World Bank, good governance consists of a public service that is efficient, a judicial system that is reliable, and an administration that is accountable to the public (World Bank, 1989; see also Stowe, 1992). The Bank argues that "underlying the litany of Africa's development problems is a crisis of governance" (World Bank, 1989:60). In a later formulation, the World Bank (1992) elaborates on four elements of good governance:

- public sector management emphasizing the need for effective financial and human resource management through improved budgeting, accounting and reporting, and rooting out inefficiency particularly in public enterprises;
- accountability in public services, including effective accounting, auditing and decentralization, and generally making public officials responsible for their actions and responsive to consumers;
- a predictable legal framework with rules known in advance; a reliable and independent judiciary and law enforcement mechanisms; and
- availability of information and transparency in order to enhance policy analysis, promote public debate and reduce the risk of corruption.

It is apparent from the above conception of "good governance" that there is some emphasis on improving public sector management systems. "Good governance" and "new managerialism" are presented as twin outcomes (Minogue et al., 1997). Variants of NPM prescriptions come in handy for donors keen to promote efficiency and accountability and improve performance in public services in crisis states. Good governance, it is argued, cannot be achieved without efficient and effective public administration and management systems and, equally, public administration and management systems may be ineffective and inefficient in an environment of poor governance characterized by lack of basic freedoms, lack of respect for rule of law, and autocratic, idiosyncratic and unpredictable leadership (Hopkinson, 1992:20-21; Gillies, 1996). Good governance requirements include not only accountability to the public, but also creating an enabling environment for private enterprise and efficient SOEs (Chalker, 1993).

In the late 1980s major Western donors began to link good governance to their aid policies. To illustrate, the former United Kingdom Foreign Secretary, Douglas Hurd, stated that:

... countries tending towards pluralism, public accountability, respect for the rule of law, human rights and market principles should be encouraged. Governments which persist with repressive policies, corrupt management and with wasteful and discredited economic systems should not expect us to support their folly with scarce aid resources which could better be used elsewhere (cited in Hopkinson, 1992:34).

Thus, in the good governance prescriptions one finds public management reform as a key component (Stoker, 1996; Lamb, 1994).

## *The influence of international experiences*

The wind of change toward market reforms and political pluralism that was sweeping across most of the Western world in the 1980s, and the collapse of communism, sent important messages to most developing countries in crisis that they should also reform. The radical market-oriented reform of the Thatcher era in the United Kingdom had not gone unnoticed in other countries and, as Kickert and Verhaak (1995) have noted, had become an “export article”. For most adjusting economies, the process of “learning” from the developed countries’ experiences was facilitated by the use of international management consultants under donor-sponsored technical assistance loans.<sup>5</sup> As noted above, these management consultants have been partly responsible for packaging and selling variants of the NPM in crisis states. Thus the language of the new public management such as “value for money”, “doing more with less” and the “consumer as customer”, has begun to have influence on public sector management reforms in crisis states.

<b>Table 1</b>	
<b>Summary of incentives for public management reforms in developed and developing countries</b>	
<b>Developed market economies</b>	<b>Crisis and adjusting economies</b>
Economic and fiscal crises in the 70s and 80s	Economic and fiscal crises of greater magnitude, plus increasing debt burden in the 70s and 80s
Quest for efficiency and effectiveness in public services	IMF/World Bank-supported structural adjustment lending conditions; efforts to reduce public deficits and redress balance of payments problems
Ascendancy of “New Right”/neoliberal ideas in policy making in the 70s and 80s; belief in markets and competition and minimal role for the state	Structural adjustment and economic liberalization policies in the 80s and 90s; efforts to reduce size and role of government
Change in political context — coming into power of Conservative governments, e.g., in the United Kingdom and United States in the late 70s through the 80s	Political and policy instability; failure of public administration institutions and the need to reform them and build their capacity; collapse of communism and central planning
Development of information technology to facilitate and support change	Good governance requirements and its link to public administration and management reform; donor pressures
Growth and role of a network of international management consultants who believe in the tenets of NPM	Learning from the experiences of developed countries; the demonstration effects of reforms in the United Kingdom and other developed market economies; policy transfer
	Technical assistance and the influence of international management consultants as advisors on reforms

Source: Larbi, 1998a

Table 1 summarizes the preceding section in a comparative perspective, highlighting the different incentives for change in both developed and developing countries. It is apparent that economic and fiscal crises were common driving forces for reform in both developed and developing countries, but the depth and nature of crises differed in the context of adjusting economies. For most adjusting

<sup>5</sup> Examples of international management consultancy firms with worldwide operations include PricewaterhouseCoopers (United Kingdom-based), and Public Administration Service (United States-based).

economies, reforms were driven more by external pressure and less by internal political leadership and ideology. The factors driving reforms were, in particular, structural adjustment lending conditions, which pointed toward market and private sector approaches to public sector management under the guise of new public management. The next section outlines the key components of NPM.

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### 3. RESPONDING TO PRESSURES: NEW PUBLIC MANAGEMENT TRENDS

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The key finding of a report on how governments throughout the Commonwealth have responded to environmental pressures and crisis affecting the public sector notes that:

. . . despite the diversity of the Commonwealth countries there was a common pattern in their responses. So strong is this common pattern that it could be labelled a new paradigm in public administration (Borins, 1994:3).

Three OECD countries — the United Kingdom, Australia and New Zealand — have become leaders in implementing this new paradigm, starting with different political perspectives and responding in their turn to crises. The new paradigm is referred to in the literature as new public management and this terminology is maintained in this paper.

#### ◆ Conceptualizing the New Public Management

New public management has become convenient shorthand for a set of broadly similar administrative doctrines which dominated the public administration reform agenda of most OECD countries from the late 1970s (Hood, 1991; Pollitt, 1993; Ridley, 1996). It captures most of the structural, organizational and managerial changes taking place in the public services of these countries. To quote Pollitt, NPM has variously been defined “as a vision, an ideology or (more prosaically) a bundle of particular management approaches and techniques (many of them borrowed from the private for-profit sector)” (1994:1). NPM is thus seen as a body of managerial thought (Ferlie et al., 1996:9) or as an ideological thought system based on ideas generated in the private sector and imported into the public sector (Hood, 1991, 1995).

NPM shifts the emphasis from traditional public administration to public management (Lane, 1994). As the title of Clarke and Newman’s (1997) book, **The Managerial State**, reflects, NPM is pushing the state toward managerialism. The traditional model of organization and delivery of public services, based on the principles of bureaucratic hierarchy, planning, centralization, direct control and self-sufficiency, is apparently being replaced by a market-based public service management (Stewart and Walsh, 1992; Walsh, 1995; Flynn, 1993), or “enterprise culture” (Mascarenhas, 1993).

A review of the literature suggests that NPM is not a homogenous whole but rather has several, sometimes overlapping, elements representing trends in public management reforms in OECD countries. Its components and features have been identified by a number of writers, including Hood (1991, 1995), Dunleavy and

Hood (1994), Ferlie et al. (1996), Flynn (1993); Pollitt (1993, 1994); Pollitt and Summa (1997) and Borins (1994). As noted above, the doctrinal components of NPM have been expanded upon and have evolved over the past decade. For example, the core ideas of the United Kingdom's Citizens Charter initiative, launched in 1991, added a consumerist dimension to public management (Talbot, 1994). Moreover, different aspects of NPM have been stressed by different commentators.

Table 2 summarizes the conceptions of NPM held by some of the key writers on the subject. It is apparent that there are several parallels and overlaps, but also important differences in the way NPM is perceived. It is worth noting, for example, that Hood's original conception of NPM did not explicitly feature the issue of consumers' rights. The Citizen's Charter brought the issue of consumers to prominence and has since become a key feature of most NPM discussions. Osborne and Gaebler's approach also contains some important differences in emphasis from the general NPM approach, and especially from the more ideological politics associated with it. Unlike the ideologically driven NPM underpinned by the "public bad — private good" ethos in the United Kingdom (Talbot, 1994:11), Osborne and Gaebler assert their belief in government. They also assert that privatization is not the only, or often the most appropriate, solution and that in some cases, bureaucracies work better (e.g., in social security). Beyond these differences, there is much in common with the different views on NPM.

Table 3 draws together what may be regarded as the key components of NPM. A look at the components suggests that the ideas and themes may be put in two broad strands. On the one hand are ideas and themes that emphasize managerial improvement and organizational restructuring, i.e., managerialism in the public sector — these clusters of ideas tend to emphasize management devolution or decentralization within public services. On the other hand are ideas and themes that emphasize markets and competition. It should be pointed out, however, that these categories overlap in practice. They should therefore be seen as a continuum ranging from more managerialism at one end (e.g., decentralization and hands-on professional management) to more marketization and competition at the other (e.g., contracting out).

As Hood (1991) has noted, the two broad orientations of NPM are explained by the marriage of two different streams of ideas (see also Mellon, 1993). The first stresses business-type "managerialism" in the public sector and freedom to manage, and comes from the tradition of the scientific management movement (Hood, 1991:6-7; Ferlie et al., 1996:11). This neo-Taylorist movement (Pollitt, 1993) was driven by the search for efficiency and, according to Hood:

. . . generated a set of administrative doctrines based on the ideas of *professional management* expertise as portable, . . . *paramount* over technical expertise, requiring high *discretionary power* to achieve results . . . and *central* and *indispensable* to better organizational performance, through the development of appropriate cultures . . . and the active measurement and adjustment of organizational outputs (1991:6).

<b>Table 2</b>				
<b>Conceptions of new public management by different authors</b>				
<b>Hood, 1991; Dunleavy and Hood, 1994</b>	<b>Pollitt, 1993 and 1994</b>	<b>Ferlie et al., 1996</b>	<b>Borins, 1994; Commonwealth, 1996</b>	<b>Osborne and Gaebler, 1992</b>
hands-on professional management	decentralizing management authority <i>within</i> public services	decentralization; organizational unbundling; new forms of corporate governance; move to board of directors mode	increased autonomy, particularly from central agency controls	decentralized government: promoting more flexible, less layered forms of organization
shift to disaggregation of units into quasi-contractual or quasi-market forms	breaking up traditional monolithic bureaucracies into separate agencies	split between strategic core and large operational periphery		catalytic government: steering not rowing
shift to greater competition and mixed provision, contracting relationship in the public sector; opening up provider roles to competition	introducing market and quasi-market type mechanisms to foster competition	elaborate and develop quasi-markets as mechanisms for allocating resources within the public sector	receptiveness to competition and an open-minded attitude about which public activities should be performed by the public sector as opposed to the private sector	competition within public services: may be intra-public or with a variety of alternative providers
stress on private sector styles of management practice	clearer separation between purchaser and provider function	split between public funding and independent service provision	creating synergy between the public and private sectors	driven by mission not rules
greater emphasis on output controls	stress on quality, responsiveness to customers	stress on provider responsiveness to consumers; major concern with service quality	providing high-quality services that citizens value; service users as customers	customer-driven
explicit standards and measures of performance	performance targets for managers	more transparent methods to review performance	organizations and individuals measured and rewarded on the performance targets met	result-oriented government: funding outputs not inputs
stress on greater discipline and parsimony in resource use; reworking budgets to be transparent in accounting terms	capping/fixed budgets	strong concern with value-for-money and efficiency gains	provision of human and technological resources that managers need to meet their performance targets	enterprising government: earning not spending
	changing employment relations	downsizing		market-oriented government: leveraging change through the market
		deregulation of the labour market		anticipatory government: prevention rather than cure

Source: Larbi, 1998a.



<b>Table 3</b> <b>Key components of new public management</b>			
<b>Emphasis</b>	<b>NPM component</b>	<b>Meaning</b>	<b>Typical justification</b>
managerialism	hands-on professional management in the public sector	active, visible, discretionary control of organizations from named persons at the top, "free to manage"	accountability requires the clear assignment of responsibility for action, not diffusion of power
managerialism	explicit standards and measures of performance	definition of goals, targets, indicators of success, preferably expressed in quantitative terms and to which managers would be required to work	accountability requires clear statement of goals; efficiency requires "hard look at objectives"
managerialism	capping or hard budgets	make budgets more transparent in accounting terms with costs attributed to outputs rather than inputs — output-oriented budgeting	making managers more aware not merely of the current costs of operations but also the cost of capital employed (e.g., by means of accrual accounting)
managerialism	greater emphasis on <i>output controls</i>	resource allocation and rewards linked to measured performance; break up of centralized bureaucracy-wide personnel management; performance agreements	need to stress results rather than procedures
managerialism	emphasis on greater discipline and parsimony in resource use	cut direct costs, raise labour discipline, resist union demands, limit "compliance costs" to business, downsize	need to check resource demands of the public sector and do "more with less"
managerialism	new forms of corporate governance	move to board of directors model; shift power to the strategic apex of the organization	empowerment of management, reduces influence of elected representatives and trade unions
managerialism	shift to <i>disaggregation</i> of units in the public sector	break up formerly "monolithic" traditional bureaucracies into corporatized units or separate agencies operating on decentralized "on-line" budgets and relating with one another and with the centre on an "arms'-length" basis	need to create "manageable" units, separate policy core from operation units
managerialism	decentralizing management authority	replace traditional "tall hierarchies" with flatter structures formed and reformed around specific processes (e.g., issuing licenses) rather than traditional functions (e.g., personnel, finance)	need more quickly responding and flexible structures closer to point of service delivery; freedom to manage
managerialism	organizational development and learning; explicit attempt to secure cultural change	radical decentralization with performance judged by results; explicit attempts to manage cultural change combining top-down and bottom-up processes, use of mission statements and more assertive and strategic human resource function	need for excellence in government

managerialism/markets and competition	purchaser/provider split	clear separation (organizational and financial) between defining the need for and paying for public services, and actually providing those services	concern for a much smaller public service; gain efficiency advantages of the use of contract or franchise arrangements inside as well as outside the public sector
markets and competition	shift to greater competition in the public sector — market and quasi-market type mechanisms	move to contracting and public tendering procedures to stimulate competition between service-providing agencies	rivalry as the key to promote cost savings, efficiency, user-responsiveness and better standards
markets and competition	stress on private sector styles of management practice	move away from military style “public service ethic”, greater flexibility in hiring and rewards; greater use of public relations techniques	need to use “proven” private sector management tools in the public sector
markets and competition	customer orientation; emphasis on quality	make public services more responsive to the wishes of their users	increasing customer “voice” and accountability in service provision
markets and competition	changing employment relations	put increasing number of public service staff on contracts that are term-limited (not permanent), performance-related and locally rather than nationally determined	need to improve performance while reducing the burden of large public sector wage bill; making employment more competitive

Source: Larbi, 1998a

As Dixon et al. (1998:170) argue: “the managerialists seek to shift public agencies from an allegiance to the bureaucratic (hierarchy and control) paradigm to an acceptance of a post-bureaucratic (innovation and support) paradigm” (see also Barzealay, 1992; Odom et al., 1990).

The second strand of NPM derives from the “new institutional economics” movement, which has its theoretical foundation in public choice, transaction cost and principal-agent theories. These generated public sector reform themes based on ideas of market, competition, contracting, transparency and emphasis on incentive structures (cf. Williamson, 1975 and 1985) as a way of giving more “choice” and “voice” to service users and promoting efficiency in public service delivery.

As was pointed out in the previous section, the proponents of NPM see the Weberian bureaucratic model as rigid, rule-bound, slow moving bureaucracies that are costly, inefficient and unresponsive to their users. Public services were provider-dominated, especially in the case of professionalized provision (e.g., education and health care) where powerful, autonomous professions defended vested interests and could not be held to account (Pollitt, 1994; Day and Klein, 1987). In contrast, NPM was presented as providing a future for smaller, fast-moving service delivery organizations that would be kept lean by the pressures of competition and that would need to be user-responsive and outcome-oriented in order to survive. These organizations would be expected to develop flatter internal structures (i.e., fewer layers) and devolve operational authority to front-line managers. With a downsized staff, many on performance-related rolling contracts, many services would be contracted out instead of assuming that in-house provision

is best. Professional dominance and demarcation in staffing would be minimized to allow for the substitution of more cost-effective mixes of staff.

In short, NPM advocates argue that the dividing line between public and private sectors will diminish or be blurred and the same good management practices will be found in both sectors. As Turner and Hulme (1997:232) have pointed out, the proponents of the NPM paradigm have been successful in marketing its key features and “persuading potential patients of its curative powers”, sometimes backing up their claims with empirical evidence of substantial savings in public expenditure and improved services (see, e.g., Miranda, 1994a, 1994b). As noted earlier, for adjusting and crisis states the NPM prescriptions have tended to be applied through powerful international donor agencies and the World Bank. What has been the experience of NPM in practice? The next section explores this question, using selected NPM practices that represent the managerialist and marketization trends in the new public management approach to reforms. These include management decentralization, contracting and user fees/charges.

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## 4. NEW PUBLIC MANAGEMENT: SELECTED APPLICATIONS

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### ◆ Decentralizing Management

Decentralizing management, disaggregating and downsizing of public services are strands of NPM derived from “managerialism” (Mellon, 1993; Hood, 1991; Ferlie et al., 1996). The trend toward decentralized management in public services is part of the effort to “debureaucratize” the public services (Ingraham, 1996:255) as well as “delayer” the hierarchies within them. The key concern here is “whether managers are free to manage their units in order to achieve the most efficient output” (Mellon, 1993:26; see also Hood, 1991:5-6). This aspect of NPM has taken several forms, which are outlined here.

#### *Breaking up monolithic bureaucracies into agencies*

There are several related elements of management decentralization which one can distil from the NPM literature. The first and the key trend is that traditionally huge and monolithic public bureaucracies are downsizing, contracting out functions and breaking up internally into more autonomous business units or executive agencies (Pollitt, 1994; Pollitt and Summa, 1997; Kanter, 1989). This involves a split between a small strategic policy core and large operational arms of government with increased managerial autonomy (Phippard, 1994; Greer, 1994). Agencies are then required to conduct their relations with each other and with the central departments on a contractual basis rather than through the traditional hierarchy, i.e., they relate on an arms'-length basis. In practice, executive agencies have meant structural changes in the organization of government. In principle, these agencies have greater managerial flexibility in allocation of human resources in return for greater accountability for results. As Jervis and Richards have argued, the executive agency idea was born out of:

... the desire to remove the framework of governance for public services from the arena of contested democratic politics. Placing public services at

arms' length from politicians was intended to give managers sufficient space to get on with management, within the broad framework laid for the public service (1995:10-11).

Among OECD countries, the United Kingdom, Australia and New Zealand provide some of the best examples of executive agencies. In the United Kingdom, for example, the total number of civil servants working in agencies amounted to about 66 per cent in 108 agencies (including executive units of Customs and Excise and of the Inland Revenue) in 1995 and are expected to increase to about 90 per cent (Priestley, 1996). In New Zealand activities that are considered economic or commercial are being separated from administrative or regulatory ones in large multipurpose ministries to form public enterprises (OECD, 1993b). These agencies are headed by managers on fixed-term contracts with considerable autonomy, including the right to hire and fire (World Bank, 1997:87). Jamaica has recently selected 11 pilot agencies for conversion into executive agencies. In Ghana and Uganda, the Customs and Excise, and Internal Revenue Departments were hived-off from the civil service to form separate agencies in the 1980s. The rationale, like that of executive agencies elsewhere, was to separate executive functions from policy making, free them from civil service rules and conditions and offer them better incentives linked to performance (Larbi, 1995).

A common trend in health sector reforms in a number of developing countries is the decentralization of service provision to arms' length or semi-autonomous hospitals as in Sri Lanka (Russell and Attanayake, 1997) and Ghana (Larbi, 1998b, 1998c). Werna (1996) reports similar trends in Venezuela. The introduction of autonomous hospitals is usually accompanied by the creation of independent hospital management boards (Bennett et al., 1995; World Bank, 1993). According to Barnum and Kutzin (1993) the principal reasons for targeting large hospitals for reform are that they consume a high proportion of the national health budget and are often the inefficient parts of the public health system. More specifically, as McPake (cited in Bennett et al., 1995) notes, the trend toward autonomous hospitals is driven, *inter alia*, by the following policy objectives:

- improve efficiency by separating the purchaser (Ministry of Health) role from the provider (the hospital) role, thereby freeing the provider from the traditional bureaucratic and hierarchical structures based on command and control;
- improve responsiveness to users' needs and preferences through market-based incentives (e.g., user fees) and increasing accountability and participation at middle and lower levels, by removing decision making from the central bureaucracy to front-line managers and by including public representatives on independent management boards;
- reduce *the financial and managerial burden of big hospitals*, which are expected to develop alternative sources of finance to reduce the burden they impose on the budget of the Ministry of Health.

The development of executive agencies has been logically accompanied by *delegation of authority to senior management* in public agencies — giving top management freedom to manage with clear responsibility and accountability, and reducing the management role of the centre.

### *Devolving budgets and financial control*

This is the second element of decentralized management and an important complement to the creation of executive agencies. This may take the form of creating budget centres or spending units. Devolving budgets and financial control involves giving managers increased control over budgets for which they are held responsible (Kaul, 1997; Walsh, 1995). This usually goes with the setting of explicit targets for decentralized units. For example, according to Flynn (1993:111), the British public expenditure planning process, in 1993, incorporated 2,500 performance and output measures in addition to the traditional approach of deciding how much money should be allocated to each function.

Singapore has recently started a process of devolution of financial management as a prelude to creating autonomous agencies. From 1996, ministries and departments were assigned operating budgets based on target outputs, where outputs are quantifiable and measurable (Guan, 1997). Ghana has recently embarked on a public financial management programme that involves elements of financial decentralization (Larbi, 1998a).

### *Organizational unbundling*

This is the third element of management decentralization. It involves delayering of vertically integrated organizations, i.e., replacing traditional “tall hierarchies” with flatter and more responsive structures formed around specific processes, such as paying of benefits as in the United Kingdom (Ferlie et al., 1996; Pollitt, 1994).

### *Downsizing*

The fourth element of decentralized management is downsizing, i.e., rationalizing and trimming the public sector in order to achieve “leaner” (smaller or compact) and “meaner” (cost-effective) public service. This has taken different forms, such as hiving-off operational arms of government to form autonomous agencies and sub-contracting government activities to private providers. However, in crisis states, the most dominant form of downsizing has been retrenchment of staff in state agencies.

Downsizing arises from the concern for the size and cost of public sector employment. There was rapid expansion of civil service employment in the period up to the early 1980s in developing countries (about 10 per cent a year in some African countries). This was a reflection of the high degree of government intervention in the economy, as well as practices such as guaranteeing employment to new graduates, and the use of employment for political patronage. The consequent overburdening wage bill not only contributed to the growing fiscal crisis and budget deficits, but also depressed real wages and maintenance and capital budgets.

Like in the private sector, governments around the world have responded to crisis by putting explicit limits on the size and cost of the public sector. A number of crisis states (e.g., Uganda and Ghana in Africa, and Thailand and Bangladesh in Asia) have had to retrench surplus numbers of civil servants over the past decade (Nunberg and Nellis, 1995). In practice, this has involved drastic reduction in staff size at both higher and lower tiers of public organizations to make them more affordable and to bring them into line with a new, scaled-down role for government

in economic activities. In many crisis states in Africa, retrenchment of staff has been the main tool for downsizing. Uganda and Ghana, for example, have experienced massive cuts in the size of their civil services, in the case of the former by almost half, and the latter by almost 40 per cent since 1987. The Zimbabwe civil service has also been cut by about 12 per cent (23,000 out of 192,000) since the commencement of its civil service reform in 1991 (Makumbe, 1997:21), and the size of the Gambia civil service has also been cut (De Merode and Thomas, 1996). Over 30 sub-Saharan African countries have managed to reduce their average nominal wage bill from over 7 per cent of GDP in 1986 to just under 6 per cent in 1996, following massive downsizing.

Downsizing the public services in crisis states has not, however, led to expected budget savings which could be used to improve the salary and incentives of those who remain. This was because of the high cost of compensating those retrenched. It must be added that delays in paying compensation and the poor management of retraining and redeployment programmes created enormous hardships for those retrenched, most of whom joined the ranks of the unemployed (Larbi, 1995). Furthermore, quantitative reductions in employment did not lead to qualitative improvement in services. This is because the initial wave of reforms did not pay much attention to staff morale, capacity building and other efficiency and productivity improvement measures.

### *Separating production and provision functions*

The fifth dimension of decentralized management is the divorce of provision from production of public services. This separation of provision from production implies making a clearer distinction (organizational and financial) between defining the need for and paying for public services (the indirect provider role) and actually producing those services (the direct provider role). This is clearly seen in the reform of the United Kingdom National Health Service (NHS) where autonomous hospitals (NHS Trusts) “produce” services for which the District Health Authorities provide finance by “purchasing” the services (Lacey, 1997).

### *New forms of corporate governance and the board of directors model*

The sixth and final dimension of management decentralization is the adoption of new forms of corporate governance and a move to a board of directors model in the public services. This entails reducing the power of elected representatives and minimizing the influence of labour unions on management. This has been a noticeable phenomenon in the United Kingdom (Ferlie et al., 1996) and is being adopted in other countries, such as Ghana.

The benefits expected and the objectives of management decentralization may vary from one organizational context to another.<sup>6</sup> However, the economic and administrative cases for management decentralization rest on bringing service delivery closer to consumers, improving the central government’s responsiveness to public demands, improving the efficiency and quality of public services, and empowering lower units to feel more involved and in control (Mahamba, 1991;

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<sup>6</sup> For a discussion of the benefits of decentralization see Rondinelli (1981) and Smith (1985:18-30).

Smith, 1985:30-37). It is also meant to reduce overload and congestion at the centre and speed up operational decision making and implementation by minimizing the bottlenecks associated with over-centralization of powers and functions at just one or two points in the hierarchy of a public service organization or ministry. Thus management decentralization seeks to increase the operational autonomy of line managers and agencies, leaving only broad policy guidelines to be worked out at the centre. It also entails flatter internal hierarchies.

## ◆ Problems and Capacity Issues in Decentralizing Management

The application of management decentralization as an element of NPM in varying contexts and in different forms suggests that there are some institutional constraints with implications for the capacity of central agencies to manage the process in both crisis and non-crisis states.

Drawing on the experience of the United Kingdom, Walsh (1995) has pointed out some of the constraints on the management of reforms in the public services, with particular reference to financial devolution under the Financial Management Initiative (FMI). These include the following:

- *resistance* from different levels of the civil service to the FMI and the treasury's reluctance to reduce centralized control;
- concern about the erosion of the traditional concept of the civil service as a unified body, and resistance from people who would like to preserve the traditional approaches; increased discretion of the line manager was seen as a challenge to the traditional dominance of the policy stream within the civil service;
- inadequacy of available technical systems, e.g., accounting information systems; the FMI was "constrained by the relative failure of performance indicators which were subject to manipulation by managers" (Walsh, 1995:170);
- the FMI left the *structure of control relatively unchanged*, reflecting the difficulty of making fundamental changes in existing structures.

The United Kingdom experience with management devolution shows that *unless devolved management and control involve a substantial change in power structure, devolution of control by itself will only have limited impact*. As Walsh (1995) points out, there is the risk that autonomy would be subverted or eroded by ministers and top bureaucrats at the centre. "These limitations are always likely to occur when the devolution of control takes place within organizational frameworks that are still strongly hierarchical" (Walsh, 1995:178). Financial devolution within a framework of central control will tend to encourage local managers to remain oriented to the senior controllers of the organization, rather than outward to users. Highlighting a key institutional constraint in decentralizing management in the form of executive agencies, Walsh adds that:

Departmental arrangements have not always changed to represent the quasi-contractual relationship between the minister and the head of the agency. *Formal organizational change has not been matched by deeper change in the institutional character* of the service (1995:188, emphasis added).

He goes on to argue that:

The development of executive agencies in central government has, so far, had limited effect because it has not been accompanied by significant changes in the financial regime that operates within the civil service. The service is still *dominated by an institutional framework that assumes central control, uniformity, and traditional concepts of financial control*. . . but the experience of other agencies and other countries suggests that *without attention to fundamental institutional issues traditional approaches will tend to reassert themselves* (1995:191, emphasis added).

A recent study of reforms in Zimbabwe's health sector also notes that the governance and institutional contexts pose severe constraints in decentralizing management (Russell et al., 1997). These include unreformed institutions, such as centralized public service commission regulations and treasury expenditure controls — all of which prevent managers of decentralized units from having control over operational inputs. Similar observations have been made concerning health sector reforms in Sri Lanka (Russell and Attanayake, 1997) and Ghana (Larbi, 1998b, 1998c). In general, there is reluctance in most central control agencies in crisis states to devolve budgets and financial control partly for fears about financial accountability and partly because of the stringent regime of expenditure controls associated with the introduction of structural adjustment programmes. As I have noted, "A paradox of structural adjustment is that it generates simultaneous demands for strict fiscal control, especially over employment cost, and decentralization" (1998b:382). In the case of Ghana, devolved units have no control over hiring and firing and related salary budget partly because of government concerns about the size and cost of the public service, and partly because of a culture of centralization in the bureaucracy. Decentralized units therefore 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, 1998b).

### *The implications of decentralized management for capacity*

Walsh (1995) points out some capacity implications of management decentralization, including:

- the *capacity* to develop monitoring and inspection procedures to check whether managers and devolved units are achieving their targets and working within defined strategies, as well as setting and monitoring performance;
- the capacity to develop an information system that would provide appropriate intelligence for managers at all levels, to develop a budgetary control system for administrative costs, and to develop performance indicators and measurements. In the United Kingdom experience, the FMI exposed the inadequacy of traditional information and control systems for management purposes;
- the capacity to manage relations between departments and a network of non-departmental bodies through which services are delivered. The capacity to manage programme expenditure efficiently and effectively depends on capacity to manage the inter-organizational networks through which services are delivered;
- the *capacity to co-ordinate the activities of devolved units* to ensure harmonization and improve accountability.



The above capacity issues apply to crisis states where capacity weaknesses may be more acute. Management decentralization not only requires relaxing controls over inputs but also setting up monitoring systems. The experience of developing countries suggests that the introduction of executive agencies requires the existence of a credible system for monitoring before relaxing controls over finance and inputs. Where these controls are weak, or undeveloped and arbitrary, behaviour cannot be checked; introducing greater managerial flexibility may only increase arbitrary and corrupt behaviour (World Bank, 1997:20; Nunberg, 1995). In Ghana audit reports on the accounts of decentralized (sub-national) units of government have shown gross abuses linked to the lack of an effective system of monitoring and accountability (Ayee, 1997). The problem of capacity is thus not only limited to central agencies but is even more acute at the level of decentralized agencies. Planning, budgeting and management systems within decentralized units are often weak, while financial and human resources at these levels are often lacking (Larbi, 1998b:384).

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## PERFORMANCE CONTRACTING

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Another key trend in the new public management approach in crisis states is the increasing resort to performance contracting<sup>7</sup> as an instrument to reform state-owned enterprises. A performance contract is defined here as a written or negotiated agreement between government or its representative agency and the management of public enterprises and other autonomous units directly delivering public services, or between government and private managers of state assets, wherein quantifiable targets are explicitly specified for a given period and performance is measured against targets at the end of the period (World Bank, 1995:171). As part of the performance-orientation in government, the common purposes of performance contracting are to clarify the objectives of service organizations and their relationship with government, and to facilitate performance evaluation based on results instead of conformity with bureaucratic rules and regulations (Mallon, 1994; Islam, 1993).

### ◆ Performance Contracting and Reforms in Public Enterprises

An examination of the new public management trends suggests that performance monitoring is emerging as a common policy issue (Mayne and Zapico-Goñi, 1997; Shirley and Xu, 1997). Performance contracting is central to this trend, especially in crisis states that are undergoing structural adjustment programmes. SAPs in particular have given attention to the problems of SOEs, especially loss-making ones that continuously require government subsidies to survive and are thus a significant burden on national budgets and a drain of scarce resources (World Bank, 1995). Two (not mutually exclusive) strategies have been used to address the

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<sup>7</sup> Different terms are used in different countries for performance contracting. In India the term “memorandum of understanding” is used (Trevedi, 1990). In Senegal the term “contract plan” is used, while in Pakistan “signalling system” is used (Islam, 1993). Bolivia (Mallon, 1994) and Ghana (Ayee, 1994; Larbi, 1998a) use the term “performance contract” or “agreement”.

problems of SOEs — divestiture or complete privatization, and restructuring without change of ownership (Mallon, 1994).

While the divestiture of relatively small and purely commercial public enterprises seems to be relatively easy, a recent review of experience in some countries suggests that for large, strategic SOEs performing both policy and commercial functions, divestiture or privatization is proving more difficult and slow (World Bank, 1995). There has been more rhetoric than action.

Four explanations emerge from the literature for the slow progress in divestiture (see Mallon, 1994; Islam, 1993; World Bank, 1995). First, for large and “strategic” SOEs (e.g., railways, water and electricity) there are usually formidable political obstacles to divestiture, including opposition by powerful labour unions and other key stakeholders. Second, political wrangling over enabling legislation, in the case of open democratic systems, may be very intense and prolonged over several years. Third, large SOEs, particularly utilities, tend to enjoy non-competitive market power derived from natural monopoly rights, especially in small countries, due to either economies of scale or artificial barriers to competition, in some cases both. Fourth, in crisis states where regulatory capacities are weak or undeveloped, divestiture is not an easy option for reforming large and politically sensitive public enterprises.

The implication of the above difficulties is that divestiture may not lead to real competition. But without competition, private ownership *per se* is not likely to lead to improvement in performance and efficiency. To prevent exploitation of monopoly rights and mitigate other forms of market failure arising from market imperfections, governments are obliged to intervene either by owning the enterprise or regulating private ownership. The alternative to divestiture is to restructure the SOEs such that management becomes more accountable for performance.

Managing the interface between government and SOEs has tended to be problematic in developing countries, reflecting the difficulty of balancing control and autonomy.<sup>8</sup> Excessive controls and frequent political interventions and policy instability are some of the institutional problems of SOEs cited in the literature (see Shirley, 1989; Fernandes, 1986). In a review of SOE reforms in Asia and Africa, Islam notes that the proliferation of institutions of control leading to “the problem of plural principals giving direction to a single agent” were common in the 1970s and early 1980s (1993:134). He also notes that stifling controls by government and its agencies tended to be over routine activities of SOEs while, at the same time, there was lack of control of the more important aspects of their activities. This consequently led to a serious lack of managerial autonomy in day-to-day matters, but practically no accountability for results.

In line with the new institutionalist perspective in public sector management reforms, as reflected in agency and public choice theories, and in the policy prescriptions based on them, performance contracting between governments and SOEs is increasingly being applied as an instrument for restructuring SOEs and for managing the government-SOE interface. Underlying performance contracting, and in line with NPM, is the belief that while granting SOE management operational

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<sup>8</sup> For a detailed discussion of the problematic relationship between government and public enterprises, see Fernandes (1986).

autonomy, there is need to hold it accountable for performance. This illustrates the shift of emphasis from input and procedure-oriented controls of the past to the new paradigm of output or result-oriented controls.<sup>9</sup> The underlying assumption is that SOEs can be made more efficient by changing the “rules of the game”, i.e., the conditions and incentives under which they operate.

Though contractual relationships have been implicit between government and SOE management, the current trend is to make such contracts more explicit by formally spelling out the obligations of management and government in written performance contracts. The World Bank has been instrumental in the introduction of performance contracting in a number of developing countries. According to Shirley (1989) this has been done by using structural adjustment loans, sectoral adjustment loans (SECALs) and technical assistance loans, which usually have SOE reform components as conditions. In addition, separate public enterprise reform loans (PELs) have been negotiated with some countries.

Between 1978 and 1988, 11 African countries adopted performance contracting under World Bank programmes (Shirley, 1989) — all, except Ghana, in francophone Africa. Since 1988 more countries have introduced performance contracting, including 93 performance contracts in various stages of implementation in 14 African countries outside the Bank’s programmes, almost all in francophone countries (Nellis, 1989).<sup>10</sup> A recent study by the World Bank also identified 385 such contracts in 28 countries, 136 of them in Africa. These were across sectors ranging from agriculture and extractive industries to transport, telecommunications and utilities (World Bank, 1995).

## ◆ Institutional Capacity and Constraints in Performance Contracting

Previous studies on performance contracting suggest that implementation has been problematic. The main reason, as pointed out by Mallon, is that “performance contracts, like so many previous public management and control systems (e.g., performance budgeting), have often been adopted as panaceas, as if simply entering into a contract would solve the problems” (1994:927). In practice, a number of critical institutional preconditions need to be present to enable performance contracting to work as expected (Mallon, 1994; Shirley and Xu, 1997; World Bank, 1995). These preconditions, drawn from the cited studies, include:

- the need for governments (as principals) to explicitly state their objectives, prioritize them and translate into performance improvement targets;

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<sup>9</sup> The extent of control exercised by government and the nature of its interventions in management may vary from one context to another and from one kind of enterprise to another. However, the core of government’s involvement in the affairs of SOEs is typically in such matters as investments, major capital expenditure, corporate objectives, development goals, appointment of board members and chief executives, pricing and marketing policies, and wage and employment policies. Under current reforms the prerogative of government in some of these areas is being questioned.

<sup>10</sup> The dominance of francophone Africa in the adoption of performance contracts is explained by the fact that France pioneered the practice in the late 1960s and over the years transferred it to its former colonies.

- the need for principals or governments to have a “hard budget” in place in order to minimize or even eliminate ad hoc subsidies and financial bail-outs of agencies;
- the need for principals to credibly signal their commitment to the contract, e.g., by prompt payment of bills (in the case of utilities) and not renegeing on other commitments;
- the delegation of meaningful autonomy to senior managers. This has been problematic in some cases partly because of the reluctance of central controlling agencies to let go their controls over finance and personnel, and partly due to political interference. However, if managers are to be held accountable for results, they must be free from blatant political patronage and from pervasive external interference in operational matters;
- reliable and functional managerial information systems in place to enable management by results. The availability and quality of information and how this is managed is a key capacity issue in applying performance contracts;
- the monitoring of performance contracts. There is therefore the need for effective and competent monitoring agency with skilled personnel. Monitoring also requires independent auditing by qualified managerial experts and accountants;
- a *system of rewarding or penalizing managers* according to their performance needs to be in place and must be seen to be working.

The studies by Shirley and Xu (1997), Mallon (1994) and the World Bank (1995) suggest that most of the above conditions fail to materialize in the context of developing countries. For example, where the appointment of managers is based on patronage, rather than merit, it may be difficult to penalize poor performance, which may be excused or tolerated rather than sanctioned. In reviewing the experience of Bolivia in performance contracting, Mallon notes that *vulnerability to politicization* was a major problem for implementation. Also, the *autonomy of the technical staff* that monitored performance contracting was compromised due to inability to resist interference (1994).

Studies by Ayee (1994) and the present author (1998a) on performance contracting in Ghana suggest that one of the main constraints was government renegeing on its commitments. In India, Islam (1993) and Trevedi (1990) have noted *extensive control by multiple agencies* as one of the constraints on capacity to implement performance contracting in public enterprises. According to Islam, this may be linked to a *low degree of cultural acceptance of the manager’s right to take decisions*. Also, a *high degree of environmental uncertainty and complexity* (e.g., an inflationary situation) does not lend itself to a neatly divided set of targets and obligations set down in contract documents (Islam, 1993:144). The assumptions under which targets are set can quickly change in an unstable situation and undermine achievements. Shirley and Xu’s study of 12 written performance contracts with monopoly public enterprises in six developing countries<sup>11</sup> found that information asymmetry, lack of government commitment and lack of managerial commitment led to weak incentives and shirking by agents.

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<sup>11</sup> The six countries are Ghana, India, the Republic of Korea, Mexico, the Philippines and Senegal.

The review of performance contracting suggests that its successful implementation requires certain preconditions. There are capacity issues ranging from autonomy of managers, through an effective management information system, to a well staffed and equipped monitoring agency.

## ◆ Contracting Out

As part of the efforts reconfigure state-market relations in order to give more prominence to markets and the private sector, contracting out of the provision of public services is increasingly advocated in crisis states. Contracting out refers to the out-sourcing or buying in of goods and services (e.g., information technology and management services) from external sources instead of providing such services in-house (Walsh, 1995; OECD, 1993a). It involves legal agreement, but this is for the supply of goods or the provision of services by other actors. Contracting may be between a public organization and a private sector firm or between one public organization and another or, as in competitive tendering in the United Kingdom, between management and an internal work force who bid to provide such services in-house (Paddon, 1993; Sneath, 1993). The responsibility of the public organization is to specify what is wanted and let the private or voluntary sector provide it.

Contracting out represents more explicit efforts to emulate the market in the management and delivery of public services, especially where outright privatization, i.e., change of ownership, has not been possible. The rationale for contracting out is to stimulate competition between service-providing agencies in the belief that competition will promote cost-saving, efficiency, flexibility and responsiveness in the delivery of services (Savas, 1989). It also reduces the areas of discretionary behaviour for individuals and groups in an organization and imposes discipline that results in improved performance (Israel, 1987:97). Thus, as Metcalfe and Richards (1990) have pointed out, contracting out puts competitive market forces directly at the service of government.

Contracting out is regarded as the most common market-type mechanism (MTM) (Walsh, 1995), and it is the best documented of the MTMs (OECD, 1993a). While contracting out is not fundamentally new to the public sector, there have been considerable efforts, in recent years, to extend the scope of its application to a wider range of public organizations and activities than before in both developed and developing countries. In the United Kingdom, for example, the “Competing for Quality” (Market Testing) Initiative (1991) required agencies to open up many of their functions to competition from the private sector or other public sector contractors. In sub-Saharan African countries undergoing structural adjustment, policy prescriptions have included outright privatization, contracting out, deregulation to allow private sector participation, decontrol of prices and liberalization of trade.

<b>Ownership</b>	<b>Management</b>	<b>Staffing</b>	<b>Description</b>
public	private	public	management contract (e.g., hiring a private firm to manage a water utility)
public	private	private	management and operations contract (e.g., hiring a private firm to run a hospital, using its own staff; or private firm leasing laundry or catering equipment)
public	public	private	operations contract (e.g., hiring temporary clerical staff)
private	public	public	equipment and facility leasing (e.g., public leases privately owned buses)
private	private	public	government-paid workers assigned to a private firm (e.g., employment or training programme)

Source: Adapted from Savas (1987, 1989).

Contracting out may take several forms based on the public-private divide (see Savas, 1987, 1989).<sup>12</sup> Table 4 summarizes some of the possible forms of contracting out based on functions encountered in the production of goods and services (e.g., ownership, management and staffing). Contracting out may take the form of management contracts where government transfers to private providers the responsibility for managing an operation such as a water utility, railway or hospital — i.e., buying in management. Under this arrangement, assets are retained by the government, but the responsibility for managing and operating these assets is contracted out to a private firm. This would increase the autonomy of management and minimize the risk of political interference in the day-to-day operations of the public organization (World Bank, 1994).

Although contracting out is not new to management in government, what is new is the extension of the practice to activities that have traditionally been carried out by in-house bureaucratic arrangements, including various activities within public health and water services. Under Ghana's ongoing Civil Service Performance Improvement Programme (CSPIP), various activities carried out by the bureaucracy are expected to be subjected to "market testing" (OHCS, 1995) while private sector participation in the provision and management of urban water supply is underway, although there is some resistance from the local labour union (Larbi, 1998a). In Zimbabwe, non-clinical health services such as cleaning, laundry, catering, security, maintenance and billing are contracted out, while clinical services are contracted out on a limited scale (Russell et. al., 1997; Bennett et al., 1995). Zimbabwe is also embarking on widespread contracting out of municipal services, partly on the initiative of the central government in response to its Economic Structural Adjustment Programme (Batley, 1996:726).

Best practices in contracting out suggest that where outputs are easily specified but direct competition is impossible, competition managed through various forms of contracting out can yield benefits. In Brazil, for example, the World Bank notes that contracting out road maintenance to private contractors led to 25 per cent savings over the use of government employees (World Bank, 1997:88). In Malaysia, the leasing of Port Kelang to a private firm increased operational efficiency, while a similar arrangement for urban water supply in Guinea is said to have increased technical efficiency of water supply (World Bank, 1997).

<sup>12</sup> See also Batley (1996) for a discussion of public-private partnerships, and Nickson (1997) who discusses public-private mixes in urban water supply.

According to another World Bank report, the poor execution of infrastructure projects by governments led to considerations of leaving them to the private sector in 10 African countries. Managerial autonomy of the operators enabled them to run efficient, impartial and transparent operations free from political pressures. This enabled them to complete projects largely on schedule, with cost overruns of only 1.2 per cent of the portfolio compared to average cost overruns of 15 per cent in the case of public procurement. They also regularly obtained unit prices of 5 to 40 per cent lower than those obtained by the government through official bidding (World Bank, 1994). Another form of contracting out is service contracting. This transfers to private providers the responsibility for both managing and delivering a specific service (e.g., cleaning), using their own staff. Other forms of contracting out are leasing, which could be either the public sector renting or leasing a private sector asset or vice versa; and operations contracting (e.g., hiring temporary clerical staff).

### ◆ Contracting Out and Reforms in Public Services in Crisis States

Under SAPs, contracting out and other MTMs are being applied to new activities in developing countries. It must be restated here that the case for reforms in adjusting economies rests mainly on neoliberal economic theory and cannot be dissociated from the paradigm shift in Western industrialized countries. The broad policy prescriptions under SAPs have, in practice, entailed privatization, deregulation and decontrol of prices, and liberalization of trade. Similar to trends in Western industrialized countries, public enterprises that have not been sold for strategic and other reasons, plus other areas of government activities, are being compelled to open their doors to enable private sector organizations to compete with them. There is a noticeable emergence of new non-governmental providers of public services, and public-private partnerships in service provision are becoming common in activities such as curative health (Mills, 1995; Bennett and Ngalande-Banda, 1994), local security (Centre for Development Research, Denmark, 1995), solid waste management (Batley, 1996) and urban water supply (Nickson, 1997).

The opening up of hitherto public monopolies for participation by and competition with the private sector is clearly illustrated by the breaking up of the monopoly power of agricultural marketing and inputs supply boards, such as the Ghana Cocoa Board (Shepherd and Onumah, 1997) and its equivalent in Côte d'Ivoire. In both cases the private sector has been allowed to compete with the marketing organizations with regard to domestic purchasing. Government, however, still retains control over exports in both countries (Lensink, 1996).

### ◆ Institutional Constraints and Capacity Issues in Contracting Out

While contracting out is becoming popular in the public services of crisis states, there is need to exercise caution in its application. First, successful contracting out assumes that there is the existence of an efficient market and private sector capacity to undertake activities to be contracted out. This is not always the case in some developing countries and for some services where both markets and government capacity are weak, as was found to be the case in Ghana's health sector where an attempt was made to contract out auxiliary services in hospitals.

Second, the prevalence of patronage systems and other institutional weaknesses may undermine the benefits to be derived from contracting out policies. Contracting out in developing countries may be more prone to corruption and mismanagement, in as much as contracts are within the public sector. In such circumstances contracting out may be economically inefficient and wasteful. The institutional context of a country, therefore, needs to be taken into consideration in extending contracting out to new areas.

Third, there is no guarantee that the private sector under competitive contracting will perform better than the public sector. The evidence on the efficiency of contracting out is mixed (Batley, 1996) and has been challenged by recent studies (cf. Boyne, 1997). Indeed, the World Bank advises that: “Contracting out, setting up performance-based agencies, and ensuring formal accountability for results are not viable options for many services in countries with weak capacities” (1997:91). This is particularly acute in services like health and education — and, to some extent, in water — whose operators interact daily with the people they serve, are geographically dispersed, have substantial discretion, and produce outputs that are difficult to monitor and are not subject to competitive pressure. For such services the risk of market failure is high. Incentives for hard work, regular monitoring and supervision, greater clarity of purpose and task may boost incentives to improve performance in these areas.

Fourth, there are some services which could be at great risk if contracted out, either because they are essential to the core business of the organization or because they are of strategic importance. The protection of privacy could be at risk (as in social security and tax systems) or there could be a risk of loss of control and over-dependency on the outside agency (OECD, 1993a).

Fifth, another possible barrier to successful contracting out is the fear that in-house staff may lose their positions and competence, becoming demotivated and resisting change. There is also the problem of managing the selection of suppliers.

While the above are constraints on capacity to contract out and manage contracts, there are more explicit capacity issues that have to be considered. First, on the managerial capacity implications of contracting out, one would agree with Metcalfe and Richards that no matter what area of activity is contracted out, “the transfer of responsibility for supply does not absolve government from managerial responsibility” (1990:167). Government would still retain the responsibility for planning and financing, and deciding what should be provided and at what cost, as well as laying down the “rules of the game”. In general, greater use of contracting out must be accompanied by *effective regulatory and monitoring capacity*. For most crisis states this is not always easy to achieve and is even more daunting in the case of social services, such as health and education. Regulating and monitoring a large number of small-scale providers is usually beyond government capacity in crisis states.

The second capacity issue is that in contracting out the government becomes a customer. Like all rational customers government would have the responsibility for evaluating the product, deciding whether it meets stated standards, and determining how to ensure satisfactory contract performance, i.e., government should have the capacity to manage contracts. Third, another management responsibility with implications for capacity is the availability and analysis of comparative data about



public and private performance to assist evaluation, which could then form the basis for a review of the policy of contracting out a particular activity.

It is apparent from the above that contracting out imposes managerial responsibilities on the government or its administrative agencies for planning, financing, monitoring, regulating and evaluating contracts. These roles may not require a large workforce operating on civil service terms and conditions of employment, which in-house provision would require. However, they certainly do require more high-level and highly trained management and technical personnel than crisis states can often afford. As contracting out becomes more widespread in public sector organizations in developing countries, the difficulty of managing a network of contracts and subcontracts becomes more apparent. The expected improvement of performance in contracting out will depend, first, on the appropriate choice of form of contract, and then on effective management of contractual relationships (Metcalf and Richards, 1990). It is possible that many of the managerial problems that contracting out is supposed to eliminate or minimize through sloughing off the employment relationship would recur in an inter-organizational context in contract management, and these may be more acute in developing countries, as I have demonstrated in the case of Ghana (1998a). At the same time the implications of contracting out for the cost (price) of public services, for access to these services and for public reaction to possible price increases may be cause for concern in politically sensitive services, such as health and water.

### ◆ Cost Recovery: User Fees/Charges

Short of outright privatization, one of the major developments in the provision of public services under adjustment programmes has been the introduction of user fees or charges. This is part of the cost recovery measures and efforts to share the cost of publicly financed services with users, usually introduced as a condition for sectoral adjustment loans (World Bank, 1994).

Charges to consumers for public utilities, such as water and electricity, have increased in recent years in a number of developing countries. Before reforms in the 1980s, social services, such as public education and public health care, in most developing countries were based on free access, financed from direct support via the budget. Even when fees were charged, these were minimal. In recent years, however, social services have seen the introduction of user charges in both developed and developing countries. For example, fees have been introduced at different levels of education in Ghana, Uganda, Malawi, Kenya and other countries implementing structural adjustment programmes.

Although user fees and charges are not new, what is new is their widespread application, and their significant increase in cases where they were already in use. These policies assumed increasing importance in developing countries, especially in Africa, in the 1980s as governments faced slower economic growth and rising deficits that made public expenditure levels unsustainable (Adams and Hartnett, 1996). User fees therefore represent attempts to diversify financing for public services and reshape public spending. Where financial management and control are decentralized, the retention of user fees by hospitals will reduce dependence on the central ministry of health and this in turn will enhance managerial autonomy.

Bennett et al. (1995) and a World Bank survey in 1995<sup>13</sup> (Shaw and Griffin cited in Adams and Hartnett, 1996) provide evidence to show that, in comparison to other developing regions, user fee reforms have been most extensive in sub-Saharan Africa. This is because the gap between resources and health needs, and the influence of international donors, have perhaps been greatest in Africa (Bennett et al., 1995:22).

The need to raise additional revenue to supplement government revenue in the face of increasing demand for services is the key rationale for the introduction of user fees or charges (Bennett et al., 1995). However, cost recovery does not only place emphasis on raising funds, but also on preventing over-use of services by consumers by making the latter more cost-conscious. It is also meant to make providers more efficient by improving quality (Adams and Hartnett, 1996:7). The assumption here is that since users are paying for the service, they will only use it when they really need it and will insist on better value for money. This is part of the move toward a market-orientation in the provision of public services.

## ◆ Institutional Constraints and Capacity Issues in Cost Sharing

In introducing user fees, most governments, backed by donors, hoped that greater cost sharing would help the poor because it would mobilize more resources from better-off groups. These could then be used to improve services for the poorer groups (Adams and Hartnett, 1996). Implementing such a policy required setting up exemption systems, such as safety nets for the poor. There is some evidence, however, that the introduction of user fees has made access to social services more difficult for the poor, at least in the initial years of the scheme. This is because exemption systems and safety nets have not been effective (Nolan and Turbat, 1995). Consequently, the introduction of charges in some countries led to a drop in hospital attendance. To illustrate, a study by Waddington and Enyimayew in Ghana (1989, 1990) showed a sharp decline in hospital attendance following the introduction of user fees in 1985.

Part of the problem has been that planning for new or higher fees has frequently outstripped preparation and implementation of exemptions or safety nets. Although good administrative and management practices are key to successful cost sharing, experience shows that, in developing countries, management and accounting capabilities have been inadequate to support cost recovery programmes.

The lack of information about incomes, especially for large numbers of people in the informal sector, on which to base exemption decisions has also been a major obstacle. This often results in the use of discretion by front-line managers as to who gets exemption. The system is subjective and unreliable. Consequently, it has not been possible, in most cases, to design user fees that would fall mainly on services consumed by the non-poor. Enforcing user fees has also sometimes been problematic and politically sensitive. Loopholes in accounting and auditing

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<sup>13</sup> The survey covered 37 African countries and found that national systems of user fees were operating in 17 of them and were present, but not operating well, in 11 others. In six other countries user fees were collected by individual facilities or communities and were not part of a national system. Only three countries — Angola, Botswana, and Sao Tome and Principe — did not have user fees in the government sector.

systems have, in some cases, contributed to illegal fees and overcharging by hospital staff.

Given the above constraints, cost recovery accounts for less than 10 per cent of current expenditure on health in most developing countries (Donaldson and Gerard, 1993:9; Nolan and Turbat, 1995). It should be noted, however, that in some countries (e.g., Benin and Guinea) user fees in health care have consistently contributed between 30 and 45 per cent of the operating costs of health centres (Shaw and Griffin cited in Adams and Hartnett, 1996:22).

To summarize, it is apparent that charging for services, although not entirely new, is becoming widespread in developing countries. Introducing and implementing the policy of user fees has not, however, been without its share of problems. The key problem is the lack of effective exemption systems for the poor, which is also linked to weak administrative and management systems. Improving and strengthening capabilities in these areas would be crucial to making cost recovery work better in developing countries.

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## 5. LIMITATIONS OF THE NEW PUBLIC MANAGEMENT APPROACH AND REVIVAL OF THE STATE

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The preceding section has presented some evidence on the application of specific new public management practices, highlighting not just their benefits but also issues of institutional constraints and capacity in their application. Apart from the above, the optimism of NPM advocates is countered by critics who argue that NPM has produced some disagreeable consequences. In fact, the evidence of superior efficiency claimed by NPM advocates has been questioned in recent years on methodological grounds (Boyne, 1997). A study of contracting and other forms of competition and private provision of public services in six developing countries by Batley concludes that: “The presumption that involving the private sector makes for higher levels of performance is given only partial support” by the evidence (1996:748).

Le Grand and Barlett (1993) have pointed out that quality in service provision may fall as aspirational professional standards are increasingly replaced by minimalist, economizing managerial standards. With too much emphasis on cost reduction, NPM may encourage the pursuit of efficiency in flawed policies with short-term gains, undermining the capacity of the state to take a long-term perspective on issues such as education, technology, health and the environment. These are issues that need to be considered in seeking to transfer NPM to crisis states.

Dunleavy and Hood (1994) note concerns among traditional bureaucrats or “hierarchists” about the potential destabilizing effects of NPM if the processes of change should get out of control, become unmanageable and do irreversible damage to the provision of public services. For developing countries, but not for the World Bank and donor agencies, the price to be paid for such policy mistakes may be great in terms of threats to political stability and loss of economic well-being. In the United Kingdom, one of the leading exemplars in NPM applications — the internal market in the NHS — has been criticized as concentrating too many

resources on management and paperwork rather than on front-line service provision. This is illustrated by the almost fourfold increase in the number of managers in the NHS between 1991 and 1994, with administration absorbing 10.5 per cent of all NHS costs in 1994, compared to 6 per cent before the reforms (Lacey, 1997:153). Overall, public sector managers are seen as a gaining group (Pollitt, 1993; 1994) in the managerial emphasis in reforms.

In lamenting the collapse of the welfare state, critics of NPM also point to increasing inequality, as market-type mechanisms produce “market niche-seeking” behaviour by public service providers (e.g., primary care doctors seeking to avoid those socio-economic groups most prone to illness; “good” secondary schools biasing their entry procedures toward the children of parents of higher socio-economic groups) (Pollitt, 1994). Thus the cultural and organizational change in social provision, expressed in the concepts of markets and individualism, may arguably create conditions of social exclusion (Mackintosh, 1997). Such reforms may therefore harm most those in need of state provision and welfare safety-nets: the poor and the vulnerable

The above egalitarian critique of NPM (Dunleavy and Hood, 1994) notes that it may promote self-interest and corruption as policy makers and senior bureaucrats opt for privatization and contracting out because of increased opportunities for rent-seeking and other forms of misdemeanour. Critics also argue that NPM has led to falling ethical standards in public life with increasing incidence of greed, favouritism or conflicting interests. For developing countries, where patronage systems are more prevalent and accountability mechanisms are weak, the adoption of NPM may lead to more abuses and arbitrary use of discretion (e.g., in contracting).

There are also complaints about loss of public and traditional channels of local accountability as functions are fragmented among numerous agencies and many are privatized or contracted out to profit-seeking commercial firms (Dunleavy and Hood, 1994; Bogdanor cited in Ferlie et al., 1996). Fragmentation makes accountability and monitoring more difficult. Finally, there is a risk of huge increases in transaction costs as governments and other purchasers struggle to monitor contracts across an increasing and varied number of provider organizations, and new QUANGOs have to be set up to regulate market-type mechanisms.<sup>14</sup>

In practice, as Pollitt (1994) has noted, NPM techniques may work better in some contexts than others. The public service sector covers a wide variety of activities, some of which have high technological content (e.g., telecommunications) and others low; some are person-centred (e.g., health and education) and some not; some competitive, some very hard to remould into a competitive format. It is important to bear these differences in mind, because they increase or decrease the chances of NPM being a “good fit” in crisis states.

Clarke and Newman have also argued that NPM “is often portrayed as a global phenomenon — a core element in the process of convergence between states, overriding distinct political and cultural characteristics” (1997:ix). Given the

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<sup>14</sup> QUANGO is an acronym for quasi non-governmental organization. In the United Kingdom regulatory bodies were set up for privatized utilities, e.g., OFWAT (Office of the Water Regulator) and OFTEL (for telecommunications).

different and difficult circumstances of reforms in adjusting economies and the potential risks mentioned above, it is doubtful whether a universalistic and “evangelical” approach to NPM is a tenable option. Even in developed countries such as the United Kingdom, experience suggests that change toward NPM “has not been smooth and linear, but uneven and contested” and that social actors are not shaped unambiguously by large-scale trends or forces for change (Clarke and Newman, 1997:x).

The above criticisms of NPM and concerns about social cohesion, equity and stability have revived interest in the active role of the state in some aspects of development. The debate is now about how to revitalize the state to enable it perform its role effectively. As the United Kingdom’s Secretary of State for International Development has noted, the main focus of development policy, the elimination of poverty, could only be achieved “through strong and effective states”, and that “the era of complete enmity to the public sector in general and to State provision in particular is coming to an end” (cited in Minogue et al., 1997).

Refocusing on the “effective state” is given prominence in the 1997 World Development Report, **The State in a Changing World**, which marks a significant shift in thinking about the state and its role in development: the need to factor the state back into development. There is now some recognition by the Bank that reforming the public sector the NPM way does not lend itself to clear, unambiguous solutions; NPM is not a panacea for all problems in the public sector.

The enthusiasm for neoliberal policies and NPM practices that characterized most of the 1980s and early 1990s is now tempered with caution and, in some cases, rejection of the more extreme forms of the NPM approach. There is recognition that imposing one template of reform on all, irrespective of context, is unwise and unimplementable, and may even breed conflict and undermine stability. The way forward is to make the state work better, not to dismantle it. The Bank suggests two strategies. The first is to match the state’s role to its capability; the earlier mistake was that the state tried to do too much with few resources and limited capacity.

The second approach is to strengthen the capability of the state by reinvigorating public administration institutions to enable them to perform their enabling, regulating, monitoring and co-ordinating roles. This will entail creating effective rules and restraints, encouraging greater competition in service provision, applying measures to monitor performance gains, and achieving a more responsive mix of central and local governance by steering policies in the direction of greater decentralization (World Bank, 1997).

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## 6. CONCLUSION

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This paper has provided an overview of the evolution of the NPM approach, the combination of factors driving change, and the potentials and limitations of NPM. The paper has shown that variants of the new public management approach are being introduced in some crisis and developing states, following trends in advanced market economies. While the adoption of these NPM practices seems to have been beneficial in some cases (e.g., cost savings in contracting out road maintenance), the paper has also shown that there are both potential for and real constraints to applying elements of NPM in crisis states. The implementation of NPM raises capacity questions even for non-crisis states with mature public administration

systems. The limited experience of NPM in crisis states suggests that there are institutional and other problems whose persistence may be binding constraints on the application of NPM.

It is apparent from the factors driving change that the context or conditions for introducing NPM-type reforms in crisis states may be different from those of developed countries. Public sector management reforms in crisis states tend to be externally driven by donor conditions and bound by donor timetables. The comprehensive nature of reforms and the penchant for quick results usually fail to take account of existing institutional and management capacities. This may overstretch and overload the administrative and management capacities, both of reforming and implementing agencies and of their political supporters. Comprehensive short-term reforms may also have a shocking effect not only on the public administrative system but on political stability in countries where recently elected democratic governments are trying to consolidate and where the political environment may still be volatile.

NPM-type reforms in crisis states seem to be based on a common framework with those in developed countries and seem to follow a “blueprint” rather than a process or contingent approach. Yet countries differ widely in terms of their institutional conditions and their capacity to implement public sector management reforms based on NPM principles and practices. There is a need to give attention to questions of *how* to implement rather than just *what* to implement (Larbi, 1998a). For some time now, too much attention has focused on the policy content of reforms without adequate attention to appropriate arrangements for implementation (Brinkerhoff, 1996a:1393; 1996b), partly due to the dominance of external agencies in the design of reform packages and the consequent lack of local ownership and commitment to reform.

The present writer, like Turner and Hulme (1997:235) and Caiden (1994), takes the view that the argument about NPM’s application to crisis states should not be about whether it is right or wrong, good or bad. There is a need to take context into account. The application of NPM in crisis states needs to be contingent upon whether or not prevailing contexts or conditions are suitable. It may be that some NPM components are more suitable in certain contexts than others. For example, in countries with high levels of corruption and patronage a key question will be whether NPM will help reduce this — or whether NPM will permit malfeasance at higher levels than were previously possible. That is, would NPM solve the problems of old public administration or would it create new, more intractable problems? In other contexts, it may be advisable to consider whether aspects of NPM will enhance or undermine political stability.

While the new public management approach may not be a panacea for the problems of public sector management in crisis states, a careful and selective adaptation of some elements to selected sectors may be beneficial. Implementation needs to be sensitive to operational reality.

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