A New Public Sector in Developing Countries

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The aim of every political Constitution is, or ought to be, first
to obtain for rulers men who possess most wisdom to discern,
and most virtue to pursue, the common good of society;
and in the next place, to take the most effectual precautions
for keeping them virtuous whilest they continue to hold their public trust.

Madison (1788) quoted in Besley (2006)

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ABSTRACT

The debate between public and private service provision has raged for over a century in first world politics. The twentieth century saw a full swing of this pendulum, from overwhelming public sector confidence, to a renewed belief in the market as a panacea. A more recent trend has been the realization that development requires an effective state for successful implementation, specifically in developing countries. This paper explores this aspect of the understanding of the public sector in developing countries, by considering three broad aspects: the new understanding of the public sector in developing countries; the reform initiatives that have been undertaken to change this role, and the capacity building programs that have been launched to ensure the reforms achieve their theoretical aims.

I start by considering the pragmatic and theoretical drivers that have shaped the current understanding of the public sector, I show how the drivers called for change in both what the public sector does (their *role*) and how they do it (their *functioning*). In terms of *role*, the recent consensus has been that the public sector has an important role to play, but this role is different from the traditional Weberian view. The new role calls on the public sector to focus more on service "provision" and less on "production" (although some "production" responsibilities remain). In terms of *functioning*, five main "improvements" have consistently been touted that the public sector should aim for: reduced cost (or efficiency), improvements in service delivery (or effectiveness), reducing opportunistic behavior (or honesty), giving users a greater say in what the public sector does (or responsiveness), and ensuring the programs and interventions are sustainable (robustness and manageability).

This new understanding of the public sector has been operationalized through two broad reform movements: New Public Management has focused on reforming public sector organizations internally, through aspects such as decentralization, competition, managerialism, and accountability; New Governance has taken a broader view by proposing that governments use a range of "governance tools" to guide the network of actors towards achieving public initiatives.

As reforms require effective states to be implemented successfully, development scholars have devoted much attention to capacity building research. My review shows that there are three broad levels on which capacity needs to be addressed: the human level, the organization level, and the institutional level. In addition I find that reform initiatives can aid in the capacity building process, suggesting that these two concepts (reform and capacity building) must be addressed in unison.

Therefore, if public sector delivery is to be strengthened, interventions need to address both what governments do (through public sector reform), and their capacity to do it (through capacity building). .

1) INTRODUCTION

The last two decades have seen significant changes in the focus of government intervention in many developed countries. Reforms in countries like Britain and New-Zealand have been at the forefront of this movement, largely driven by two broad factors: public sector inefficiencies, and liberal economic ideology (Salamon (2002)). These changes have broadly involved a reduction in the role of government, towards greater private sector involvement.

This public sector reform has however not been limited to the first world nations in which they germinated. Backed by a growing body of evidence linking governance to institutional performance, these changes have also been suggested, and implemented, in many developing countries throughout Africa, Asia and Latin America. However, developing country reforms have required a significant shift in institutional capacity in already under-strength governments. It is therefore no surprise that, while economic liberalization has been relatively easy to implement in developing countries, governance reform has been significantly more challenging.

This paper is aimed at examining these crucial aspects of the public sector in developing countries: what they do (their role), how they do it (their functioning), how to change what they do (public sector reform), and how to ensure that they do it successfully (institutional capacity).

I therefore start off in section 2 by reviewing the theoretical and pragmatic drivers that have impacted the understanding of role of the state in the recent past, drawing heavily on the insightful book by Batley and Larbi (2004). In section 3 I try to pin down what the new understanding of both the role and the functioning of the public sector is. This section also includes a review of the two main streams of public sector reform initiatives that can be identified in the literature. Section 4 brings the discussion into the context of institutional capacity, and what might be done to strengthen this capacity (both for improved service delivery, and to ensure reforms are successful). I conclude the paper in section 5 with a brief summary of the findings of the paper.

It should be noted that the focus throughout is on the executive branch of government, using the terms “public sector”, “state” and “government” interchangeably. Although the discussion also touches on aspects of both the judiciary and legislative branches, explicit discussion of the implications for these other arms of government is beyond the scope of this paper.

2) BACKGROUND TO THE CHANGING ROLE OF THE PUBLIC SECTOR

In order to appreciate the changes that have taken place in our understanding of the role of government, it is important to note that this understanding has been influenced by aspects of both theory and practice. In this section I will seek to explore both these aspects, starting with an overview of the history (pragmatic aspects), and then discussing the theoretical streams that have contributed to this shifting understanding of the role of the state.[1]

Pragmatic background

The debate between public and private service provision has raged for over a century in first world politics. The twentieth century saw a full swing of this pendulum, from overwhelming public sector confidence, to a renewed belief in the market as a panacea. As Brooks, et al. (1984) notes, the two drivers of this shift were the Great Depression of the 1930s, and the economic crisis of the late 1970s and early 1980s. While the Depression was largely seen as a failure of the private sector, the economic crisis was widely perceived as a public sector failure. These perceptions were the guiding forces that shaped public institutions, firstly the growth of the welfare state, and then the dispersion of neo-liberal reforms.

The public sectors of most developing nations have reflected a similar pattern. The formation of post-colonial nation states following the Second World War had at its core a belief in the merit of an "extensive state" Batley and Larbi (2004). The 1950s and 1960s therefore saw a strong consolidation of state power, and an emphasis on internal service delivery, in both capitalist and socialist oriented states. However, a later dispersion of the liberal economic view in the West, coupled with a widespread disillusionment of role of the state in development, eventually led to "policy transfer" to developing nations. This transfer happened either directly though aid conditionality (most prominently as part of "structural adjustment loans"), or indirectly through development initiatives.

Although the economic crisis of the early 80's can be viewed as the central driver for neo-liberal reform, criticism had long been building against public sector delivery, even before the fiscal crisis. This criticism was based on three broad arguments: the first challenged the view that public administration could be an agent of development, the second emphasized the weakness of the state to enforce policy because it lacked legitimacy, and the third saw the state as being displaced by non-national interests (such as international capital) (Batley and Larbi (2004)).

This pessimism of the state, and the need for reform, was also held by two central players in the fiscal crisis of the 80's: the World Bank and the IMF. Both institutions propagated the principles of the "Washington consensus" which called for economic liberalization and a reduction of the role of the state for increased efficiency. The gospel of reform was soon preached to developing countries in deep financial problems, and enforced through "structural adjustment loans."

[1] Although I recognize that these two drivers were greatly intermingled in their development, their separated discussion is helpful in clarifying the role of each aspect in turn.

These structural adjustments initially faced a number of barriers in developing countries, most notably the resistance by governments whose power they were eroding (Hirschmann (1993)). Also, it was difficult to determine who should drive the reforms in developing countries. As the pressure to reform was external to developing state (as opposed to internally driven reforms in developed countries) the reform initiates were not always successful, specifically in countries with weak democracies (Mosley, et al. (1995)). For this reason, implementations were unbalanced, with fiscal changes taking place much faster than lagging state reforms.

Batley and Larbi (2004) also provide an explanation as to why reforms have been particularly difficult in 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 beep commitment to the responsibility of the state that carried its own constituency of interests in maintaining interventionism: politicians and bureaucrats with patronage opportunities, professional 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 weak 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.

It is interesting to note that Sandbrook (1993) has pointed out that the delays in implementing reforms in many developing countries greatly decreased their impact, and actually exasperated the conditions that led to the requirements of reform (through increased borrowing to sustain public sector expenditure). This was marked by an overall reduction in social spending, in benefit of maintaining public sector salaries and politically motivated subsidies (WorldBank (1997) in Batley and Larbi (2004)):

> 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.

In this way, the fiscal crisis helped to increase the visibility of public sector failures, and contributed to the call for change.

Following initial implementation of structural adjustments in developing countries, two main findings emerged: poverty levels increased (Cornia, et al. (1987), Moser, et al. (1993) in Batley and Larbi (2004)), and public sector capacity was eroded[2] (Sandbrook (1993)). This necessitated significant subsequent changes to the reform agenda. First the focus of reform programs was expanded to include poverty reduction, initially through the inclusion of “social safety nets” as part of the economic reforms, and later as a separate objective.

[2] A reduction in public sector staffing did not lead to the anticipated budget saving, as redundant staff had to be compensated and high quality staff was lost. Many governments have actually found it easier to let public wages erode than shed jobs, which has led to widespread demoralization, corruption and moonlighting (Sandbrook (1993)).

In addition there has also been a realization that reforms require effective states to be implemented successfully. This has ushered in a focus on capacity building or "governmental strengthening" (Grindle (1997)). As Batley and Larbi (2004) put it:

> 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.

I return to this concept of capacity building in section 4 of this report.

Theoretical background

A number of theoretical steams have been fundamental in altering the traditional view of the state as propagated by Weber. At their core, these theories have viewed government agencies as "tightly structured hierarchies insulated from market forces and from effective citizen pressure and therefore free to serve the personal and institutional interests of bureaucrats instead" (Salamon (2002)).

In general, reform thinking has been a marriage of two broad bodies of ideas. On the one side are ideas from *new institutional economics* (Hood (1991); Batley and Larbi (2004); Salamon (2002)), and on the other side ideas translated from various streams of *organizational research* (Hood (1991); Tendler (1997); Rhodes (1996)). Tendler (1997)) terms the latter as literature of "industrial performance and workplace transformation" (IPWT).

New institutional economics

(Batley and Larbi (2004)) provide an eloquent review of the different aspects of new institutional economics that have shaped public sector reform: neo-liberalism, public choice theory, principal-agent theory, transaction cost economics, and property rights theory.

The classical economic theory, on which *neo-liberal thinking* is based, stresses the superiority of the free market in the efficient distribution of goods and services. In this view state intervention is only necessary in preventing certain market failures (monopoly, information asymmetries, etc.). Classical economic theory therefore supposes limited government action, and strongly opposes large scale regulation by the state. Instead, neo-liberals have argued for wide scale fiscal deregulation, and decreasing the role of the state.

State intervention according to the traditional Weberian view, should be by public ownership managed through hierarchical bureaucratic administration. *Public choice theorists* have criticized the traditional view, arguing that public sector reward systems do not promote effective performance, because politicians and bureaucrats are not incentivized to control costs (Mueller (1979) in Batley and Larbi (2004)). This leads to bureaucracy being self-serving, promoting an overexpansion of the state, and various forms of "opportunistic" behavior. This in turn leads to complicated extensions of bureaucracy aimed at curbing opportunistic behavior, which eventually chokes public sector initiate (Dixon, et al. (1998) in Batley and Larbi (2004)).

Related to the above, is the *principal-agent theory* or agency dilemma which examines the problems that arise under incomplete information and conflicting self-interests when a principal hires an agent. In the context of public management, the principal can be seen as the citizens (or the general public) while the bureaucrats are their agents. The asymmetry of information and a self-serving interest in the bureaucracy has led to "opportunistic" behavior in public administration. In this way, principal-agent theory has motivated public sector reform with an emphasis on performance measurement (in response to information asymmetries) and incentive structure (in response to conflicts of interest).

Transactions cost economics provides a further basis for determining the most efficient structure of service delivery, by identifying that transaction costs are higher when delivered by the market as opposed to a hierarchy (delivering the service in-house). The decision to deliver services via the hierarchy is then be determined by aggregating transaction costs with production costs (Williamson (1996), Lane (2000)). This enlightens the classical economic view, by including the costs involved with increased coordination in the new public management.

A final theoretical area is *property right theory*, which explores the incentives for performance in private ownership, and therefore is helpful in determining how this can be brought to bear in public sector service delivery. Specifically it identifies that managers and employees can be incentivized to perform by sharing in residual firm revenues (e.g. though bonus schemes, pay increases, etc.). This has led to proposals for governance reforms seeking to align public sector managers' incentives with the performance of the organization (Lane (2000)).

In general, *New institutional economics* has emphasized markets and competition as a way of giving users a say in public sector activities, as well as increasing efficiency of service delivery (Batley and Larbi (2004)). It has therefore led to reforms built on contestability, user choice, transparency, and incentive structures (Hood (1991)).

***Organizational research*[3]**

The role of organizational research on governance reform has largely played second fiddle to institutional economics in the literature. Most authors recognize the contribution of *new institutionalism*, but few include aspects of *private sector managerialism*, *worker dedication*, or *social network theory*. The reason for this might be that institutional economics was central to the bringing about public sector reforms, while organization theories have rather impacted the more recent aspects of reforms being implemented.

New institutionalism has focused on organizations in both private and public spheres, approaching the subject from a sociological perspective. It addresses the "rules, norms and cultural beliefs" that shape the way individual interests are aligned with shared goals (North (1990), Scott (2001)). This informs public sector studies by addressing "the issue of how best to structure organizations that consist of individuals pursuing their own self interest" (Preker and Harding (2003) quoted in Batley and Larbi (2004)).

[3] No term currently exists to unify the mentioned streams of literature, but I settle on "organizational research" as it embodies the literature that has emerged from the study of organizations.

In addition, *private sector managerialism* has been transferred to the public sector, based on the belief of the importance and superiority of managerial expertise for improved organizational performance (Hood (1991); Rhodes (1996)). In a related finding, Tendler (1997) identifies the belief in the merits of *worker dedication* as also being instrumental in public sector reform initiatives. She identifies a number of innovative practices stemming from this, including worker participation and self-managed worker teams, multiskilling of workers and multitask jobs, and flexibly organized or "specialized" production.

Lastly, *social network theory* has also been instrumental in expanding the focus of public service provision from only the public agency, to a wider network of actors who interact in the provision of any service (including private and other public actors). This view has been specifically influential in the "New Governance" paradigm as discuss in the following section (Salamon (2002)).

Broadly speaking, *Organizational research* has promoted managerial improvement initiatives through decentralization to emphasize managerial autonomy and professionalism. It has included reform based on disaggregating, downsizing and emphasizing organizational and individual performance management (Batley and Larbi (2004)).

The call for change

Both the theoretical and pragmatic streams called for change in both what the public sector does (their *role*) and how they do it (their *functioning*). In terms of their role, the recent consensus has been that the public sector does have a role to play, although that role might have to be adapted slightly. In terms of their functioning, four main "improvements" have consistently been touted that the public sector should aim for: reduced cost (or efficiency), improvements in service delivery (or effectiveness), reducing opportunistic behavior (or honesty), and giving users a greater say in what the public sector does (or responsiveness). The following section elaborates further on the new understanding of the public sector.

3) A NEW UNDERSTANDING OF THE PUBLIC SECTOR

As stated above, the pragmatic and theoretical streams identified above have led to a new understanding of the both the *role* and the *functioning* of the public sector. Although overlapping in certain respects, these two aspects (role and functioning) merit separate discussion as they approach the understanding of the public sector from different angles[4]. This section explores each of these two aspects in turn.

The New Role: Separating Provision and Production

The preceding discussion (specifically the section on the "pragmatic background") discussed the emergence of the understanding of a "new role" for the public sector at length. In short, the current consensus is that although large central bureaucracies are not advisable, the public sector still has an important role to play in ensuring that public goals are achieved (e.g. development in third world countries). This perspective means that the role of the public sector needs to change, but not be done away with.

Osborne and Gaebler (1992) encapsulated this new role with their popular phrased: government needs to focus more on "steering" (policy decisions) and less on "rowing" (service delivery). In other words, it is suggested that the "role" of government from should shift from "a concern to do, toward a concern to ensure that things are done" through collaboration with other actors (Kaul (1997), in Batley and Larbi (2004)). These other actors could include public agencies, private entities, or community actors. Therefore, the responsibility of ensuring that a service is performed should be separated from the actual performance of the service (Savas (1987) in Batley and Larbi (2004)). The prior has been termed "provision", while the latter has been referred to as "production" (Ostrom, et al. (1961)).[5]

However, more recent literature (e.g. Salamon (2002); Peters and Pierre (2002)), has moved to a softening of this divide: although public sectors still need to perform some "production" functions, the emphasis is on "provision" activities. The new role therefore calls for an expansion (or strengthening) of "provision" functions, as governments seek to coordinate more complex networks of actors. The reasoning is that, because "production" of services is no longer necessarily delivered in-house, "provision" entails a host of expanded functions that seek to stimulate and orchestrate "production" success (Salamon (2002)).

The New Functioning: Embedded in Reform Initiatives

A common body of literature discusses the details of the new functioning of the public sector and the public sector reform programs that they form part of. In reviewing the new functioning of the public

[4] In general the role focuses on government from a much higher level than the detailed functioning.

[5] Others have used the terms "indirect provision" and "direct provision" (Batley and Larbi (2004)) or "management" and "production" (Brown and Potoski (2006)).

sector, I therefore need to review the reform initiatives that the new understanding has spawned. These reforms can be separated into two broad streams or movements: "New Public Management" and "New Governance."

New Public Management

Early streams of reform initiatives were broadly identified as the "New Public Management" (NPM), popularized by the seminal article by Hood (1991). It was specifically popular during the 80's, when it dominated the public administration reform agenda of OECD countries. NPM, and the "reinventing government" movement that it spawned, can be defined as a set of management approaches that have been borrowed from the private sector, aimed at *increasing efficiency* (both time and money), *honesty and fairness*, and *robustness* (or resilience) of the public sector (Hood (1991)). Because NPM argues that all management has similar challenges and should be resolved in similar ways in the public and private sectors, NPM can be viewed as a philosophy of "generic management" (Peters (1996)).

NPM therefore views reform as firstly redefining the role of government, and then injecting a new, entrepreneurial or managerial style in performing it (Batley and Larbi (2004)). Osborne and Gaebler (1992) quoted in Rhodes (1996)) proposed an "entrepreneurial government" based on ten principles:

> Most entrepreneurial governments promote *competition* between service providers. They *empower* citizens by pushing control out of the bureaucracy, into the community. They measure the performance of their agencies, focusing not on inputs but on *outcomes*. They are driven by their goals – their *missions* – not by their rules and regulations. They redefine their clients as *customers* . . . They *prevent* problems before they emerge, rather than simply offering services afterwards. They put their energies into *earning* money, not simply spending it. They *decentralize* authority, embracing participatory management. They prefer *market* mechanisms to bureaucratic mechanisms. And they focus not simply on providing public service, but on *catalyzing* all sectors – public private and voluntary – into action to solve their community's problems.

A similar summary of the core concepts on NPM is provided by Hood (1991), identifying the seven "doctrinal components" in Table 1 below.

Although the principles of NPM were applied widely in both developed and developing country contexts, a number of weaknesses limited the success of these reforms. Rhodes (1996) identifies four main weaknesses of NPM. First is NPM's narrow intra-organizational focus, which disregards the complex network of actors involved with public sector service delivery. A second weakness is NPM's "obsession" with objectives, leading to neglecting aspects of governance not tied to main objectives (such as maintaining network relationships). Thirdly, NPM's focus on results is not helpful in an environment where no one actor is responsible for the final result. A final weakness of NPM is the inherent conflict between steering and competition[6].

[6] In addition to the four weaknesses identified by above, Salamon (2002)) suggests that an inherent contradiction in NPM: managers are "simultaneously encouraged to take more responsibility for the results of their activity and obliged to surrender significant shares of the authority for achieving those results to third-party implementers."

Table 1 - Doctrinal components of new public management (Source: Hood (1991))

No.	Doctrine	Meaning	Typical justification
1	'Hands-on professional management' in the public sector	Active, visible. discretionary control of organizations from named persons at the top, 'free to manage'	Accountability requires clear assignment of responsibility for action not diffusion of power
2	Explicit standards and measures of performance	Definition of goals. targets, indicators of success, preferably expressed in quantitative terms, especially for professional services	Accountability requires clear statement of goals efficiency requires 'hard look' at objectives
3	Greater emphasis on output controls	Resource allocation and rewards linked to measured performance; breakup of centralized bureaucracy-wide personnel management	Need to stress results rather than procedures
4	Shift to disaggregation of units in the public sector	Break up of formerly 'monolithic' units. unbundling of U-form management systems into corporatized units around products, operating on decentralized 'one-line' budgets and dealing with one another on an 'arms- length' basis	Need to create 'manageable' units. separate provision and production interests, gain efficiency advantages of use of contract or franchise arrangements inside as well as outside the public sector
5	Shift to greater competition in public sector	Move to term contracts and public tendering procedures	Rivalry as the key to lower costs and better standards
6	Stress on private- sector styles of management practice	Move away from military-style 'public service ethic', greater flexibility in hiring and rewards; greater use of PR techniques	Need to use 'proven' private sector management tools in the public sector
7	Stress on greater discipline and parsimony in resource use	Cutting direct costs, raising labor discipline, resisting union demands, limiting 'compliance costs' to business	Need to check resource demands of public sector and 'do more with less'

New Governance

A more recent development has been the emergence of “New Governance” (which I will refer to as NG) in public administration literature[7]. Stoker (1998) suggests that this new view has emerged in response to the general blurring of boundaries between public and private sectors, requiring “mechanisms which do not rest on recourse to the authority and sanctions of government.” Salamon (2002) therefore argues that the new approach is required due to three main reasons: public problems have become too complex for public agencies to handle on their own; there is a lack of consensus on the proper ends of public action; and because government lacks the authority to enforce its will on the new network of actors.

NG therefore views governance as a collaborative process, requiring “a wide array of third parties in addition to government to address public problems and pursue public purposes” (Salamon (2002)). It therefore takes cognizance of the complexity of new actors, relationships and tools of governance in public service delivery (Peters and Pierre (2002)). NG is less focused on the “internal workings of public organizations” and more on “the networks of actors on which they depend” (Salamon (2002)).

[7] A variety of terms have been used for this second stream of reform, including “governance” (Stoker (1998)), “Intergovernmental Management” (Rhodes (1996)) and more recently “New Public Governance” (Osborne (2006)). I stick with the term used by Salamon (2002)).

Also, NG is less concerned with outcomes and more with process, attempting to build on a public sector tradition based of procedures and rules (Peters and Pierre (2002)).

Salamon (2002) proposes the use of a range of public sector "tools" for implementing this new paradigm.[8] These tools span different government programs and agencies, and they therefore provide a consistent basis for regulating the interactions of these complex networks of actors (both public and private). In implementing the tools, the public sector no longer acts to command and control of other actors within the hierarchy, but rather focuses on negotiating and persuading to achieve the optimum output from the increased complexity of relationships within the network. For this reason NG requires a shift of institutional capacity from "management skills" to "enablement skills," which the can be defined as "the skills required to engage partners arrayed horizontally in networks, to bring multiple stakeholders together for a common end in a situation of interdependence" (Salamon (2002))[9].

Each tool can be classified along four main dimensions: *coerciveness* measures "the extent to which a tool restricts individual or group behavior"; *directness* measures "the extent to which the entity authorizing, financing or inaugurating a public activity is involved in carrying it out"; *automaticity* measures "the extent to which a tool utilizes an existing administrative structure to produce its effect;" and *visibility* measures "the extent to which the resources devoted to a tool show up in the normal government budgeting and policy review process" (Salamon (2002)).

These four dimensions are related to five broad aims in public sector reform: effectiveness, efficiency, equity, manageability and legitimacy (or political feasibility). Table 2 below summarizes the relationship.

[8] The use of a range of "tools" broadens the literature stream focused on "contracting" in the public sector, with these contracts being one in the array of public management tools. For instance, Fortin and Hassel (2000) provide an interesting collection of recent case studies of public management contracting.

[9] Salamon (2002) suggests these "enablement skills" have three aspects: activation skills, orchestration skills, and modulation skills. Activation skills are needed to set up the networks needed to address each of the different public problems. As third parties are not compelled to participate in any projects, the public agency can address this directly, by marketing the new opportunity and encourage new partners to step forward. This can also be done indirectly through ensuring the terms of the "tool" being used are attractive enough to stimulate sufficient interest. Orchestration skills are taken from the analogy of an orchestra conductor, trying to guide a variety of members to perform in sync and on cue. The focus is one the fact that the conductor (representing the state) cannot play all the instruments himself (do all the work), but rather needs the cooperation of the other players in order to attain the goal. Modulation skills are needed to apply rewards and penalties in order to extract cooperative behavior from the different players in the network. This requires the skillful use of incentives to obtain the optimum outcomes for the ultimate benefit of the general public.

Table 2 - Linking tool dimensions and public sector aims (Source: Salamon (2002))

Tool dimension	**Illustrative tool**	**Effective ness**	**Efficiency**	**Equity**	**Manage ability**	**Legitimacy / Political support**
High level of coerciveness	Economic regulation, and social regulation	High	High/Low	High	Low	High/Low
High level of directness	Insurance, direct loans, economic regulation, public regulation, government corporations, and direct government.	High	Medium	High	High	Low
High level of automaticity	Vouchers, tax expenditures, corrective taxes (charges), and tort liability	Low	High	Moderate / Low	High / Moderate	Moderate
High level of visibility	Direct government, government corporations, grants-in-aid, direct loans, vouchers, corrective taxes (charges)	N/A	High	High	Low	Low

What does the evidence show?

In addition to the theoretical discussion of changes to the role and functioning of the public sector (as bound up in the reform literature) a number of studies have now been done on actual reform implementations in developing countries. For instance, Heredia and Schneider (1998) reviewed reforms in eight (mostly middle-income) developing countries: Chile, Korea, Mexico, Brazil, Poland, Hungary, Argentina, and Thailand. Tendler (1997) further investigates reforms in four sectors of a Brazilian municipality: rural preventative health, employment-creating work programs, agricultural extensions, and assistance to small enterprises. In addition, Bangura and Larbi (2006) provide a detailed overview of reforms in developing countries in general.

A comparison of these case studies with the theoretical literature reveals surprising consistency across the literature. Table 3 provides a summary of this comparison, classifying the literature along five main aims of the public sector: efficiency, manageability (and robustness), effectiveness, responsiveness, and honesty (and equity). This is consistent with the four factors identified in section 2, adding a manageability (or robustness aspect). The different NPM reform initiatives and NG tool examples are also classified in terms of each of the five aims.

Table 3 – A summary of the literature on public sector reform

Aim	Grindle (1997)	Hood (1991)	Tendler (1997)	Heredia and Schneider (1998)	Bangura and Larbi (2006)	Salamon (2002)	NPM Reform initiative	NG Tool examples
Efficiency	Ensuring the efficient use of both time and resources needed to produce a given public sector outcome.	Sigma-type values: match resources to defined tasks in a competent and sparing fashion	Reforms aimed at reducing the size of government by "getting rid of excess workers, contracting out for services, privatizing, and decentralizing" the public sector.	"Managerial reform" aimed at increasing efficiency, responsiveness (to clients), flexibility through	Efficiency reforms	Efficiency – this criterion balances results against costs.	Managerialism, Financial discipline, Competition	Contracting, government corporations, loan guarantees, vouchers, economic regulation
Manageability and Robust ness		Lambda-type values: reliability, robustness, adaptivity - the capacity to withstand and learn from the blows of fate, and to avoid 'competency traps' in the adaptation processes	Reforms targeted at subjecting public agencies and workers to market-like pressures and incentives to perform, including linking them to user satisfaction feedback.		Managerial reforms	Manageability (implementability) – "the ease or difficulty involved in operating programs."	Empowerment, managerialism, disaggregation	Direct government, vouchers, tax expenditures, corrective taxes/charges, tort liability
Effectiveness	Making sure the public sector has the desired impact, i.e. ensuring the appropriateness of efforts and outcomes.			"Civil service reforms" aimed at universalism, professionalism, meritocracy, and honesty	Reforms targeting state capacity	Effectiveness – "the extent to which an activity achieves its objectives."	Output specifications, Key Performance indicators	Government corporations, contracting, fees and charges
Responsive ness	Making governments capable of being responsive to the needs of citizens and encouraging their participation in the design and delivery of public goods.	Theta-type values: honesty, fairness, mutuality through the prevention of distortion, inequity, bias, and abuse of office		"Democratizing reforms" aimed at curbing abuse of power, arbitrariness, lack of accountability, and unresponsiveness (to citizens).		Legitimacy (political feasibility) – the extent to which a program can win political support.	Decentralization, disaggregation, user focused	Direct government, information campaigns
Honesty and equity			Reforms attempting to terminate the policies and programs that stimulate bureaucratic opportunistic behavior, including certain forms of targeted subsidies and bureaucratic licensing policies.		Fiscal reforms	Equity – "distribution of benefits and costs more or less evenly among all those eligible."	Transparency, Accountability	Economic & social regulation, direct government, liability law

4) TOWARDS ENSURING THAT GOVERNMENT CAN FULFILL THE NEW ROLE

The previous section discussed the new understanding of the public sector, finding a common structure among the literature (in five public sector aims). The reform initiatives mentioned implicitly endeavor to change the structure and functioning of the public sector in order to fulfill this new role (and achieve these aims). However, reform alone has not been sufficient to ensure that the public sectors of developing countries achieve the five aims identified before. A key aspect that has been missing from the discussion is the *institutional capacity*[10] of the public sector to (Bangura and Larbi (2006)).

This section completes the discussion of the understanding of the public sector by defining *institutional capacity* and how it can be build.

Defining institutional Capacity

Unfortunately no single definition of institutional capacity currently exists. A very broad definition is offered by Lindley (1975): “the ability to choose what ends to pursue and the will to take actions to achieve them.” Howitt, et al. (1977)) provides a much narrower definition in the context of local government, delineating capacity as “the ability to identify problems, develop and evaluate policy alternatives to deal with them, and operate government programs.” Perhaps a more useful definition for this context is presented by Grindle (1997) who define capacity as “the ability to perform appropriate functions effectively, efficiently and sustainably.” Batley and Larbi (2004) go further in defining capacity as “the factor that explains human performance within a given organizational framework and institutional environment”.

This final definition is specifically helpful in showing that capacity should be viewed on a number of levels beyond “human performance.” We therefore need to recognize that capacity is embedded in different levels of the public sector, and even beyond it at a network level (as discussed in the NG discussion above). A number of authors have attempted to define the different levels of capacity that should be recognized for any capacity building initiative to be successful.

Table 4 summarizes the approaches taken by Grindle and Hilderbrand (1995), Grindle (1997), Franks (1999), and Levy (2007) suggesting three general levels of capacity.

[10] This link between public sector success and institutional capacity is confirmed by a large body of literature, eg. Grindle and Hilderbrand (1995), Franks (1999), and Heredia and Schneider (1998).

Table 4 - Levels of capacity

<table>
<tr><th>Level</th><th>Grindle and Hilderbrand (1995)</th><th>Grindle (1997)</th><th>Franks (1999)</th><th>Levy (2007)</th><th>Capacity Building focus</th></tr>
<tr><td>Human level</td><td>Human resources – the capacity of the individual public sector employees</td><td>Supply of professional and technical personnel</td><td>“Human resource development and…</td><td rowspan="2">Service provision capability</td><td>Human resource development</td></tr>
<tr><td rowspan="2">Organizational level</td><td>Organizations – the structures, processes, resources, and management styles of public sector organizations</td><td rowspan="2">Management systems to improve performance of specific tasks and functions; micro structures</td><td rowspan="2">…the strengthening of managerial systems”</td><td rowspan="2">Organizational strengthening</td></tr>
<tr><td>The task network – the set of organizations involved in accomplishing a given task.</td><td>Bureaucratic capability: both financial and administrative capability</td></tr>
<tr><td rowspan="2">Institutional Level</td><td>Institutional context – the rules and procedures set for the public sector, and the financial resources at its disposal</td><td rowspan="2">Institutions and systems; macrostructures</td><td>“Institutional development, including community participation.”</td><td>Investment climate</td><td rowspan="2">Institutional reform</td></tr>
<tr><td>The action environment – the economic, political and social milieux in which governments carry out their activities.</td><td>“The creation of an enabling environment, with appropriate policy and legal frameworks”</td><td>National checks & balances institutions</td></tr>
</table>

Building capacity at the three levels

This sub-section discusses both the characteristics and the capacity building initiatives targeted at each of the capacity levels identified above. Grindle (1997) provides helpful terms for each of the levels of capacity building: the development of capacity at a human level is defined as “human resource development”; building the capacity at the organizational level is “organizational strengthening”; and improving the institutional level is termed “institutional reform.” [11]

Human Level: Human Resource Development

[11] It should be noted that Franks (1999) also provides terms for capacity building at the three levels. Most interesting is his distinguishing between improvements targeted at the institutional level with those aimed at the organizational level: he terms the prior “institutional development” and the latter “capacity building.”

The first level of capacity is concerned with aspects of capacity embedded in the public sector employees. Grindle (1997) define this as the capacity of individuals to "carry out their professional and technical responsibilities." Franks (1999) defines this as the "capability" of the public agency[12]: "the knowledge, skills and attitudes of the individuals, separately or as a group, and their competence to undertake the responsibilities assigned to them."

Initiatives aimed at developing human resources in general seek to increase the capacity of individuals to fulfill their responsibilities (Grindle (1997)). Franks (1999) suggests this is done by expanding skills, increasing knowledge, and improving attitude. Interventions targeted at capability building include: education and training programs, improving knowledge management through tools such as databases and libraries, and programs for knowledge and skills transfers through networking, twinning arrangements, workshops, and seminars.

In addition, Grindle (1997) proposes human resource development (HRD) includes interventions aimed at recruiting and retaining competent staff, by ensuring competitive compensation structures and improving conditions of work for public sector employees.

In terms of HRD the findings of Grindle and Hilderbrand (1995) are significant:

> "Our case studies indicate that individual performance is more affected by opportunities for meaningful work, shared professional norms, teamwork and promotion based on performance than it is by training in specific skills. This suggests that effective training activities will most likely take place within contexts in which these other aspects are in place or are being simultaneously developed."

These general findings are also supported by Tendler (1997), who finds that public sector performance increased in four Brazilian municipality sectors due to a change in the attitude (both increased dedication and a greater pride in their position) of public sector employees. These changes were linked to increasing task variety, a sense of recognition from the state government, and the involvement of the public in decision making.

These findings support the principles of the NPM and NG reforms, focusing of aspects of incentive structures, transparency, empowerment and accountability.

Organizational Level: Organizational Strengthening

In order for human capacity building initiatives to be of value, an organization capable of utilizing the human resources increases is needed (Grindle (1997)). Franks (1999) notes three crucial aspects on which the institutional capacity of the environment depends: the enabling policies, the legislative framework, and the financial structure.

Organizational strengthening initiatives are greatly in line with the reform programs discussed in the previous section, specifically that of NPM. This could include implementing incentive systems, ensuring the effective utilization of personnel, improved public sector leadership and managerial structures ("managerialism" in the NPM), changing organizational cultures, and improving

[12] Ibid. contrasts this with capacity, which he proposes is the wider concept of "the overall ability of the individual group to actually perform the responsibility." While capability rests solely on the characteristics of the individual, capacity is determined by both capability and aspects of the organization in which the individual is employed.

communication (Grindle (1997)). Franks (1999) also supports this, suggesting that reforms such as decentralization, privatization, deregulation, increasing management autonomy, and improvements in administrative procedures all improve the chances for increasing capacity. Also, he suggests the creation of a learning culture is important for sustaining the progress of capacity building programs over time.

Again, the findings of Grindle and Hilderbrand (1995) are important, as they find that "public sector performance is more driven by strong organizational cultures, good management practices and effective communication networks, than it is by rules and regulations or procedures and pay scales." Again this supports the managerialism and transparency aspects of the NPM.

It should be noted that the NG has suggested viewing the public agency as part of a wider network concerned with service delivery, including both private and other public actors (Salamon (2002)). Capacity building at the organizational level should therefore include initiatives aimed at strengthening the capacity of these other actors in the public service provision network. This could include policies aimed at stimulating private sector growth[13], or by ensuring an attractive investment climate for them (by improving the action environment as discussed below). The building of public sector regulatory capacity is also important here, as it greatly influences the risk-profile of private sector involvement.

Institutional Level: Institutional Reform

The final level widens the focus to include both the *institutional context*, and the aspects of the county in which it public sector operates (the *action environment*). Institutional reform programs are aimed at creating a stable environment (both the *institutional context*, and the *action environment*) conducive to capacity building and learning.

The *institutional context* includes the rules, norms, and values (or beliefs) that determine the way people act and behave (North (1990); Scott (2001)). It therefore greatly influences the capacity of the public sector by determining what is acceptable and satisfactory in society, and (more importantly) by providing the framework with which any capacity building intervention will internalized. Capacity building initiatives should therefore take account of the institutional context of a society to both consider if changes to the institutional context are required[14], and to ensure that initiatives at lower levels (organizational and human levels) do not conflict with the institutional context[15].

In addition, the *action environment* includes aspects of the country such as the fiscal state, the strength of civil society and the private sector, the political stability, and the legal framework. Grindle (1997) therefore suggests reforms involve initiatives such as "the development of legal systems, policy regimes, mechanisms of accountability, regulatory frameworks, and monitoring systems that transmit information about and structure the performance of markets, governments, and public officials."

[13] In line with this, Grindle (1997) suggests incentivizing research capacity within the NGO sector.

[14] A number of authors confirm that initiative aimed at making institutional changes take a long time to be effective (e.g. North (1990)).

[15] In line with this aspect, Grindle (1997) calls for capacity building initiatives that take the cultural and social context and history of the public sector in a specific country into account, rather than a "one-size-fits-all" approach.

Grindle and Hilderbrand (1995) report on reforms in eight developing countries, confirming that the *action environment* is one of the most critical factors in aiding or limiting the ability of the public sector to perform. They suggest that this impacts capacity by determining the legitimacy of the government, determining the financial resources available to the state, and also underlines a tradition (or the lack thereof) of investment and capacity building. In terms of the *action environment* they conclude that "until basic conditions of economic development, political commitment, and social stability are put in place, little can be done along other dimensions that would contribute to improving public sector performance."

Linking capacity building and reform

In section 2 of this paper I mentioned the linkages between institutional capacity and public sector reform, to which I now return. The reasoning is that reforms require effective states to be implemented successfully, and therefore development scholars have devoted much attention to capacity building (Grindle (1997); Batley and Larbi (2004)). In this section I reviewed this literature, and found that the converse should also be noted: reform initiatives can aid in this capacity building process. These two concepts (reform and capacity building) should therefore be addressed in unison, if public sector delivery, and development in general, is to be improved.

5) CONCLUSION

This paper has focused on the role of the public sector in developing countries, reviewing a variety of streams of literature across various theoretical disciplines. I started by considering the pragmatic and theoretical drivers that have shaped the current understanding of the public sector, showing how both drivers called for change in both what the public sector does (their *role*) and how they do it (their *functioning*).

In terms of *role*, the recent consensus has been that the public sector has an important role to play, although this role is different from the traditional Weberian view. The new role calls on the public sector to focus more on "provision" and less on "production" (although some "production" responsibilities remain). In terms of *functioning*, five main "improvements" have consistently been touted that the public sector should aim for: reduced cost (or efficiency), improvements in service delivery (or effectiveness), reducing opportunistic behavior (or honesty), giving users a greater say in what the public sector does (or responsiveness), and ensuring the programs and interventions are sustainable (robustness and manageability).

This new understanding of the public sector has been operationalized through two broad reform movements: New Public Management has focused on reforming public sector organizations internally, through aspects such as decentralization, competition, managerialism, and accountability; New Governance has taken a broader view by proposing that governments use of a range of "governance tools" to guide the network of actors towards achieving public initiatives.

However, reforms require effective states to be implemented successfully, and therefore development scholars have devoted much attention to capacity building research. There are three broad levels on which capacity needs to be addressed: human level, organization level, and institutional level. In addition I found that reform initiatives can aid in the capacity building process, and therefore conclude that these two concepts (reform and capacity building) should therefore be addressed in unison.

Therefore, if public sector delivery (and development in general) is to be strengthened, interventions need to address both what governments do (through public sector reform), and their capacity to do it (through capacity building). .

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