

## Chapter 1

# Public Administration in the 21<sup>st</sup> Century

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

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

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

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

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

## THE CONTEXT OF PUBLIC ADMINISTRATION

### **Globalization: A Smaller Planet, Spinning Faster**

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

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

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

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

### **Decentralization: A Double Squeeze on Central Government**

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

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

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

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

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

## **The International Political Environment**

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

### *New countries, new systems*

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

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

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

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

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

### *The dark side of ethnicity*

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

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

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

*A peace dividend?*

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

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

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





Note, first and foremost, that there is no necessary connection between military expenditure and the security of the nation or of its people. It is often argued that military unpreparedness invites attack. However, the opposite can also be true. The Greek historian Thucydides identified 2,500 years ago what later came to be called the *security dilemma*: “What made war inevitable was the growth of Athenian power and the fear which this caused in Sparta”.<sup>2</sup> When actions by one state to enhance its security through higher military spending are seen by another state as threatening, they may lead it to take countermeasures, and the higher military spending actually diminishes security for both states. It is not really a paradox that the safest and most secure country in Central America has been Costa Rica, which for 50 years has had no army or other military apparatus. Consistent with the security dilemma, knowledgeable observers (e.g., former Costa Rican President and Nobel Peace prize winner Oscar Arias<sup>3</sup>) believe that this is precisely *because* Costa Rica has no army. Or, concerning internal security, consider the sad reality in much of Africa that the worst threat to the African citizens are their own African soldiers.

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

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

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

### **The Governance Context**

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

#### *The four pillars of governance*

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

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

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

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

#### *Accountability is key*

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

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

### **Corruption and Public Management**

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

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

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

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

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

## **The Institutional and Cultural Context**

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

### *The institutional context*

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

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

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

This leads to three basic points, among others:

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

*The meaning of capacity building*

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

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

*A question of culture*

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

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

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

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

### **Beyond Dichotomies**

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

#### *Public versus private*

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



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

*Efficiency versus control*

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

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

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

### *Results versus process*

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

### *Public administration versus public management*

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

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

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

## **THE ROLE OF GOVERNMENT: DIRECT INVOLVEMENT VERSUS REGULATION**

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

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

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

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

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

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Source: Anonymous, circa 1996.

**What Should the Government Do? Forward to the Basics**

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

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

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

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

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

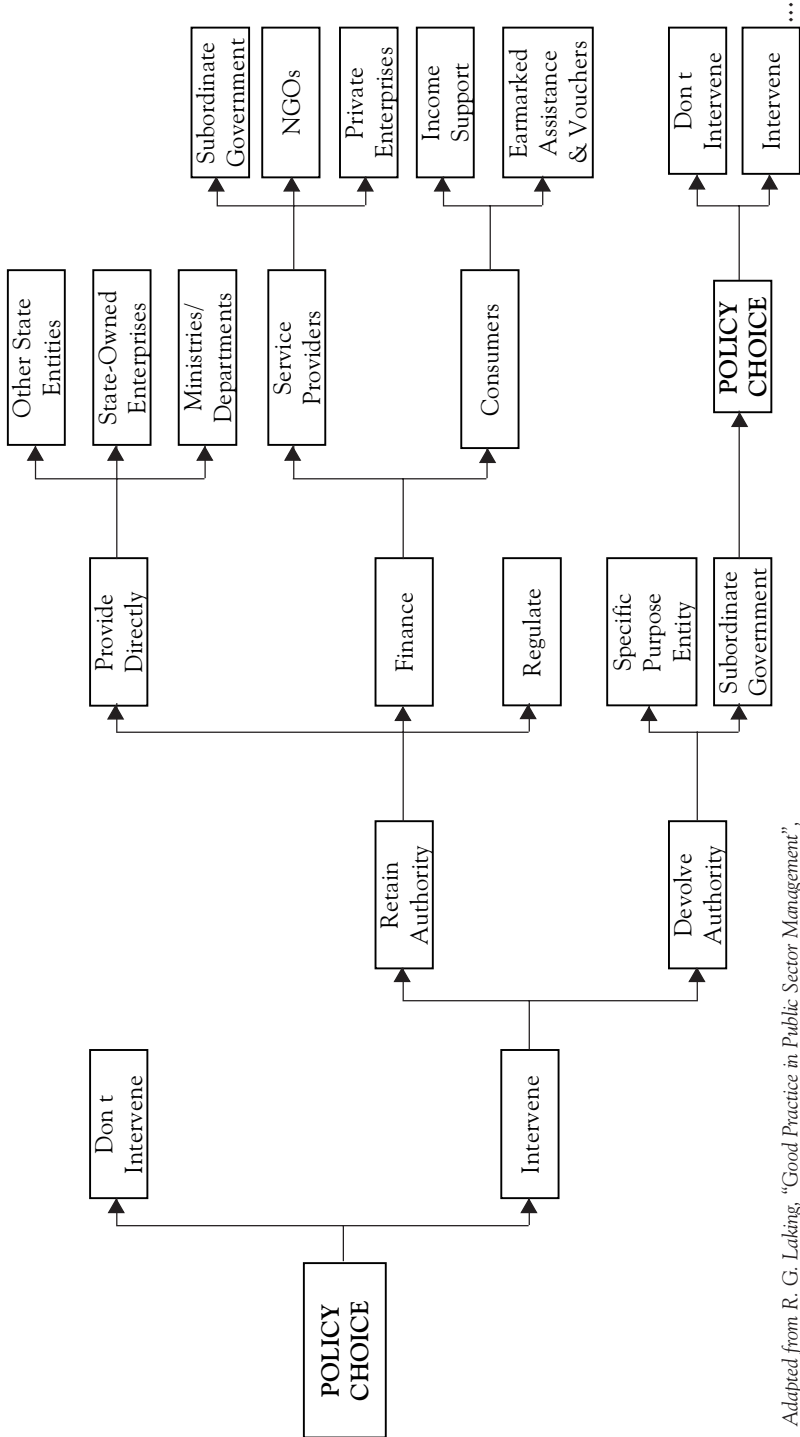
## How Should the Government Do It?

*A “decision tree” for public administration*

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

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

Figure 1.1: A “Decision Tree” for Government Intervention<sup>1</sup>



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

*Whose ox is being gored?*

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

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

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

### **Government Regulation<sup>18</sup>**

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



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

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

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

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

*Categories of regulation*

There are three broad categories of regulations:

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

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

*Judicial review of regulatory actions*

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

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

*Reconciling regulatory conflicts*

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

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

*Special problems of government regulation in developing countries*

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

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

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

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

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

#### *Volume, cost, and quality of government regulation*

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

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

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

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

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

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

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

### *Deregulation?*

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

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

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

## From Three to Four Es

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

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

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

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

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

## How Big is Government?

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

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

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



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

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

## **Government Machinery and Organization**

### *Policy formulation and coordination*

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

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

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

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

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

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

#### *Organizational structure of central government*

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

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

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

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

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

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

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

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

#### *Organizational structure of subnational and local government*

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

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

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

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

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

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

*Decentralization: what, when, and how*

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

## **Managing Government Resources**

### *Managing central government expenditure*

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

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

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

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

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

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

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

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

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

#### *Managing local government expenditure and fiscal decentralization*

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

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

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

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

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

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

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

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

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

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

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

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

*Acquiring goods and services: public procurement*

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

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

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

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

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

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

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

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

#### *Government employment and compensation policies*

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



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

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

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

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

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

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

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

Concerning wage policy, the key objectives are

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

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

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

#### *Managing government personnel*

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

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

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

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

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

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

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

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

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

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

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

#### *Investing in government personnel*

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

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

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

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

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

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

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

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

## The Interaction Between the People and Their Government

### “Voice” and “exit”

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

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

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

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

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

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

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



*Social capital and participation*

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

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

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

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

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

*Civil society and nongovernmental organizations (NGOs)*

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

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

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

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

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

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

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

*Transparency, information, and the role of media*

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

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

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

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

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

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

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

### **Improving Administrative Integrity, Responsiveness, and Service**

#### *Fostering public integrity and preventing corruption*

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

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

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

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

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

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

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

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

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

*Performance in public administration*

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

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

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

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

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

#### *The role of information technology for improving public administration*

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

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

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



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

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

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

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

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

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

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

*Public administration improvements in OECD countries*

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

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

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

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

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

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

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

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

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

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

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

## A CONCLUDING WORD

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

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

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

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

## Annex I

# BASIC CONCEPTS<sup>21</sup>

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

### The State

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

### The Government

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

## The Constitution

### *Definition*

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

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

### *Supplements to the constitution*

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

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

*Hierarchy of administrative law and regulations*

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

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

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

*Understanding the administrative roots*

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



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

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

### **Forms of Government**

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

#### *Federal government*

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

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

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

#### *Unitary government*

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

#### *Parliamentary system*

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

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

### *Presidential system*

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

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

## NOTES

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

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

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