Contents

List of Tables viii

List of Figure and Boxes ix

List of Acronyms and Abbreviations x

Preface xi

About the Authors xiii

1 Changing Views of the Role of the Government 1
- Introduction 1
- The role of government in development 2
- The background to public service reform in developing countries 7
- Capacity to perform the 'new' roles of government 15
- An overview of the study 20
- Conclusion 28

2 Changing Approaches to Public Sector Management 31
- Introduction 31
- Theoretical basis of new approaches to public management 31
- Pragmatic rationales for public sector reforms 38
- From old public administration to new public management 39
- The era of new public management 40
- A review of new public management in practice 44
- Conclusion 52

3 The Politics of Service Reform 54
- Introduction 54
- Political stakes in the reform of public management 56
- Principals and agents in public service reform 58
- External bodies – agents or principals? 58
- The principal-agency characteristics of services 62
- The 'principals' – citizens and political leaders 65
- The 'agents' – public service administrators, professionals and workers 71
- Emerging constituencies for change 76
- Conclusion 78

4 Decentralizing Organizational Arrangements for Service Delivery 81
Introduction 81
Pre-reform organizational arrangements 81
Types of organizational arrangements 85
Reform of organizational arrangements 88
Have reforms improved performance? 98
Institutional and capacity issues 102
Conclusion 104

5 The Experience of Charging for Public Services 106
Introduction 106
Explaining user charges 106
Charging – what and how? 110
Charging: performance and impact 116
Conclusion 123

6 Working with Private Partners 125
The case for privatizing management 125
Organizational arrangements for service provision 128
The application of public-private arrangements for service delivery 133
Matching organizational arrangements to capacity 136
Conclusion 142

7 The Experience of Contracting 144
Introduction 144
The use of contractual arrangements 145
Assessment of the experience of contracting 158
Capacity to contract 167
Conclusion 177

8 Regulating and Enabling the Private Sector 180
Introduction 180
Forms of regulation 181
De-regulation and support to market development 184
Re-regulation under the new management 185
Economic regulation of urban water supply 186
The social regulation of health services 195
Enablement of private providers – business support services 203
A comparison of the experience of regulation and enabling 215

9 Conclusion 219
Introduction 219
Summary 220
Performance and capacity constraints in specific reforms 224
Implications for capacity development 232
Conclusion 235

Notes 238

Bibliography 240

Index 253

1
Changing Views of the Role of the Government

Introduction

Over the last two decades there has been emphasis, particularly in the English-speaking advanced countries, on reducing the role of government and on reforming public management by adopting aspects of private sector practice. The research programme on which this study is based was concerned with the fact that similar practices were being introduced in developing and transitional countries, often in association with economic adjustment. There has been considerable research on the difficult process of adjustment but little on the process and outcomes of public management reform for improved service delivery.

The research investigated the application of such reforms outside their countries of origin, in Africa, Asia and Latin America. Underlying the enquiry is the question whether approaches generated from a diagnosis of the 'over-interventionist' state in, say, the United Kingdom or New Zealand are appropriate responses in states where the levels of public management capacity, market development, resources, political inclusiveness, legal effectiveness, political and economic stability are quite different. Governments may be ill-equipped to adopt unfamiliar approaches to public service provision, where the institutional conditions on which the new management practices are premised may not be present.

This chapter will describe the backdrop to these new management approaches in two respects. First, it will survey the broad shifts over the last 50 years in practical understanding of the role of government, particularly as this applies to developing countries. It will then focus in more detail on the underlying situation of the countries that faced radical reform of their public services, on the social, political and

managerial strains to which they were already subject. This will lead to an account of the questions that this volume will address and the approach that it will adopt. The following chapter will describe the new approaches to managing service delivery.

The role of government in development

The history of the first three quarters of the twentieth century can be seen as one where states held clear authority within their borders, and governments acquired growing functions which they tended to perform on their own. The latter part of the twentieth century and early twenty-first century have seen the emergence of a more porous view of the nation state, and changed views of the role of government: it would perform fewer functions on its own and more in partnership with other actors. Associated with this change in public policy about *what* the state was to do was a consequential change in *how* it was to act.

The extension of the state in developing countries

The point of reference for the countries which became independent after the second world war was of an extensive state, whether in the form of the socialist or of the advanced capitalist nations. This was partly a matter of policy transfer from the more developed capitalist and socialist countries in their race to fill the post-colonial 'vacuum'. In the 1950s and 1960s, aid programmes and academic advisers propagated the idea of the state bureaucracy as the lead agent for the transition to what was then known as 'modernization' (Stone, 1965; Siffin, 1976). Aid agencies favoured large-scale projects of industrial and agricultural development which, in their turn, required the guarantee of government involvement (Esman, 1988). On the side of the new political élites, the idea of state-led development was attractive: it apparently offered a way of satisfying popular expectations and demonstrating a concern with social justice and development.

The case for state-led development was not only imitative but also built on a response to local circumstances. Where market institutions and indigenous entrepreneurs were weak, often only state enterprises were capable of investing or taking over foreign-owned plants. In the case of developing countries linked to the international economy through primary goods exports, the case was made for the state to take the lead in re-structuring the economy towards 'inward directed' industrial development on the basis of import substitution (Todaro, 1994).

Until the mid-1980s, the role of the state and employment in the public sector generally expanded faster in the advanced countries than they did among developing countries, except in the case of the oil-rich nations of the Middle East, Mexico, Venezuela and Nigeria. By the end of that period, the proportion of Gross Domestic Product (GDP) spent by central government in the rich Organization for Economic Co-operation and Development (OECD) countries was on average 47 per cent, compared with less than 25 per cent in all developing countries outside the Middle East (World Bank, 1997). On average, public sector employment (in government and public enterprises) occupied a higher proportion of the total population of affluent (6.4%) than poorer (2.6%) countries. However, while in the rich countries more public sector workers were involved in the delivery of services, in developing countries there was a far higher proportion in public enterprises (Rowat, 1990).

The 'statist' model was quickly subject to criticism. Until the full force of the neo-liberal perspective arose in the 1980s, this was not a matter of ideological opposition to the extension of the state as such. It was rather a question whether the states and public administrations of developing countries were structurally (not just technically) capable of acting as the agent of development. This raised issues of the nature of bureaucracy and the social composition of the state.

An extensive critical literature will here be reduced to three themes. They overlap but derive from different theoretical positions and emerged from different regional contexts. The first came from the early (1950s and 1960s) experience of operating aid programmes across a wide geographical spectrum but particularly in Africa, South and South-East Asia. Critics challenged the view that public administration could act as an agent of development. They argued that bureaucracies were biased to stability or only incremental change, were anti-developmental and suppressed entrepreneurial interests. Moreover, public sector agencies, which on the surface looked like rational bureaucracies, in practice often served particular interests (Hyden, 1983).

The second theme has been applied particularly, but not only, in Sub-Saharan Africa. It refers to the 'softness' or 'weakness' (Migdal, 1988) of the state, in which the state apparatus maintains only a tenuous hold over society, lacking legitimacy and therefore the capacity to enforce policy. This is often associated with personal rule where leaders exercise their own interests through the official apparatus and patron-client networks, or resort to control through 'hard' militaristic régimes.

The third theme, which emerged from neo-marxism and dependency theory, saw the apparatus of the state (the bureaucracy and military) as being subordinated to non-national interests, particularly international capital. This approach was used to explain the rise of various forms of authoritarian rule in the 1970s – bureaucratic authoritarianism in Latin America (Collier, 1979), and the post-colonial 'over-developed' state in South Asia. Far from being an agent of development, the state was seen as an agent of underdevelopment or distorted development.

By the end of the 1970s, with international recession, growing national debt in Latin America and Africa and widespread military régimes, there was deep pessimism about the scope for development and scepticism about the state's role. Two ways forward became evident in the 1980s – the example of the newly industrializing countries of East Asia and the neo-liberal model developed originally in the United Kingdom and the United States.

The East Asian 'newly industrializing countries' demonstrated, contrary to left radical thinking of the 1970s, that it was possible for poor nations to develop in a sustained and inclusive way whilst engaging with the international economy. Contrary to Right liberal thinking of the 1980s, they also showed that governments could play a positive role in achieving development. State administrations had authority and capacity to give direction to market development, respond flexibly to private sector needs, develop technology and human resources, while controlling labour. Wade (1990) describes this approach as one of a 'governed market' rather than either a free market or a command economy. While these arrangements were adequate for the management of relatively closed economies, they could not cope with the global liberalization of financial and capital markets in the 1990s (Flynn, 1999). Destabilizing capital flows overwhelmed established institutions and contributed to the East Asian financial crisis of 1998 (Watkins, 1998; Stiglitz, 1998). The 'Asian model' seemed now to be a less convincing alternative to the neo-liberal consensus.

Neo-liberalism and economic adjustment

The immediate roots of the neo-liberal revival lay in the economic crisis which followed the massive rise in oil prices in the early 1970s. The United Kingdom and USA, with histories of low investment and high trade deficits, were particularly badly affected by economic recession. The United Kingdom, in effect, experienced the first 'structural adjustment' programme when, in 1976, it negotiated a loan from the

International Monetary Fund. In return it had had to accept public expenditure cuts, divestiture of public enterprises, a floating exchange rate and restraints on money supply. These became the principal elements of the structural adjustment programmes that were later applied globally.

Many countries, particularly in Latin America but also central Europe and Africa, were slow to adjust to the new economic order and got themselves into deep difficulties of debt and inflation. They eventually had to resort to the International Monetary Fund and World Bank for loans. These two international financial institutions became the main propagators of the 'Washington consensus', a panoply of precepts to do with the liberalization, privatization and stabilization of economies, and the reduction of the role and scale of the public sector.

Earlier criticisms of the state's role in development had questioned whether the conditions existed for 'third world' states to operate effectively. In the absence of these conditions, the tendency was for state agents to become self-serving, patrimonial and linked to powerful, often foreign, interests. The new liberal view held a deeper scepticism about the capacity of state administration to play a developmental role under *any* circumstances (Friedman, 1962). The bias was now against state expansion and for the market: the motto was 'public provision, the exception not the rule' (World Bank, 1996).

Some broad critical points can be made about the experience of adjusting the role of the state in developing countries (Mosley, Harrigan and Toye, 1995; Turner and Hulme, 1997). First is the question of 'ownership' – who conceives, drives and supports reform? Advanced countries, such as the United Kingdom, New Zealand and Australia, were able to mould the pace and nature of their responses and did so with the compliance of their electorates. Developing and post-socialist transitional countries, on the other hand, have usually made their adjustment under strong external pressure from the international financial institutions and major donor countries. Their governments have often not been the chief architects of programmes, understood their implications or gained an electoral mandate for change, as the ex-vice president of the World Bank has himself argued (Stiglitz, 1998).

Second is the question of uniformity of application. The main tenets of state withdrawal and adjustment, first developed to adjust to fiscal crisis in advanced welfare states, were applied to countries with very different circumstances whose only common feature was debt: post-socialist central and east European states, post-authoritarian Latin

American states, weak states in Africa and bureaucratic states in South Asia. Variations in programmes have resulted less from design and more from failures to honour loan conditions (Mosley, Harrigan and Toye, 1995).

Following from this, the third point is that adjustment has often been implemented in an unbalanced way, leading to deeper crisis and poverty at least in the short term. Quick economic policy changes affecting consumption and the distribution of income – floating exchange rates, freeing trade, cutting public expenditure and subsidies – have often been made. Structural changes affecting production – reforming state administration, privatizing, reforming the financial sector, building agricultural and industrial markets, providing basic services and infrastructure – have often stalled or taken longer (Mosley, Harrigan and Toye, 1995; Turner and Hulme, 1997; World Bank, 1997, p. 13). The pain was felt before the (uncertain) gain.

The adjustment of adjustment

Partly in response to the experience of liberalization, during the 1990s the international reform agenda was modified in various ways which are important to this study to include new focuses on poverty reduction as well as efficiency, and state capacity-building as well as market development.

First, the goals of reform were extended from freeing market forces and making economies efficient to directly addressing problems of poverty. This was initially in the shape of add-on policies to provide social safety nets and employment to the people adversely affected by economic liberalization. By the end of the 1990s, in the case at least of the most highly indebted countries, the commitment to the poverty reduction objective was at the core of reform. The support of donors and governments was to be coordinated through agreed 'international development targets' and 'comprehensive development frameworks' whose main mechanism was country-specific 'poverty reduction strategies'. In principle these are nationally owned but they have to be approved by donors and international financial institutions (Panos Institute, 2002).

Second, the early 1990s saw recognition that market development and poverty reduction depended on effective states: 'State-dominated development has failed, but so will stateless development' (World Bank, 1997, p. 25). The earlier stages of structural adjustment had addressed the state essentially as something to minimize by cutting back the responsibilities, expense and size of the public sector. The

new agenda recognized that, while there may be too much state intrusion in the economy, there was also often too little government capacity to make policy, perform basic administrative functions, work with private partners, and ensure the provision of infrastructure and public services. There was 'too much state' and 'too little state' at the same time (Larbi, 1999). 'Only after a decade of experimentation with reducing government did economic reformers become explicit about the importance of strengthening government' (Grindle, 1997, p. 4).

Failures in structural adjustment contributed to a renewed concern with the capacity of states. Brinkerhoff (1994) describes the first round of structural adjustment as having been put in place by technocratic élites, while the second round gave more attention to the transformation of the 'hard to change institutions which structure political and economic life' (World Bank, 2000). These institutions include clear property rights, the rule of law, financial systems, an active civil society, accountable government, and efficient and effective public administration (Burki and Perry, 1998). While softening the earlier anti-statism of structural adjustment, this new focus paradoxically implied an extension of the liberal agenda into government itself. Whereas the first wave of reform had been about reversing government growth, freeing markets from regulation and privatizing state-owned enterprises, the more recent waves have also been about 'liberalizing' government itself, including the management of public services.

This book is about the experience of transforming governments to work with the private and non-governmental sectors and of introducing market-style reforms into public management. It considers the performance of such reforms in terms of their effects in bringing about greater efficiency, increasing public service access for the poor and stimulating market development. It particularly addresses the questions whether governments have adequate capacity and whether the necessary institutional conditions are present to enable these styles of operation to work.

The background to public service reform in developing countries

The contribution of this book

The world-wide trend to the redefinition of public and private roles, and reform of government administration on neo-liberal lines has continued for 20 years, but there has been little systematic and comparative evaluation of the process of reform or of its outcomes. Most of

what exists is specific to particular service sectors or is based on individual country case studies (see Manning, 2001 for a survey). This study embraces several service sectors and countries, selected to maximize their representativeness and the possibility of comparison. It draws on a series of global sector surveys and country case studies undertaken between 1996 and 2000, and on four books which have already resulted from the research on particular sectors: Mills, Bennett and Russell (2001), Jackson (2002), Hubbard (2003), and Nickson and Franceys (2003).

The research focused on four core countries, Zimbabwe, Ghana, Sri Lanka and India, but it also made reference to other countries of Latin America, Africa and South and Southeast Asia. The reasons for this choice and an account of the research approach are described later in this chapter. This section goes on first to describe the circumstances and context in which developing countries, and particularly those that are the focus of this study, confronted the demand to reform their public services.

The institutional background to reform

The period from the late 1980s until the present has been one of attempts at extraordinarily radical public sector reform. They challenged that previous great period of radical reform in the 1950s and 1960s in South Asia and Africa (or the 1930s to 1950s in Europe and Latin America), which had established the responsibility of the state for social services and economic development. Developing countries shared in a practically world-wide convention in favour of direct public ownership or state management as the preferred model of intervention. Post-colonial governments added redistributive and nation-building intentions whose interventionism was often enhanced by commitments to reversing colonial inequalities, to state socialism and national planning.

Economically, this model of direct state intervention was fragile, being even less fiscally sustainable in the face of economic crisis than in the advanced countries. However, as Chapter 3 will show, institutionally it presented strong barriers to change, which have had particular force in the poorer developing countries. Although they never achieved the same level of inclusiveness of benefits, the statist model was more deeply ingrained in their power structures. On it was constructed a deep commitment to the responsibility of the state that carried its own constituency of interests in maintaining interventionism: politicians and bureaucrats with patronage opportunities, pro-

fessional staff with standards to protect, urban residents enjoying subsidized prices, services and employment, and industrialists and farmers with guaranteed but also controlled prices. In the poorer countries with weaker market systems, power and privilege existed in function of state action, and the relief of poverty depended on access to state redistributed wealth. To challenge the statist model therefore risked challenging the foundations of the state and its legitimacy (Sandbrook, 1993).

Even in the more mundane sense of the political management of reform, changes which proposed the undoing and restructuring of public service organizations, especially where these delivered basic living requirements (health, water, price subsidies), are bound to be complex and long term. They present costs and uncertainties to politicians and administrators, and only rather abstract advantages to anybody (Grindle and Thomas, 1991; Grindle, 2003; Nelson, 2000). The circumstances under which reform was to take place compounded the difficulty.

Crisis and delayed reform

The initiating impulse to public sector reform in developing countries (as elsewhere) has been the economic crisis that became transparent in the early 1980s and which, for many, has since then persisted. This has been not only the impulse for but also the difficult context of reform, particularly in Sub-Saharan Africa and Latin America.

Economic reform in most developing countries was delayed and therefore ultimately more traumatic than it might have been. The oil crisis of the early 1970s, falling commodity prices and recession in the West led to increasing balance of payments difficulties not only for the advanced countries but also for those countries which were dependent on them for export markets. African and Latin American (and central European) governments generally avoided voluntarily adjusting to the new economic realities; instead they tried to maintain the scale of public sector employment and expenditure by borrowing in the late 1970s and 1980s to cover tax shortfalls and debt. In most countries of Africa as in Latin America, but not in South or East Asia, government expenditure therefore became a growing proportion of shrinking national wealth (Cornia et al., 1987; Sandbrook, 1993; Bulmer-Thomas, 1992).

Among the countries that were the core subjects of this study, Sri Lanka and Ghana responded relatively quickly to financial crisis and the inability to maintain public expenditure. Indeed, Sri Lanka can be

said to have embarked on its own economic reform – a self-motivated forerunner of the IMF/World Bank stabilization and structural adjustment package. Beginning in 1977, and then more fully with the support of the international financial institutions from 1987, Sri Lanka launched a programme to liberalize the economy, encourage foreign investment and privatize state enterprises. In 1983, Ghana embarked on an Economic Recovery Programme funded by the World Bank and IMF to stabilize the macro-economy by reducing public sector control of exchange and interest rates and, in principle (though very uncertainly in practice), to reverse previous policies of public ownership and unsustainable public expenditure.

The later adjusters were India and Zimbabwe. India adopted an IMF supported 'economic reform package' in 1991 after a macro-economic crisis, triggered by the first Gulf War, which included spiralling fiscal and current account deficits and a collapse of foreign reserves. The focus of its reforms was on macro-economic management and the liberalization of regulations on trade and industry, rather than on the reform of public administration itself. The Government of Zimbabwe introduced a civil service reform programme in 1987, and entered discussions with the International Monetary Fund and the World Bank which led to a five-year Economic Structural Adjustment Programme (ESAP) early in 1991. In addition to an opening up of the economy through the liberalization and deregulation of trade and investment, the programme included macro-economic stabilization, privatization of state-owned enterprises, and a social element to protect those affected by transitional hardships.

The degree to which these reform programmes were implemented differs between countries. In particular, though Ghana embarked early on the path of adjustment, it has made slow progress and has had to renegotiate terms with the international institutions. Zimbabwe has continuously faced the suspension of IMF programmes due to its inability to control budget deficits and public borrowing. Another variation was in the application of liberalizing reforms in different service sectors, as we will see in Chapter 3. The general experience has been that reforms in the social sectors (health, education, and even water) have been cautious and introduced much later than economic reforms. However, for all sectors of government, structural adjustment in the 1980s and early 1990s was an important background of constraint on public expenditure.

The re-distribution of poverty

Whether it was due to pre-existing failures of economic policy or to the effects of structural adjustment, Cornia et al. (1987) demonstrated a

general increase in levels of poverty in most countries of Latin America and Africa during the 1980s. Moser et al. (1993) showed that the impact of structural adjustment on prices, wages and employment structures also had the effect of redistributing the incidence of poverty. The urban poor and 'border-line poor' were particularly affected by the removal of subsidies in government services and controls on food prices. A 'newly poor' category was created by the shift of employ-ment out of public administration, urban commercial services and protected industries into tradeable export goods. This generated underemployment and drastically lower wages in the previously privileged urban centres. However, the experience of South Asia (at least India and Sri Lanka) and South-East Asia was dramatically different with accelerating growth and a declining incidence of poverty, in the same period.

In 1996, when the research was initiated, the core countries selected for this study had a similar level of national wealth (GNP) per capita of between $420 and $580 per head per annum. By the year 2000, the relative position of the four countries was less in step, with Ghana at $350 and Sri Lanka at $870 per head. If income is adjusted for 'purchasing power parity', India and Zimbabwe were at similar income levels, with Ghana lower and Sri Lanka much higher (Table 1.1).

There has been a marked historical change in the relative positions of the countries. The African countries have seen a decline or stagnation in income since the 1970s while the South Asian countries have experienced economic growth. Most strikingly positive is the case of Sri Lanka which has not only achieved sustained economic growth but also, though still a poor country, good human development indicators (UNDP, 2002). By the late 1990s Sri Lanka exceeded the average for middle-income countries on two of these indicators (life expectancy and adult literacy), and was near their average on education enrollment rates. By contrast, Zimbabwe saw a decline in its overall performance: real per capita income is now lower than in the 1970s and it is one of only five countries whose human development index rating is now lower than in 1980. Ghana has made a slow recovery from negative economic growth since 1985; its human development indicators remain low and mainly below the average for low-income countries. India, which had started the 1970s with the weakest position on most indicators, achieved accelerating growth from 1980 and an improvement of its human development status. However, by the late 1990s it still had life expectancy, literacy and education levels that were only about average for low-income countries, and almost half its population lived on less than $1 per day.

Table 1.1 Economic and social indicators in the study countries

Indicator	Ghana	Zimbabwe	India	Sri Lanka	Average for low-income countries*
GNP per capita $ at 1995 prices (i)	350	480	460	870	420
GNP per capita $ PPP at 1995 prices** (i)	1940	2590	2432	3470	1990
% of population below national poverty line*** (i)	31.4 (1992)	25.5 (1991)	35.0 (1994)	25.0 (1996)	–
% of population with less than 1$ per day at 1985 prices (i)	38.8 (1998)	36.0 (1991)	44.2 (1997)	6.6 (1995)	–
Govt. consumption as % GDP (i)	10	23	11	9	11
Life expectancy at birth in years (ii)	57	43	63	73	60
% Adult literacy rate (ii)	72	88	57	92	62
% Education enrollment**** (ii) (1999 figures)	42	65	55	70	51
Rank on the Human Development Index of 174 countries (ii)	129	128	124	89	–

* Low income countries are those where per capita income is below $760 p.a.
** Purchasing power parity (PPP) represents GNP in 'international dollars' so as to provide a better comparison of average income between countries.
*** Definition of poverty line is country specific based on local consumption basket and costs.
**** Calculated by dividing the number of children enrolled in each level of schooling (primary, secondary and tertiary) by the number of children in that age group.
Sources:
(i) World Bank World Development Indicators, 2001. 2000 data unless otherwise stated.
(ii) UNDP Human Development Report, 2002. 2000 data unless otherwise stated.

Table 1.2 indicates the changing status of the four core countries in terms of the UNDP's human development indicators. Taking into account per capita income levels, life expectancy, literacy and education enrollment, countries are classified from 0 to 1 (the maximum)

Table 1.2 Human Development Index trends from HDR 2003

	1975	**1980**	**1985**	**1990**	**1995**	**2001**
Ghana	0.444	0.474	0.487	0.515	0.537	0.567
Zimbabwe	0.544	0.570	0.626	0.614	0.567	0.496
India	0.416	0.443	0.481	0.519	0.553	0.590
Sri Lanka	0.609	0.644	0.670	0.692	0.715	0.730

Source: UNDP Human Development Report, 2003.

in a composite human development index (HDI). All the countries but one see an improvement over the period 1975–2001. By 2001, Zimbabwe falls into the low human development category.

Declining public services

The rate of growth of social expenditure (particularly health and education) declined almost everywhere during the 1980s and up until the mid-1990s, particularly in 'intensely adjusting' countries (Cornia et al., 1987). Actual reductions in expenditure per head were more common in Latin America than in Asia or Africa: however, Ghana undertook one of the most severe cuts, as in Asia did Sri Lanka. India saw an incremental decline from an already low base (Moser et al., 1993; Jalan and Subbarao, 1995). The proportion of India's economy devoted to public expenditure on health (0.6 per cent in 1998) is one of the lowest among low income countries and the percentage allocated to education declined in the 1990s to 3.2 per cent in 1997 (UNDP, 2000). Zimbabwe maintained a relatively high proportion of government spending on social expenditure through the 1980s and into the late 1990s (3.1 per cent and 7.1 per cent on health and education), but in real terms, with the decline of the economy, the value of the expenditure fell. Internationally, where cuts did take place, they often particularly affected basic services (including preventive and primary health care and primary education) and infrastructure:

> To meet their interest obligations, countries mired in debt squeezed programs in education, health, and infrastructure as often as – or more than – they cut low-priority programs, bloated civil service rolls and money-losing enterprises. (World Bank, 1997, p. 24)

The widespread decline in investment in and maintenance of infrastructure had adverse effects not only on households but also on enterprises and particularly small firms (ILO, 1995; Stren and White, 1989;

Moser et al., 1993; Sandbrook, 1993). Public employment and public subsidies were often maintained for political reasons, while expenditure on investment and the maintenance of public services and infrastructure was allowed to slip. International shocks thus helped to enhance the visibility of public sector inefficiency and ineffectiveness, even before the stabilization and adjustment programmes of the International Monetary Fund and the World Bank were introduced.

Cuts and demoralization in public administration

Programmes for the reduction of employment in public administration were among the most tangible aspects of the first phase of structural adjustment. Over-staffing after a long period of growth (Abernethy, 1988) was one of the World Bank's main criticisms of public administration, and staff reductions were seen as an important way of controlling public expenditure (World Bank, 1983 and 1989). However, cutting employment represented a considerable political challenge, undermining government's role as employer of last resort and threatening its constituency of support (Sandbrook, 1993). This was a particular problem in those democratic regimes, such as India and Sri Lanka, where public sector unions represent a considerable block of electoral support, and especially in countries with strong ethnic differences (Malaysia, Sri Lanka, South Africa, Kenya) where public sector employment offers the possibility of balancing advantage (Esman, 1999).

Effectiveness in restraining civil service expansion has been greatest in the more ideologically committed countries of Latin America (such as Chile) and in the more donor-dependent countries of Africa (Moser et al., 1993, Sandbrook, 1993; World Bank, 1991). Cuts in civil service staff were largest in certain African countries – in Uganda by almost half and in Ghana by 40 per cent since 1987 (Larbi, 1999; Nunberg and Nellis, 1995). Zimbabwe reduced its government staff by 12 per cent under the civil service reform programme from 1991 (Makumbe, 1997).

However, staff cuts have often not led to the expected budget savings. Redundant staff had to be compensated and often the better staff were lost. A study of civil service reform in 15 countries showed that 'wage bill reduction and salary decompression had been achieved in fewer than half the cases' and that sometimes staff cuts were later reversed. Wages have therefore often declined in the face of fiscal pressures (World Bank, 1997). It is easier for governments to allow real wages to erode than to shed jobs. Public sector wages fell below subsistence level in, for example, Sudan, Ghana, Uganda and Guinea. The

result was widespread demoralization, corruption and moonlighting (Sandbrook, 1993; Amis, 1992; Hilderbrand and Grindle, 1995).

The public administration that was expected to carry out the reforms was itself demoralized by the decline in real salaries and by threats to job security: 'government agencies were expected to co-operate in diminishing or dismantling their own power' (Hirschmann, 1993). The climate of change has often been one of suspicion and resistance, unmatched by support from any clear constituency for change. Because government and the public sector are simultaneously the target and agent of reform, the reform process has been compared to 'rebuilding the boat in the open sea' (Elster, 1993).

Capacity to perform the 'new' roles of government

The above background indicates a difficult basis on which governments must construct reform programmes for improving the management of public services. Government was being slimmed down and, at the same time, new roles and relationships with non-government service providers were being defined. The following sections will outline the core concern of this book: why governments face questions of capacity to undertake these new roles and how their capacity might be assessed.

The new roles of government: why is capacity in question?

The broad thrust of reform is to redefine the roles of government and then to inject a more entrepreneurial or managerial (versus bureaucratic and administrative) style into the performance of those roles. The underlying shift has been described as one of government moving from 'a concern to do, towards a concern to ensure that things are done' by collaboration with other actors (Kaul, 1997). Following this principle, responsibility for arranging for a service to be delivered is separated from the actual production of the service (Savas, 1987, 2000). According to this argument, governments could, in principle, usually achieve their objectives without getting involved in the direct production or delivery of services. Several writers (Koldarie, 1986; Wunsch, 1991; Ostrom et al., 1993) distinguish between the responsibility for 'provision', which might be governments' concern, and 'production' which might be done by private, public agency or com-munity actors. This book adopts a different terminology to distinguish between

– 'direct provision' which is the act of physically producing (constructing, creating, maintaining) and delivering a service; and

– 'indirect provision' which is the business of ensuring that a service is available; this might involve decisions about policy and standards of service, about organizational arrangements, coordinating, financing, enabling and regulating producers.

Rather than a reduction of government, instead there is a redefinition of its roles. Governments always performed 'indirect roles' but these have become more important with recent public policy reforms. Tasks such as analyzing policy options, setting standards and monitoring their enforcement, raising and allocating finance, managing budgets or informing citizens have always been part of government, but they take on clearer importance and become more complex where government is working with networks of independent direct providers. Some indirect roles, such as contracting, regulating and creating incentives for private producers have assumed vastly greater significance in many countries, and can effectively be regarded as new for many. Even where there is no engagement with private or community producers, governments have had to find new ways of managing within the public sector, where decentralized government or decentralized management have become the main direct providers.

The case for the shift has been that many governments have proven to have weak capacity to deliver basic services, and that they should therefore find new ways of providing them jointly with markets and civil society (World Bank, 1997 and 2003). The question is whether new approaches imply new demands on the capacity of governments. While it may sometimes be possible wholly to withdraw from manufacturing (for example, the complete privatization or divestiture of steel production), governments can rarely simply wash their hands of all responsibility for a public service. Reforming governments may shed certain direct roles – for example, constructing social housing, running agricultural markets or managing urban water supplies. But they take on other indirect ones – for example, giving incentives for housing for poor people, providing market information to producers, and regulating water companies. This redistribution of roles is defended on grounds of efficiency, but there are important questions whether the 'transaction costs' of bringing about new forms of management *may* outweigh the efficiency gains. The theory underlying these questions will be described in the next chapter.

If we represent government as involving the following main categories of activity, then all of them may be affected by new manage-

ment reforms, but the key 'new' roles that will be examined in this book are numbers 3, 4, 5 and 6:

Government's indirect roles

1. Policy and rule-making: analyzing policy options, identifying the need for intervention in markets, advising ministers, setting policy frameworks, monitoring effects.
2. Enforcing and upholding the law.
3. Regulating markets: maintaining competitive conditions or ensuring efficiency in the absence of competition.
4. Enabling providers: facilitating provision by the market, households and groups, financing and supporting producers, providing information to producers and consumers.
5. Contracting independent providers: designing, managing and monitoring contracts so as to ensure that policy objectives are achieved.

Government's direct roles

6. Managing service delivery through decentralized management and market mechanisms within government.
7. Direct provision of services by government administration.

With regard to these roles, the key capacity questions that will be addressed throughout the following chapters are these:

- Are the appropriate skills and organization available for the exercise of the activity?
- Does the exercise of the role require collaboration and coordination going beyond the particular organization?
- Are the mechanisms of accountability of the agent to the principal clear, and can the principal measure and therefore control the performance of the agent? (The conceptualization of principal and agent will be described in the next chapter).
- Is the institutional environment supportive of the roles and organizational arrangements?

Concepts of capacity

The assessment of capacity to perform the 'new roles of government' requires an approach that goes well beyond the traditional concern with the quality of human resources. The previous section emphasized the importance of the wider institutional context within which reform was taking place. Human resources are constrained or enabled by the

organizations and networks of organizations within which they operate and by the institutions which surround them. The importance of institutions in shaping the way people are motivated and interact is recognized in the theory that underlies the new models of public service management described in the next chapter. The concept of capacity adopted here reflects these different dimensions and is close to the approach presented by Hilderbrand and Grindle (1995) who define capacity as 'the ability to perform appropriate functions effectively, efficiently and sustainably'. 'Capacity' is the factor that explains human performance within a given organizational framework and institutional environment.

One way of seeing the factors that influence government capacity is as a series of concentric circles going from those that are internal to specific organizations to those that are more external: from inter-organizational relationships, to the surrounding managerial and political practices, to the influence of wider social, political and legal conditions. Figure 1.1 sets this out diagrammatically.

In this approach there are three levels of analysis (Batley, 1997; Hilderbrand and Grindle, 1995; Larbi, 1998a).

First, among the aspects of capacity that are internal to the organization are:

- human resources, skills and incentive systems;
- organizational and administrative arrangements including decision making and control structures, procedures, authority relations, the distribution of functions and responsibilities, management style and leadership;
- the organization's equipment, capital and financial resources.

Second, there are the arrangements through which bodies coordinate within the network of organizations that together perform a task: are their roles, the flow of decisions and finance clear or contradictory?

Third, the approach considers the wider institutional environment and how this affects (enables or constrains) the mobilization and deployment of personal and organizational capacity. This includes:

- the more immediate institutional context of the apparatus of government, such as civil service rules and regulations, and the way political control is exercised over public administration; and
- the broader context: the state of the macro-economy, the strength of civil society and the private sector, the stability of the political

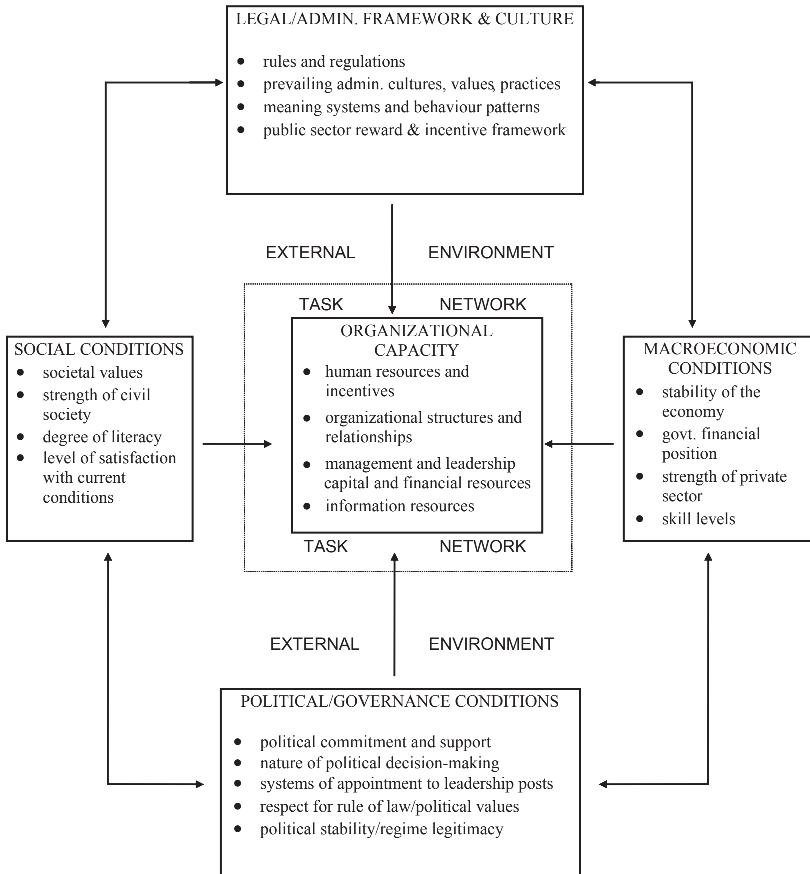

Figure 1.1 A framework for analyzing capacity
Source: Larbi, 1998a:164.

system, technological change, the legal framework and its enforcement.

This approach emphasizes the importance of 'fit' between the levels. Skills development or organizational reforms may often be introduced in a particular agency but fail because they ignore the operational context in which people and organizations have to operate – for example, the civil service rules, political pressures, public expectations and economic situation. The question of fit raises the possibility that agencies and governments need to adapt their organizational arrangements and skills

to changing institutional environments, for example as technologies, public demands and economic conditions change. Capacity requirements are therefore not static but continuously change with task and context. One of the major issues for this study is whether governments have been able to show this sort of 'adaptive capacity'.

Lastly, the approach also emphasizes that capacities are specific to task as well as to context. The different organizational elements of capacity and the institutional conditions come into play in different country contexts, sectors, organizational arrangements and for different types of governmental activity. This argument can be turned around in the other direction. Governments should only take on tasks and organizational reforms which they have capacity to perform: 'first focus the state's activities to match its capability' (World Bank, 1997, p. iii).

An overview of the study

The research focused on four service sectors, urban water supply, health care, agricultural marketing and business development, in four core countries, Zimbabwe, Ghana, Sri Lanka and India. However, it also made reference to other sectors and countries.

The country focus

The core countries were selected for study on the following main criteria:

1. *South Asia and Sub-Saharan Africa:* These regions account for most of the world's poor population. Two countries were selected from each region so as to maintain clearer possibilities of comparison.
2. *Low income:* The focus is on the situation of low-income countries and their capacity to adopt new approaches to service provision. However, it was important to select countries that were not so poor or weak that no significant services could be provided.
3. *Anglophone and Anglo-colonial heritage:* This focus allowed comparison within a range of countries with some common experience and similar administrative traditions. They present scope for extending generalization of findings to similar countries. However, a range of non-anglophone countries was also studied for comparative reference.
4. *Continuity of public administration:* India and Zimbabwe, relative to their respective continents, have traditions of strong conventional

public services. Ghana and Sri Lanka have experienced breakdown or considerable disruption and reconstruction of their governmental systems; Zimbabwe's deepening state crisis occurred after the research was undertaken. India and Ghana, but most enduringly the former, represent the classic cases of interventionist states which the neo-liberal adjustment programme seeks to reform.

5. *Macro-economic changes and liberalization:* Two of the core countries (Sri Lanka and Ghana) embarked on structural adjustment in the early 1980s: Sri Lanka was a self-motivated fore-runner of the World Bank/IMF package, while Ghana is often cited as an exemplary case in Africa. Zimbabwe and India delayed structural reform into the 1990s and have been more hesitant about reforming public administration. The duration of adjustment and the willingness with which it was engaged appeared to be possibly influential factors in the success of reform.

In these core countries, all four service sectors were studied. A further set of 'reference countries' was selected for study of specific sectors. This was in order to extend the comparison to known interesting cases and to redress the focus on poor countries with a British administrative tradition in South Asia and Africa. These included:

- *Health care:* Thailand;
- *Agricultural marketing:* Kenya;
- *Urban water supply:* South Africa, Bolivia, Argentina and a number of other countries of Latin America and Francophone West Africa.

However, even with a quite carefully selected group of core countries and a wide range of reference countries, there is a need to be cautious about both comparison and generalization. Institutions and administrative traditions vary between and even within core countries, in spite of certain similarities of tradition and recent experience of adjustment and reform.

The sector focus

The research explored how the role of government and the approach to the management of service delivery were changing in the following main respects across the four sectors:

- Health care: decentralizing hospital management, charging user fees, contracting services from the private sector; regulating and enabling the private sector;

- Urban water supply: corporatizing public water utilities, private sector participation and contracting, regulating and enabling the private sector;
- Business development: replacing direct intervention through public ownership with the provision of support services to industry. The textiles industry was selected as the focus of the study;
- Agricultural marketing: privatizing food supply management, reforming public marketing agencies, contracting out marketing services, developing quality assurance and market information systems.

At first glance, not much seems to unite these spheres of activity. However, in all of them there was some shift either to adopt new internal management practices or to create new forms of relationship with non-governmental provider organizations. Each of the sectors is also important in its impact on the livelihoods of poor people. Health care and drinking water are core elements of any welfare concern and raise basic issues of distributive equity for consumers. The operation of agricultural markets raises fundamental issues of survival for both producers and consumers; adjustment in this sector has a direct impact in both urban and rural areas. Support for industry is of primary concern to producers but also to the prospects for national development and mass employment.

Nevertheless, the four service sectors were also selected precisely because they span a broad range of types of government activity and because they are different in important respects that affect their 'manageability'. The first set of differences may affect the capacity of citizens and policy-makers to assert their control over the performance of service providers (these considerations are explained more fully in Chapter 3):

(i) *Organization and definition of user groups*: Health care and drinking water supply are essentially consumer services which apply to the general public, while agricultural marketing and business development are oriented to production and apply to specific producer groups;

(ii) *Choice and exit opportunities*: The sectors are differentiated between those where users have market choice about whether to use services at all (agricultural and business support), one where they may have some choice about which public or private service provider to use (health care), and one where they may have little or no choice (piped water);

(iii) *Measurability of performance*: The ultimate outputs of the four sectors are to a different degree quantifiable, tangible and measurable as opposed to qualitative, intangible and difficult to measure. Water supply is most clearly in the first category; health care, business and agricultural support services most clearly in the latter category.

The second set of differences is about the economic characteristics of each of the service sectors. None of the selected service sectors is a public good: the market could in principle, provide all of them. However, each sector is exposed to a different set of possibilities of market failure that influences the case for and perhaps the nature of government intervention. The concept of 'market failure' is described more fully in Chapter 2, but Box 1.1 in this chapter sets out some of the main reasons why market provision may fail and governments may have to intervene. An illustrative case for intervention in each sector is made below, but recognizing that the case may vary for particular aspects of sectors and in particular country contexts. For example, health care consists of many sub-components (ancillary and clinical services, hospital management etc.) and the extent of market failure will depend on circumstances:

> ….in a country where there are very strong professional ethics and a highly educated population, asymmetric information between health care provider and patient will not be as problematic as elsewhere (*ceteris paribus)* and the need for regulation may be more limited. (Mills, Bennett and Russell)

Beginning with the weakest case for intervention and moving in a rough order towards stronger cases for government intervention, the following are the main arguments (summarized in Table 1.3).

Support by government for industrial development historically has been a major area of government intervention often through public ownership. This has particularly applied to textiles and garment manufacturing which has been seen as the classical 'lift-off' industry, offering prospects of national development and employment. If there are market failure arguments for intervention, they relate to informational asymmetry (inequality) between producers at a national and international level and perhaps between national producers and large international purchasers. Governments may play a part in providing information and support to enable the insertion of businesses into the national and global economy (Jackson, 2002).

Box 1.1 Market failure arguments

Public goods: Some goods and services are described as by their nature 'public' in the sense that private firms on their own would simply not provide them either adequately or at all. These are goods for which there is no means of charging consumers (because non-payers are not 'excludable') and whose consumption does not reduce their availability to others (there is no 'rivalry'). This would occur, for example, in the case of police services, street-lighting or street-sweeping where the benefits are collective. It is impossible to measure how much any individual has consumed, and the service is not used up by consumption.
Externalities:
- the wider society would benefit from extension of a service even though the direct consumers may be unwilling or unable to pay for it: an example of such 'positive externalities' would be vaccination;
- producers can pass on costs to the wider society, allowing them to keep their costs to the direct consumers artificially low: an example of these 'negative externalities' would be industrial pollution.

Monopoly: The nature of a good or service or the scale of the initial investment required prohibit competition – e.g. water supply systems.
Scale and risk: The necessary investments are so large scale or the returns so risky that private firms are not prepared to undertake them – e.g. major underground infrastructure.
Imperfect information: Consumers or producers have too little knowledge to make informed choices: this sort of situation may arise in the case of professional services (such as health advice) where clients may not be able reasonably to assess the value of options.
Equity or 'merit' goods: There are in practice basic commitments in any society to the view that everybody should have access to certain goods and services, regardless of their ability and willingness to pay the market price. 'Government needs to act to provide merit goods because individuals are not necessarily the best judges of what is in their own or the public interest' (Walsh, 1995, p. 10). Education and health typically come into this category.

Agricultural marketing historically has been another area of major government intervention in what is by nature a private good. Governments have often owned or regulated food supplies, fixed prices to producers and managed production. Market failure analysis might suggest more specific interventions to manage supply uncertainties (particularly sensitive in the case of food), and to overcome problems of monopolized transport, poor market information, inadequate finance and insurance markets. (Hubbard, 2003)

Urban water supply, if piped, is not a public good. It is possible to exclude non-payers from benefiting and to charge for levels of consumption, so provision can be made through the market. However,

Table 1.3 Sector characteristics and the motive for intervention

Sector	Consumption characteristics		Production/Distribution characteristics				Social welfare considerations	Motive for government intervention
	Rivalry	Excludability	Monopoly tendency	Economies of scale	Externalities	Information asymmetry		
Water								
– stand pipe	low/ medium	low	high	high	high	low	access basic necessary water among current and future populations	1 monopoly 2 health externalities 3 equity/ merit good
– city well	medium	low	low	low	medium	low		
– piped	high	high	high	high	high	low		
Health								
– preventive	low	low	medium	high	high	high	equity considerations and human capital development	1 public good (preventive) 2 asymmetric information 3 externalities 4 equity/merit
– curative	high	high	medium	low	medium	high		
Agricultural Marketing								
– food crops	high	high	low	low/ medium	low/ medium	low	household and national food security	1 food security 2 market information 3 market structures
– export crops	high	high	low	medium	low	high		

Table 1.3 Sector characteristics and the motive for intervention – *continued*

Sector	**Consumption characteristics**		**Production/Distribution characteristics**				**Social welfare considerations**	**Motive for government intervention**
	Rivalry	**Excludability**	**Monopoly tendency**	**Economies of scale**	**Externalities**	**Information asymmetry**		
Textiles – export manufacture	high	high	low	medium	low	high	national development and employment	1 national development 2 asymmetric information of local versus global producers

water supply is subject to other forms of market failure which, historically, have been used to justify public ownership. It is the classical example of a natural monopoly, resulting from high investment costs and enormous economies of scale, which make it extremely difficult for alternative suppliers to compete. The case for some form of public intervention is reinforced by water's positive (health and productivity) and negative (pollution) externalities, and by its status as a merit good for basic consumption necessities. (Nickson and Franceys, 2003)

Health care has also been an important area of government intervention, often through systems of publicly owned health services and hospitals. Preventive (environmental) health services do often have public goods characteristics, since it is impossible to exclude non-payers from the benefits. In the case of personal health care, which is the focus of this study, the main arguments for government involvement are to do with medicine's high 'external' or social benefits (avoiding the transmission of disease, reaping the benefits of health for labour productivity). There is also the case for intervention to compensate for consumer ignorance of or incapacity to judge between medical treatments. Moreover, the need for health care is irregular and unpredictable, making it difficult for consumers to afford or insure for it; there is a case for tax-based cost-sharing. There are also strong equity or merit goods considerations for providing health care to consumers who cannot exercise private choice, due to their poverty, childhood or mental incapacity. (Mills, Bennett and Russell, 2001)

The research framework

The research on which this book is based followed a broadly similar framework of analysis across the countries and sectors. The objective was to understand whether the types of reform indicated in this chapter were taking place, for what reasons and under what pressures, and whether such approaches are appropriate to developing countries. Sector and country case studies were undertaken following a systematic sequence of steps:

- Analysis of the technical, economic characteristics of the sector in the particular country context – were there particular market failure 'justifications' for public intervention on technical grounds?
- Description of the current organizational arrangements for service provision, covering direct and indirect provider roles, identifying

the roles (or forms of intervention) which public agencies had in practice adopted. Comparison of the actual intervention with the technical (theoretical) case for intervention so as to raise questions about whether market failures were being addressed and why the public sector was doing what it was doing.

- Analysis of the history which had generated these organizational arrangements and the (stakeholder) forces which either sustained them or pressed for change, so as to identify the real, as opposed to technical, motives for the status quo and for reform.
- Secondary source evaluation of the performance of the sector nationally, in terms of its outputs and outcomes, focusing on their allocative efficiency and effectiveness (coverage, quality, equity), and the relation of outputs and outcomes to policy objectives.
- Evaluation of the performance of specific organizational arrangements for service provision, in terms of (i) their outputs, focusing on their productive efficiency and effectiveness, and (ii) the organizational performance by government or public agencies of their roles – how far were these performed? how well were operational functions carried out?
- Assessment of the capacity of government to undertake indirect provider roles. This aimed for an explanation of performance in terms of (i) internal organizational capacity (human resources, structures, capital) and (ii) inter-organizational relations, and (iii) the extra-organizational or institutional conditions which impacted on the mobilization of internal capacity.

In addition to the analysis of the management of the four sectors, consumer surveys were undertaken in each of the four core countries (Mutizwa-Mangiza, 1997; Rakodi, 1996, 1998 and 2001; Silva, Russell and Rakodi, 1997). Principally through focus group discussions, these explored users' opinion of the performance of health and water services and of the reforms.

Conclusion

This chapter has identified the territory of the book locating public service reform in broader historical changes in the role of government in development. Changes in approaches to public management are associated with the neo-liberal movement of the 1980s and 1990s. This broad approach persists, even though it is now asserted with less simplicity and recognizes the need to take into account local circum-

stances and more directly to address poverty. The question that this book addresses is whether the approach is appropriate to the circumstances and capacities of the developing countries to which it has been exported.

Reforms in public management are being undertaken in more difficult circumstances than those experienced by reformers in more advanced countries. This is particularly – but not only – the case of the African countries where, paradoxically, reform proposals have often been most radical. Structural adjustment and public sector reform have often been delayed until the point that the fiscal crisis is deep and public resources exhausted. They have therefore often taken place in the context of already rapidly declining public services from which it is difficult to recover. Moreover, the reforms themselves have often generated a first impact of increased stress and poverty for those sections of the population that had had access to services and employment.

A problem of the public sector, unlike private firms competing in the market, is that there are weak internal pressures for adaptive change to local institutional conditions. It is easy enough for public officials and politicians to go on doing what they always did, because they are subject only to very diffuse demands from their electorates rather than from the very immediate requirements of competitive survival. Nevertheless, public organizations are being driven to adopt a model of service delivery where they assume an 'indirect role', managing, regulating or enabling other providers – whether these are privately, community or publicly owned. The question is whether this changed, and in some respects reduced, role of government is actually a *less demanding* one. The hypothesis of this book is that indirect management is *more demanding* on government capacity, and that current reforms therefore present new dangers of government failure. The following chapters are essentially about this question of government capacity to handle new roles and approaches.

Chapter 2 describes the conceptual origins and the main elements of the new management reforms that have had such wide international impact. It uses this as a framework for locating the service reforms described in this book. Chapter 3 goes on to look at the political dynamics of change, identifying the leaders, the supporters and the opposition across the service sectors. The underlying question is whether reforms are driven and accepted locally. The following chapters examine the experience of implementation. Chapters 4 and 5 analyze reforms that have 'imported' market-type reforms into the public sector: decentralizing management and making managers and

agencies directly responsible for their budgets and service outcomes, and getting users to pay charges for services. Chapter 6 examines the logic of 'exporting' responsibility for service delivery through privatization, the purchase of the services of contractors and the regulation of non-government providers. Chapter 7 analyzes the experience of contracting, sector by sector, identifying the forms of contract that have been adopted and found by governments to be more or less feasible. Chapter 8 investigates even more arms-length public sector roles than contracting: first, the regulation of private service deliverers in the water and health sectors; and second, the support (enablement) of the market operations of private firms. The principal focus of Chapters 4–8 is to assess the capacity of governments to take on these new modes of operation and to establish which seem to be more appropriate in the various service sectors. Chapter 9 concludes by drawing together the analysis, considering how our understanding of governmental capacity might influence future approaches to service reform.

Index

accountability 17, 36, 39, 44–47, 71, 80, 102–105, 109, 126, 127, 171, 194, 222, 229, 234–36
advanced countries
  public sector 3
  public sector reform 220, 221
Africa
  aid 3
  civil service 14
  financial crisis 109
  GNP 11
  health services 70, 91, 116
  hospitals 91
  public expenditure cuts 13
  public sector decline 29
  public sector reform 2, 6
  revenue colllection 45
  water services 108
  see also under names of countries
agencies 45, 46, 47, 86–87, 205, 206–11, 214, 216, 223, 232
agricultural marketing
  build-operate-transfer schemes 151–53
  charges 108, 115–16, 121, 229
  contracting out 146, 147–48, 161, 162, 169
  focus on 22, 23
  government intervention 24, 25
  IMF and 60
  organization 84–85, 94–96
  performance 99
  poor people and 229
  private partners and 141
  reform 68–69, 73, 98
    types 55
Aguas de Barcelona 157
Aguas de Cartagena 157
aid agencies and donors 2, 6, 52, 57–62, 66, 70, 72, 74, 78, 80, 104, 114, 140, 178, 196, 224
aid programmes 3
Argentina
  Buenos Aires 69, 154–55
  concessions 154–55, 161, 172
  economic crisis 155
  public service reform 61
  as reference country 21
  regulation 191
  water services 69, 74, 108, 121, 154–55, 172, 192–93, 215–16, 230
Asia
  economic crisis in 38–39
  public expenditure cuts 13

Bolivia
  contracting out 173
  as reference country 21
  regulation 191
  water services 47, 102, 108, 115, 121, 136, 161, 224
Botswana 229
budget deficits 38
build-operate-transfer schemes
  nature of 134, 151–54, 233
bureaucracy
  neutrality 33
  politicization of 56
  weakness of 31
  Weberian model 31, 40
business development
  focus on 22, 23
  public-private partnerships 156–58
business reform: IMF and 60
business, services to 156–57, 204–6, 207

capacity
  analyzing 19
  charges and 124
  concepts of 17–20
  constraints on 216–18, 224–32

capacity – *continued*
  contracting 167–77
  development 233–34, 236
  external aspects 18–19, 167–75, 203, 214, 217, 227–28, 234–35
  internal aspects 18–19, 167–71, 174, 202, 213, 217, 227–28
  organization and 136–42
  public service reform and 1, 7, 15–20, 102, 105, 106, 232, 235
  regulation 186, 193–94, 201–3
charges
  capacity and 124, 233
  controversial 110
  developing countries and 51–52
  efficiency and 108, 121–23, 124
  equity and 117–21, 123, 124, 229–30
  explaining 106–9
  motives for 107, 108, 109
  performance and impact 116–23
  political aspect 124
  poor and 117, 118, 119, 123
  problems 52
  revenue motive 229
  widening 107
Chile 149, 150, 161, 191, 233
civil service: expansion restraint 14
Colombia 157, 161
concessions 134, 154–55, 233 *see also under names of countries*
contracting out
  administrative failures 176
  assessment 158–67
  benefits 178
  capacity for 167–77
  constraints on 169, 179
  contractors' incapacity 177
  disadvantage 134
  experience of 144–79
  extension of 49, 230
  external aspects 170, 172
  feasibility 163–67
  financial control 176
  forms of 130–39, 144–48
  implementation of 161, 179
  information systems 170, 176
  long-term contracts 164, 176, 178
  nature of 133–34
  new public management and 49–51
  one-off 145–47, 163
  opposition to 173, 176–77, 179
  performance and 158–62
  political aspects 170–1, 173, 175
  private sector capacity 173–74
  public-private relations 175
  service characteristics and 137–38
  service and management contracts 147–51
  short-term contracts 163, 167, 178, 230
contracts
  advantages 36–37, 38
  difficulties 37
  see also previous entry
corruption 46, 100, 104, 171
countries, selection of 20–21

de-regulation 184–85
developing countries
  agencies 46
  bureaucracy 53
  external actors 59
  performance appraisal 48–49
  public sector 3
  public sector reform 27, 53, 54
    appropriateness of 27, 29, 38
  state, extension of in 2–4
  state, role of 5, 220
  see also under names of countries
development, government and 2–7

East Asia 4
  financial crisis 4
East European states 5
education
  privatization 129
  reform in 60
electricity generation 185, 191
enablement
  approaches to 203–4
  capacity 211–15, 234
  constraints on 216–18
  forms of 182
  nature of 180, 183–84
  regulation and 215–18, 231–32

Ghana
  agricultural marketing 68, 85, 95, 100, 115, 229
  business development agencies 156
  business services 210–11, 212, 213, 214
  charges 51, 52, 109, 110, 111, 115, 117–18, 121, 122
  civil service 14
  Civil Service Performance Improvement Programme (CSPIP) 47
  Cocoa Marketing Board (Cocobod) 85, 95, 100, 102, 115, 224
  cocoa sector 60, 62, 68, 73, 100
  contracting out 139, 147, 157, 158, 163, 168, 171, 173, 174, 175
  Economic Recovery Programme 10
  Finance Ministry 104
  financial crisis 9, 10
  Food Distribution Corporation 85, 95, 100
  GNP per capita 11, 12
  Health Ministry 111
  health service 65, 77, 82–83, 88–89, 90, 91, 98, 99, 104, 109, 111, 112, 117–18, 121, 122, 147, 157, 158, 163, 168, 171, 196, 197, 198, 200, 202, 203
  hospitals 47, 90
  industrial sector 84, 97, 98
  Industry and Commerce Ministry 72, 140, 212, 213
  Investment Promotion Centre 97
  leasing 154, 171
  new public management 47
  perfomance agreements 48
  private partners 141
  Produce Buying Company 85, 95, 100
  public expenditure cuts 13
  public opinion 222
  public service reform 61, 62, 220, 223
  Public Utilities Regulatory Commission 113
  regulation 191, 196, 197, 198, 200, 202, 203, 216
  revenue collection 46
  structural adjustment 10, 21
  as study choice 21
  water services 65, 66, 69, 74, 77, 83, 92–93, 94, 98, 101, 102, 104, 112–13, 121, 122, 141, 154, 191, 216, 235
  World Bank 92
government intervention
  public choice theory 34–35
  reasons for 32
  theories on organization of 33–38
government, role of
  capacity and 15–17
  changing views on 1–30
  development and 2–7
  effectiveness of 6–7
  intervention model 8
  liberalizing 7
  reform and 16–17
  scepticism about 4
  social services and 8

health services
  capacity issues 168–71, 233, 234
  charges 106–7, 108, 109, 110–12, 117–18, 123, 124, 229
  contracting out 147, 149–51, 157–58, 159–60, 162, 169, 170, 177, 178
  focus on 21, 22, 23
  government intervention 25, 27
  hospitals, autonomous 90
  human resource capacity 103
  insurance schemes 107, 123
  organization 82–83, 88–92, 105
  performance 99
  private partners 142
  privatization 129
  reform 60, 61–62, 70–71, 73–76, 79, 98, 223–24
    types 55
  regulation 195–203, 215, 216, 231
  users' opinions 222–23

IMF (International Monetary Fund)
  economic crisis and 5
  public service reform and 59
  structural adjustment and 10, 14, 51, 59, 220

IMF (International Monetary Fund) – *continued*
UK and 4–5
Zimbabwe and 10
India
agencies 216
agricultural marketing 1, 60, 68, 85, 116, 141, 147–48, 229
build-operate-transfer schemes 171, 233
business development agencies 156
business services 208, 209, 210, 211, 212, 213, 214
charges 109, 110, 116, 119, 122
concessions 154, 171
contracting out 147–49, 151, 163, 173, 175
Finance Ministry 73
Food Corporation 85
GNP per capita 11, 12
health care 71
health service 13, 65, 71, 82, 83, 91, 104, 149, 151, 163, 168–70, 196, 198–200, 202, 203
industrial sector 72–73, 84, 140
private partners 141
public service reform 56, 61
public expenditure cuts 13
public opinion 222–23
regulation 190, 196, 198–200, 202, 203
staff cuts 14
structural adjustment 10, 21
as study choice 20–21
water services 65, 83, 94, 101, 114, 119, 141, 147, 148–49, 154, 172
World Bank and 75
Indonesia 191
industrial sector
charges 108
development 22, 23
organization 84
private partners and 140
privatization 72, 144
reform 55, 72, 96–98
regulation 204–5

Jamaica 45, 46
joint venture 135–36, 156–58

Kenya
agricultural marketing 76, 85, 96, 98, 115, 122, 229
charges 51, 115
contracting out 146, 174, 175
as reference country 21
regulation 189–90
revenue collection 46

Latin America
authoritarian rule 4
charges 52
civil service 14
public expenditure cuts 13
public sector reform 5–6, 9
state in 4
water services 108
see also under names of countries
leasing 134, 154–55, 233
licensed competition, producers 134–35

Malaysia 154, 161
market failure 23, 24, 32, 181, 183, 203, 204, 215
market mechanisms
bias towards 5
contracting and charging 50, 51
new public management 41–44, 220
privatizing management 125–28
replacing hierarchies 40
state, need of 221
Menem, President Carlos 74
monopolies concession 134

Namibia 46, 229
Neo-classical theory 32, 33
neo-liberalism 35
economic crisis and 4–5
economic policies 31
new public management
adoption of 40
decentralizing 44–47
definition 40, 41
evolution of 40–44
financial control 46
key elements 41, 42–43, 44
mixed experiences 53

performance 47–49
review of 44–52
New Zealand 39, 45, 47, 48
NGOs 129

OECD (Organization for Economic Co-operation and Development) 3, 41, 185
oil prices 4, 54
Ondeo 154–55
organization
capacity and 136–42
pre-reform 81–85
private-public 129–32
reform of 88–98

partnership 135–36
performance agreements 48, 87–88
performance auditing 47, 48–49
Gulf War, first 10
Philippines 74, 155, 191
poverty
re-distribution of 10–13
reduction 6, 9, 29, 221
Principal-agent theory 35–36, 54, 58–65, 67, 125–27
private partners
case for 125–28
categories of 133–36
functions split 129
public interest and 127
privatization 16, 38, 49, 128, 143
Property rights theory 37–38
Public choice theory 34–35
public ownership 33
public sector: reducing 5, 108
public sector reform
adjustment of 6–7
administrators 71–72
agents 35, 58–66, 71–72, 125, 127
appropriateness of 27, 29, 38, 106, 219, 220, 221, 235, 236
autonomy 102, 105, 224–29
background 7–15
central tendencies 222
citizens and 63, 65–66, 71, 222, 235
countries studied 7
crises and 9–10, 38–39, 58, 75, 108, 220, 221
demanding nature of 29
donors and 59, 61, 62
economic crises and 38
emergency constituencies 76–77
expenditure reduced 13–14
history of 220–21
implementation of 98–99, 105, 235
institutional background 8–9
officials and 223
'ownership' of 5
performance and 98–102, 105, 225–28
policy-makers 67
political aspects 9, 14, 54–80, 222–23, 234–35, 236
political leaders 62, 66–67, 79
poor countries and 5–6, 221–22
pragmatic rationales 38–39
private partners 125–43
problems with 235–37
provision-production distinction 15–16
questioning of 220
sector differences 67–71, 72–76
staff cuts 14–15
success of 98–102
see also following entry
public service management
changing approaches to 31–53
costs 34
criticism of 39
decentralization 99, 102, 103, 224–29
deconcentration 86
government intervention 32–33
growth of 34
neo-classical rationalism 32–33
organizational arrangements 81–105
policy-makers 36
reform 1, 5
resistance to 57, 62, 66, 80, 161, 223
service providers 36
theoretical basis 31–38

public service management – *continued*
traditional public administration 39–40
see also preceding entry and new public service management

re-regulation 181, 185–86
reference countries 21
regulation
capacity for 186, 193–95, 201–3, 234
case for 185
constraints 193–95
definition 181
economic 181–83
enablement and 215–18, 231–32
failures 232
forms of 181–84
independent 191–93
information and 200, 202, 232
nature of 180
necessity of 222
new approaches 185, 186
performance 198–201
price 188, 189
privatization and 190–91
problems 193–95
professional councils 216
review 185
research framework 27–28

Saur International 155
Singapore 46
South Africa
charges 52
contracting out 151, 152
health service 151, 152
public service reform 61
as reference country 21
revenue collection 46
water services 119
South Asia
aid 3
GNP 11
public sector reform 6
South-East Asia: aid 3
Sri Lanka
agencies 216
agricultural marketing 68, 76, 85, 100, 116, 121, 141, 147–48, 151–53, 229, 235
Agriculture Ministry 116
build-operate-transfer schemes 233
business development agencies 156
business services 208, 210, 212, 213, 214
charges 109, 110, 116, 119, 121, 122
citizens 62
concessions 154, 171
contracting out 147–48, 149, 158, 163, 173, 174, 175
economic liberalization 10
financial crisis and 9–10
foreign direct investment 76
GNP per capita 11, 12
health service 65, 83, 89, 91, 92, 99, 104, 149, 163, 168–70, 196, 197, 199, 202, 203
industrial sector 84, 97, 140
National Water Supply and Sewerage Board 75
new public management 47
Paddy Marketing Board 85, 100, 116
public expenditure cuts 13
public opinion 222
public service reform 61, 62, 220, 223
regulation 190–91, 196, 197, 199, 202, 203
staff cuts 14
structural adjustment 21
as study choice 21
Urban Programme Unit 47
water services 65, 83, 93–94, 98, 101, 114, 119, 154
state 2–8
structural adjustment
efficacy of 220
failures in 7
study
country focus 20–21
overview of 20–28
sector focus 21–27

Sub-Saharan Africa: public sector reform 9

Tanzania 45, 46, 47
textiles industry
  intervention and 26
  privatization 140
  reform and 61
Thailand
  contracting out 149, 151
  health service 121, 149, 151, 168–70, 196, 216
  private partners 142
  public service reform 61
  as reference country 21
  regulation 216
Transaction cost theory 36–37
Trinidad and Tobago 142, 161, 173

Uganda 14, 47
  charges 51
  revenue collection 46
United Kingdom
  economic recession 4–5
  National Health Service 90
  new public management 47
  Next Step Agencies 45, 46, 48
  public expenditure cuts 5
United States of America: economic recession 4–5
urban water supply
  agencies 47
  autonomy 105
  build-operate-transfer schemes 153–54
  capacity issues 171–74
  charges 51, 107, 108–9, 112–15, 116–19, 123, 124, 229
  contracting out 146–47, 148–49, 157, 158–61, 162, 169, 171–74, 178
  donors 60
  focus on 22, 23
  government intervention 24–27
  IMF and 60
  joint ventures 157
  leasing 154–55
  organization 83–84, 92–94, 105
  performance 100–2
  private partners and 141–42, 157
  reform 60, 69–70, 73–75, 98
    types 55
  regulation 186–88, 215, 231–32, 234
  users' opinions 222–23

'Washington consensus' 5
welfare state 31, 34
World Bank
  accountability and 126
  capacity and 235
  citations 32
  economic crisis and 5
  performance contracts 48
  poor and 107, 123
  private participation and 137
  public service reform and 59
  structural adjustment 10, 14, 51, 59, 220
  water services and 113, 114, 115, 116–17
World Trade Organization 61

Zambia
  charges 52
  regulation 191
  revenue collection 46
Zimbabwe
  agencies 216
  agricultural marketing 68–69, 95, 96, 98, 99, 100, 116, 122, 141, 163, 235
  build-operate-transfer schemes 153, 174
  business services 156–57, 211–12, 213, 214
  charges 109, 110, 111–12, 116, 117, 118, 122
  civil service 14
  contracting out 146, 149, 158, 161, 163, 168, 171, 175
  crisis 111
  Dairy Board of Zimbabwe (DZL) 100
  Finance Ministry 72
  financial crisis 75
  GNP per capita 11, 12
  Grain Marketing Board 100

Zimbabwe – *continued*
  Health Ministry 90, 109, 149
  health services 65, 77, 82, 83, 88, 89, 90, 98, 99, 109, 111–12, 117, 118, 122, 149, 158, 163, 168, 196, 199, 200, 201, 202, 203
  Industrial Development Corporation 206, 208–9
  industrial sector 84, 97, 98
  Investment Centre 72, 140, 211
  Investment Promotion Centre 97
  Lands and Agriculture Ministry 73, 96, 99
  Local Government Ministry 113, 114, 190
  performance agreements 48
  private partners 141
  privatization 10
  pubic service reform 56, 61, 62
  public expenditure cuts 13
  public opinion 222
  Public Service Commission 149
  regulation 190, 196, 199, 200, 201, 202, 203
  structural adjustment 10
  as study choice 20–21
  water services 65, 69–70, 74–75, 83, 94, 100–1, 102, 113, 120, 121, 122, 141, 153, 224
Zimtrade 47, 102, 156–57, 211, 212, 214