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Background Paper

Public Sector Reforms and the Development of Productive Capacities in LDCs

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1 Introduction

A paradigm shift from a consumption- and exchange-oriented approach to poverty reduction towards a production- and employment oriented approach is called for by UNCTAD (2006). The development of domestic productive capacities and associated growth in productive employment opportunities is central to this approach. Such capacities are defined as "*the productive resources, entrepreneurial capabilities and production linkages which together determine the capacity of a country to produce goods and services and enable it to grow and develop*" (Ibid, 61).

The core processes through which productive capacities grow are: capital accumulation, technological progress and structural change. Indeed, there is a need for "structural transformation" and "developmental governance." To accelerate such processes requires "government-business cooperation within the framework of a pragmatic developmental State" to formulate and implement appropriate policies. However, "policies should be implemented as far as possible through private initiative rather than public ownership and through the market mechanisms rather than through administrative controls" (UNCTAD 2006, 299). Thus, the report identifies the following general requirements for the public sector to increase productive capacities (p. 300-301):

- Improved coordination between economic agents to take account of the production and investment complementarities
- Enhanced State capacities rather than State minimalism; which means:
    - Administrative, judicial and law enforcement systems that are honest, impartial and competent
    - A civil service and agencies capable of drawing up coherent development programmes and implementing specific policies that serve the broader national interests and are not captured by sectional and individual interests
    - Funding to implement the above good governance agenda
- Flexibility to experiment, to make mistakes and to make incremental improvements so as to learn what works and what does not in a particular country.

This list defines the "UNCTAD agenda" for the public sector. In very broad terms it identifies "What is to be done" by the public sector to increase the productive capacities of the Least Developed Countries. The 2008 report on LDCs will address the question: "How is this to be done?" Answers to this question with respect to public sector reforms are the focus of this background paper, but to keep the analyses manageable, only a few issues raised by this large agenda are dealt with here.

The starting point is that the UNCTAD agenda must address many of the same issues in the public sector that the current reform efforts do: how to increase the effectiveness, efficiency, sustainability and accountability of the state in carrying out various roles and functions. This means *a focus on strengthening general state capacities*. A few of the important initiatives are analysed here (pay reform, Human Resource Management reform; performance enhancement funds, general capacity development, and the promoting of 'growth coalitions'). Second, the UNCTAD agenda envisages a more direct role for the state in development than current market focused development approaches do. This requires the *strengthening of* *specific state capacities*. Three issues are dealt with under this heading (regulatory reform, executive agencies reform, and the creation of 'islands of excellence').

Some important limitations of the report should be noted. Only African countries, in particular Tanzania and Uganda, provide the empirical material for the analyses. Moreover, the focus is on central government; local government reforms are not dealt with. Finally, evidence of recent experiences with public sector reforms is largely drawn from published academic articles and books. Official documents are also used, although donor and government reports are sometimes biased and tend to be over-optimistic about what proposed reforms can achieve in the future – and what was actually achieved in the past.

The report is divided into four chapters (see also the Terms of References of October 16 2007). The next chapter provides a brief survey of relevant parts of the policy literature on public sector reform in LDCs. Then follows a review of experiences with strengthening general and specific capacities in central government seeking to sort out what worked and what did not in selected reform types. Chapter 4 draws operational lessons from chapter 3 based on a general framework of key factors, which influence reform processes and their outcomes.

2 Policy literature on current public sector reforms in LDCs

Public sector reforms basically have two official aims: (a) to adjust the functions and roles of the state in society to fit current government visions - issues of "what to do"; (b) to improve the efficiency, effectiveness, legitimacy and accountability of the state in carrying out those functions – issues of "how to do" it.

Ideas about what the state should do have changed significantly since most poor countries in Africa gained independence almost 50 years ago. Simplifying complex trends and country variation – and excluding failed states - three major visions of state roles can be distinguished:

- Developmental state (from independence to 1980s; *attempts* at state led development initiatives)
- Minimal state (1980s to mid-1990s; *attempts* at state roll-back through structural adjustments)
- Regulatory state (mid-1990s onwards; *attempts* at building market-regulating institutions)

The notions of developmental and minimal states are well known. Minogue (2006, 69) defines the regulatory state as "one that puts heavy emphasis on rule making, monitoring and enforcement…rather than on subsidies, direct ownership or state operation." Regulation concerns both external regulation of private sector organisations and internal regulation (one public organisation attempting to shape the behaviour of another). The internal regulation of government is one that links regulation to New Public Management (ibid).

Such 'ideal type' of states obviously hide wide differences. In each particular country elements of all three ideal types may actually be pursued concurrently. Phillips (2006, 35), for example, in her analyses of modes of regulation, argue that poor countries are "characterised more by 'regulation without a regulatory state' than with the sorts of institutional and strategic structures stipulated by the regulatory state model." However, she also states that much of current reform activities in developing countries are inspired by an ideal type of an regulatory state.

Although the UNCTAD 2006-report is clearly inspired by developmental state literature, it will not be reviewed here for three reasons: (a) empirically, most of that literature deals with East Asian experiences,[1] which are not directly transferable to LDCs; (b) it mainly focuses on "what to do" issues with less attention to their operational implications; and (c) current public sector reform efforts do not draw inspiration from the developmental state literature[2] but from New Public Management (NPM) and good governance agendas. The implementation of these agendas therefore provides the experiences from which recent reform lessons in poor African countries must be drawn.

[1] But see Acemoglu et al (2003) on Botswana.
[2] Indeed, this approach is now typically seen as a major cause of the maladies that current public sector reforms must deal with (e.g. Stevens and Teggemann 2004, 62).

The NPM and good governance agendas envisage a much less direct role for the state in development than the UNCTAD agenda for improving productive capacities does. Nevertheless, the latter must address many of the same issues in the public sector that the current reform efforts do (effectiveness, efficiency, sustainability and accountability). Hence, implementation experiences with the NPM and governance agendas are also relevant to the implementation of the 'productive capacities' agenda.

Table 1 provides an overview of the four common approaches to public sector management reform that are currently in use – often simultaneously (see also McCourt (2001, 243)). At present, the NPM and the Good Governance approaches are the most influential in donor dependent poor countries, although the Weberian and the Washington consensus approaches – the former dating many decades back, the latter dominant in the 19980s - are also used. However, only NPM and GG will be presented in the following because they are central to much of the current reform thinking in LDCs.

Table 1. Four approaches to public sector reform

Approach	Focus	Operational basis	Public sector relations to society	Major driver of change
Weberian public administration	Inputs	Legal-rational rules	Formal and clearly distinct	State capacity; control
Washington consensus (Structural Adjustment)	Costs	Legal-rational rules	Formal, clearly distinct, and minimal	Economic crisis
New Public Management	Outputs	Networks, institutional norms and rules	Blurred, with major role for private sector	Globalisation, competition
Good governance	Process	Institutional norms and rules	Blurred, with major role for civil society	Accountability

2.1 New Public Management and Good Governance reform agendas

New Public Management (NPM) is a dominating paradigm for many public sector reform initiatives in both rich and poor countries. Its rise to global prominence started in the 1970s when many rich countries faced economic stagnation, which were associated with overregulated government and pressures from globalisation. Furthermore, trust in government eroded, and the end of the cold war opened new opportunities for rethinking the role of government both in mature democracies and in newly democratising countries in the south. All these elements combine to create a global push for reshaping the formal and informal connections between government and society (Kettl 2005). However, in poor countries the challenges confronting the public sector, and the push for reforms, are often quite different from those in rich countries as shown later in this report.

NPM draws on public choice theory, new institutionalism and principal-agent theory. These theories share the view that voters, politicians and bureaucrats are guided by economic self interest. Public sector organisation and institutions must therefore be shaped to harness such individual interest to produce public goods effectively, efficiently and accountably. Two major implications follow from this. The role of government should be 'to steer rather than row' (a popular phrase in the NPM literature) so as to reduce the risk of ineffective, corrupt and self-serving government;

it should therefore withdraw from active involvement in service provision and from direct involvement in production. Moreover, government should be run according to private sector management techniques.

Table 2 summarises the core principles included in the NPM agenda. There is no clear priority among them, nor any specification of their interrelations. To the critics of NPM this indicates its weak theoretical underpinnings at the expense of its ideological bias towards frugality of government and the desirability of rolling back its boundaries (Haque 2007). In any case, it is not surprising that in practice the NPM does not constitute one coherent approach to public sector reform. The seven principles listed in table 2 are seldom addressed at once in a country. Rather, the table is a 'menu' from which issues are selectively chosen. And despite its claim to universality, the NPM approach is only part of the public sector reform story in poor African countries. Many current reform initiatives are not central to the NPM agenda, but draw inspiration from the Weberian approach (e.g. strengthen hierarchy, rule based administration and central control). Thus in practice, the use of NPM measures has been quite selective.

However, "all variants of NPM are, at their core, attempts to persuade the public sector to adopt corporate values and practices." Ideally, the public and the private sectors should operate in the same ways, with the main difference being the types of goods and services produced. In this view, government is largely reduced to a contractual agent for various citizen (consumer) groups. Obviously, this challenges the cultural and philosophical roles of government on which Weberian public administration is based (Frederickson and Smith 2003, 244).

Table 2. Seven core principles in NPM–inspired reforms

"Hands-on" management	Active, visible control of organisations by identifiable professional managers who are free to manage using private sector styles of management.
Unbundling	Disaggregation of formerly monolithic organisations into corporatized units around specific products and services.
Productivity	Do more with less. Public service provision with lower resource use.
Marketization	Use market mechanisms and competition to overcome pathologies of traditional bureaucracy.
Performance orientation	Define, preferably quantitatively, goals, targets, outputs and indicators of success based on explicit standards. Deliver what is promised. Link resource allocation and rewards to measured performance to enhance accountability.
Service orientation	Improve government-costumer relations so as to improve the satisfaction of the latter.
Decentralization	Place policy decisions as close as possible to the people who will be affected by those decisions.

Source: Hood (1991, 4-5); Kettl (2005, 1-2).

During the past ten years or so a Good Governance agenda has emerged as an additional basis for reform. Table 3 illustrates its multitude of concerns. In this version 27 characteristics (requirements) are listed based on Good Governance issues presented in recent World Development Reports.[3] Overall, Good Governance concerns can be aggregated into three key areas of reform (Grindle 2007, 556): selection, accountability and replacement of authorities (voice and accountability; stability and lack of violence); efficiency of institutions, regulations, resource management (regulatory framework; government effectiveness); respect for institutions, laws and interactions among players in civil society, business, and politics (control of corruption; rule of law). Thus, Good Governance is not just about government. "It is also about political parties, parliament, the judiciary, the media, and civil society. It is about how citizens, leaders and public institutions relate to each other in order to make change happen. Elections and democracy are an important part of the equation, but equally important is the way government goes about the business of governing" DfID (2006, 22).

Table 3. A good governance agenda

o Administrative capacity o Checks and balances o Coordinated policy making o Credibility o Decentralisation o Effective/responsive institutions o Efficient, equitable, independent judicial system o Environmental protection o Free press o Foundation of law o Gender, racial, class and intergenerational equity o Good investment climate o Incentives for public officials	o Institutions for accountability and coordination o Investment in basic social services o Infrastructure o Learning and innovation institutions o Local capacity o Macro-economic stability o Non-distortionary policy environment o Participatory political processes o Pluralism, democracy o Political stability, conflict management o Poverty reduction o Property rights o Sound regulatory system o Strong and capable state

Source: based on Grindle (2002, table 1).

In practice, the NPM agenda seeks to push a major realignment of state relations with the market, while the good governance agenda promotes a particular model of state-society relations focused on bringing about greater social and political accountability and to make government programmes more efficient. The Good Governance and the NPM agendas are therefore mutually supportive (Minogue 2001, 6). They represent a shift in thinking among western donors, which started around the mid-1990s (see, for example, World Bank (1997; 2002). It is based on the recognition that the earlier structural adjustment reforms had not only led to a quantitative reduction of state bureaucracies, but also to qualitative deteriorations. Moreover, the "East Asian Miracle" contradicted the premise that a minimal state would pave the way for economic growth.

[3] There are many other good governance prescriptions. DfID's, for example, requires attention to: State capability – the extent to which leaders and governments are able to get things done. Responsiveness – whether public policies and institutions respond to the needs of citizens and uphold their rights. Accountability – the ability of citizens, civil society and the private sector to scrutinise public institutions and governments and hold them to account (Moore and Teskey 2006). McCourt (2006, 5-6) compares three additional statements and Grindle (2007, table 1) lists many more. There are clear overlaps between them, but also differences in emphasis.

However, there is now a recognition that the agenda illustrated in table 3 it is too demanding in relation to the political and administrative capacities in LDCs and that it is not sufficiently prioritised. It also strains donors' capabilities (Grindle 2007). Some also question its relevance for promoting growth in LDCs (Khan 2002). These criticisms will not be dealt with here.

2.2 *Reform content*

Public sector reforms in African LDCs often have similar aims and contain surprisingly similar components (Therkildsen 2006). Generally, there is very little heterodoxy in their formal design as also Tendler (1997) and McCourt (2001) have noted. It indicates that reform designs are often heavily influenced by the ideas presented in chapter 2.1 and by the donors that fund the reforms.

Two distinct waves of reforms have occurred during the past twenty-five years as mentioned above. The Structural Adjustment Programmes of the 1980s set off a so-called "first generation" of reforms.[4] They were followed by a "second generation" of governance reforms starting in the mid-1990s. The two reform waves are quite different in terms of the problems they seek to address and the remedies suggested (Grindle 2002; Levy and Kpundeh (2004)).

First generation reforms focused on redefining the roles of the public sector, reducing its size, bringing order to inappropriate structures in public organizations and their mandates, and controlling the activities of public sector workers through retrenchments, pay reform and payroll control (Grindle 2002, 21-22). Table 4 covers much of the first generation reform period and gives a good overview of the typical reform content. Privatization to deal with large public sector deficits, to reduce the public sector wage bill, and to improve the performance of state enterprises and service delivery agencies was the most frequent type of reform. Decentralization – restructuring the relationship between central, provincial, and local governments -- was also frequently initiated, and so was downsizing. Technical cooperation for capacity development in poor countries was significant throughout the 1990s, reaching $20 billion in 1995, and totaling over $170 billion by the end of the decade.

Table 4. Public Sector reforms in low- and middle income countries, 1980-1999

Type of Reform	**Percent of Countries**
Privatization	64
Decentralization	40
Downsizing	31
Civil Service Reform	24
Financial Management/Budgetary Reform	22
Regulatory Reform	20
Countries undertaking 2 or more reforms	18

* Number of countries = 99. Sources: Grindle (2002)

[4] Prior to the 1980s, newly independent poor countries launched reforms to replace expatriate staff of colonial administrations and to attempt to reshape the public sector using variations of developmental state approaches. These post-independence reforms do not count in current donor parlance, perhaps because donor involvement in them was limited.

Second generation reforms started around the mid-1990s and were much broader in scope than the first-generation reforms. Indeed, there seems to be a clear trend towards more comprehensive reform efforts in many African countries (Kiragu 2002; Kiragu and Mambo 2002, table 1). Recent reforms seek to improve government performance by building managerial capacities, developing positive organizational cultures, and providing incentives for performance both at individual, organizational and country level (e.g. some donors allocating aid on the basis of country performance). The World Bank, the dominant reform actor in many poor countries, supported the following types of initiatives: (a) pay reform, but shifting from across-the-board attempts to decompress and raise salaries towards more strategic increases for selected groups of staff ; (b) a renewed effort to focus government on its "core" functions – law and order, regulation of the private sector, economic management and the provision of social services - to "reverse the relentless expansion" of programmes during the era of the developmental state; (c) creating executive agencies to enhance performance for specific functions; (d) pushing service delivery down to the local level - decentralisation - so as to reverse the centralisation that occurred under the developmental state paradigm; (e) specific performance enhancing measures directed at ministries, local governments and executive agencies; and (f) efforts to modernise budget and financial management and to strengthen audit institutions (Stevens and Teggeman 2004, 46-48; see also World Bank (2000, figure 1)).[5] DfiD and the Nordic countries likewise increasingly focus on support to political institutions and civil society to enhance accountability and strengthen the demands on state for improved service delivery.[6]

In Grindle's (2002, 22-23) interpretation, this shift from first to second generation reforms also implies that different questions were asked. Questions of the structural adjustment period about why African civil servants and organisations behave badly are now replaced by explorations about what will make them perform better. This has broadened the scope of reforms considerably. However, the centrality of the markets and the role of the state to enable markets to function better remains unchanged although ideas differ about the roles of the state in market economies should be. For example, three narratives are currently used within academic and donor circles involved in support to agriculture – 'free-market', 'coordinated-market' and 'embedded-market'. Each has different implications for what ministries of agriculture, for example, are expected to do (Cabral and Scoones 2006).

Whatever the case, the shift has meant that new forms of state organisation have emerged inspired by the NPM and GG agendas. These include semi-autonomous executive agencies, public–private partnerships in infrastructure development, (partial) privatizations of utilities, and performance contracting arrangements between purchasers and providers. Moreover, growing attention to the Good Governance agenda "encapsulates the dominant view, both in research and policy making. This

[5] This latest World Bank overview from 2000 available (to me) indicates that for the 1997-1999 period, the Bank involvement in a wide range of reform areas grew rapidly. The aggregated number of public sector components supported by the Bank for the three-year period were: Legal and judicial reform (215); decentralisation (180); Public expenditure and financial management (150); regulation of the private sector (90); civil service reforms (90); public enterprise reform (75); tax policy and administration (65).

6 Disbursements of Danish bilateral aid for good governance, for example, has grown from 4.4% of total bilateral aid (USD 40.7 million) in 1995 to 14.8% (USD 191.2 million) in 2005.

advocates property rights stability, reducing corruption, a transparent and accountable public sector, democratic government, rule of law and competitive (rent free) markets, not only to satisfy the popular aspirations of millions living in developing countries, but also as a means to promote growth and ensure sustainable poverty reduction" (Gray 2007, 1).

2.3 Conclusions

The bottom line of this brief account of the policy literature is that the structural adjustment notions of the desirability of a "minimal state" for economic growth which dominated thinking during the first-generation reform period are no longer so dominant. Present reform thinking is inspired by NPM and the Good Governance agendas. Although the centrality of the state is now emphasised, the present second-generation reform agenda remains focused on markets and how to build and strengthen a "regulatory state" (Minogue 2006). The main objectives of these reforms fall broadly into three categories (Phillips 2006, 23):

- "'market-completing measures' that aim to carry forward and/or complete the liberalisation processes initiated by the first generation reforms;
- 'equity-oriented programmes' relating to redressing pervasive distributional problems
- 'good governance related 'institution-building initiatives' for the purpose of enhancing state and institutional capacities and drawing civil society into policy making processes."

This broad picture of the current reform content is helpful but glosses over a diverse set of specific reforms activities being implemented on the ground across poor countries as shown in the following chapters.

3 Experiences with reform of central government organisations

Chapter 2 paints a broad picture of public sector reforms and identifies some major trends. In this chapter selected experiences on how to improve performance in ministries, departments and executive agencies (MDAs) are analysed. First, some current attempts to strengthen the general capacities of public sector organisations are dealt with. Then follow analyses of attempts to strengthen specific capacities of public sector organisations to carry out functions central to enhancing productive capacities.

The current definition of capacity used by OECD-DAC, UNDP, World Bank and many others is "the ability of people, organisations and society as a whole to manage their affairs successfully." Although conceptually valid (capacity does, indeed, depend on people, organisations and institutions), the definition is too general to be operationally meaningful. Instead, capacity is defined here as "the ability of an organisation to produce appropriate outputs" in its specific institutional, social and political environment (Boesen and Therkildsen 2005). This focuses attention on organisations as producers of specific (but not necessarily quantifiable) outputs in particular contexts, and uses outputs and results as indicators of capacity.[7]

3.1 Strengthening general capacities

Five reform types that seek to strengthen general organisational and institutional capacities are dealt with here: pay, human resources management, capacity development, performance enhancement initiatives, and growth coalitions. Typically, they are cross-cutting and affect most or all organisations in the public sector. This is relevant to the UNCTAD productive capacity agenda because experiences show that to do administrative tasks effectively and efficiently are central to sustained economic growth (Evans and Rauch 1999; Kohli 2004).

3.1.1 Pay reforms

These are central in most attempts to improve the performance of the public sector across African countries. The argument is simple: adequate pay is important for the motivation, performance and integrity of public servants and for reducing the attractions of employment in the private sector or abroad. However, pay reform is conducted in an 'iron triangle' of conflicting considerations about the size of public employment, pay levels and budgetary wage bill limits. Manoeuvring in this triangle has both technical and political implications. Experiences from eight African countries show that the latter have influenced pay reform decisions more than the former.

Only Botswana has avoided a long-term deterioration of real pay for its public employees. Tanzania and Uganda succeeded in improving pay in periods in the 1990s and early 2000s. Benin, Burkina Fasso, Ghana, Senegal and Zambia have

[7] The definition of productive capacities by UNCTAD (2006, 61) is presented in chapter 1. It captures many important dimensions, but is also difficult to operationalise.

experienced long-term pay deteriorations (Kiragu, Mukandala et al. 2004). The general situation is that the average real pay today is lower than at independence – even in countries where it has improved recently. The deteriorations started well before the Structural Adjustment Programme. This, and insufficient pay differentials within the sector, are said to have undermined organisational performance and made alternative employment opportunities more attractive. However, it also belongs to the picture that public servants in poor African countries are the best paid in the world relatively to the people they are supposed to serve (Schiavo-Campo, Tommaso et al. 1999), and that they are often better paid than people working in the private sector – at least in some cities in West Africa (UNCTAD 2006, 186).

These important observations differ from the usual diagnosis. In Uganda, for example, comparisons of public and private sector pay showed the former to be only 42 percent of the latter (Clarke and Wood 2001, 83). Unfortunately, such comparisons are very sensitive to the types of private firms sampled. International corporations, banks and NGOs are sometimes disproportionally represented in such samples. Few public employees can get a job in such organisations. It is therefore not surprising that only few public servants in Uganda and Tanzania regard the jobs that they could realistically get in the private sector as attractive when all benefits of being a public servant are considered (Therkildsen and Tidemand 2007 and chapter 3.2.3).

While the overall pay trends for public sector staff are factually undisputed, it has proven difficult to design and implement economically and politically sustainable pay reforms – perhaps because politicians are well aware that public servants are clearly privileged in terms of pay and other benefits as argued above (and they are reminded of such differences by poorer members of the electorate during election campaigns). Thus, the first-generation pay reforms did not resolve the iron triangle conflicts. The focus was on staff retrenchments but the Structural Adjustment Programmes generally suffered from what Klitgaard (1989) called "incentive myopia:" everywhere else in the economy incentives were deemed to be very important except with respect to public servants' pay. Even in countries where retrenchments were implemented on a relatively substantial scale (e.g. Tanzania, see table 6), savings could not be used for salary enhancements due to IMF imposed ceilings on the public service wage bills. Later, in response to the Millennium Development Project requirements, these ceilings were raised to make room for large recruitment of health staff and teachers in particular. Consequently, the budgetary scope for significant across-the-board pay (and pension) raises is still limited.

Current second-generation reforms still grapple with the iron triangle trade-offs. The focus is now on Selective Accelerated Salary Enhancement (SASE); salary decompression; and consolidating allowances into salaries (Stevens and Teggemann 2004, table 2.1).[8] But SASE has never taken off in Ghana and Zambia, and it has

[8] SASE aims to raise salaries of key technical and professional staff to be competitive with those in the private sector. Donors pay the additional costs but on a sliding scale over five years, after which the government is supposed to fund SASE out of savings from parallel retrenchments. The potential benefits are: donor distortions of the labour market through topping up of salaries is stopped; staff performance is rewarded (as SASE can be withdrawn); SASE requires strategic planning by organisations and therefore provides an incentive for such plans to be made. SASE increases pay for specific positions in government; this is different from performance-based-pay, which rewards staff that do well. This approach is being prepared for example in Uganda and Tanzania (since 1999).

been put on hold even in Tanzania where it was invented (Crown Management Consultants Limited 2005). It simply does not have sufficient political backing in a government, which is now more inclined to pursue populist pay policies than it was around 2000 when SASE was introduced. To succeed, SASE and other types of significant pay reforms require a political leadership willing to openly and publically differentiate pay between different organisations and even different staff positions. It also requires donors who can resist the temptations of topping up salaries for staff in positions of particular interest to them. Both are in fairly short supply. The Paris Declaration on aid effectiveness seems so far to have had little impact in this regard.

As a consequence, pay reforms have tended to stall in many African countries. Instead, allowances and other benefits are increasingly used – precisely the reward mechanisms that pay reform was supposed to reduce. Such mechanisms are, however, attractive. Allowances are not taxable, and are not transparent and can therefore be given selectively to serve both technical and political ends. In Tanzania and Uganda, for example, middle level public servants interviewed primo 2007 said that allowances were as or more important for their take-home pay than salaries (Therkildsen and Tidemand 2007).

Overall, the pay reform experiences reviewed here suggest that significant and broad based pay improvements are not likely in the foreseeable future. Even selective improvements in core public sector functions may be difficult to implement in most countries. Executive agency pay may be an exception, however (see chapter 3.2.2).

3.1.2 Human resources management reform

These reforms have, over the past twenty years, gone from a strong focus on downsizing and subsequent pay reform, to increasing attention to systemic decentralised staff management, sharper focus on merit requirements for specific positions, and performance management.

It is, however, useful to see these reform initiatives in a time perspective. The public sector reform agenda of the 1980s and 1990s in LDCs was narrow and negative. It was based on the premise that the public sector was overextended and its employees driven by self-interest. Much of the present literature on the public sector in poor countries underpins this view according to Tendler (1997) and McCourt (2006). Consequently, in the face of macro-economic crisis the logic was to retrench to reduce the financial burden of public employees, and to take action to prevent corruption by those remaining.

There are two problems with that view. Empirical evidence shows that public employees – in poor countries as elsewhere - are motivated to work by many factors in addition to pay (professionalism, nationalism, duty, etc.). This supports a basic position in the Strategic Human Resources Management (SHRM) literature that the way staff cooperate and is managed can have significant influence on organisational performance (see chapter 3.2.3). Moreover, employment in many countries is now on

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Experience with such systems in industrialized countries is mixed. Nunberg (1995, 38) concluded that even here performance-related pay is often not suitable and that arguments for pursuing it now in poor countries are weak. A decade down the line this assessment remains generally valid.

the increase again in response to the new poverty agenda and the Millenium Development Project. This fits uneasily with the still widespread negative view of public employees.

HRM reforms in the 1980 and 1990s were dominated by attempts to increase pay to correspond to 'living wages,' and to fund this with a reduction in public sector employment. This did not work well for several reasons. The employment reductions did not yield sufficient funds. In many countries the retrenchment exercises were only partly implemented due to political resistance. As table 6 shows, there were large variations in employment changes across countries. Moreover, retrenchment costs were often considerable due to relatively significant severance payments and this reduced the net yield of the downsizing. Furthermore, pay-roll controls were often poor so that retrenched staff – having received their severance payment – was re-employed soon after. In addition, at the insistence of the IMF and the World Bank, retrenchment exercises were typically targeted at a reduction in numbers rather than in aggregate savings. Consequently, downsizing was biased towards the bottom of the organisations (however, 'overstaffing' here *was* often the most pronounced). Experiences from Uganda and elsewhere show that where pay increases have been made they have been financed by increased tax revenues generated by economic growth and better tax collection – not by savings from retrenchments.

Without up-to-date and reliable staffing data – and functional analyses of present and future staffing needs in public organisations – implementation of these pay and employment reforms were not very successful as documented by the IMF itself (Abed, Ebrill et al. 1998). Nevertheless, the insistence by the IMF and the World Bank to move fast on downsizing in particular made it difficult to prepare implementable strategic plans in these areas. In Tanzania, for example, dramatic changes in the regional administration announced with a five-month deadline in 1996 required huge staff reallocations and retrenchments. Failure to meet them would put major IMF funding at risk. This made any participation of unions and public organisations in developing viable and sustainable strategies impossible and may help to explain the generally poor outcomes of the employment and pay reforms in many countries that experienced the same.

While the down-sizing agenda is still being pursued – although in much less haphazard and zealous ways then previously – more attention is now paid to reforms of personnel management systems. In many countries, such as Tanzania and Uganda, the President still holds wide ranging powers to appoint and discipline across the entire public sector (and fairly low done the hierarchy as well). There is little systematic information about the exercise of these powers but it does not square well with the current attempts at decentralising HRM functions. Uganda ministries, executive agencies and local governments have gone much further in that direction than in Tanzania. This is worrying because political, social and ethnic connections play a much bigger role in recruitment practices in Uganda than in Tanzania (Therkildsen and Tidemand 2007, table 19).

Reforms of the old "career system" in the public service towards a "position based system" are also being introduced. The former is a centralised system for regulating entry into the public service and the subsequent transfer of staff by a central authority. The latter is a more decentralised system where emphasis is placed on getting the right persons for specific positions, each of which has their own merit requirements. Merit is no longer to be assessed in relation to public service in general. It is too early to assess the benefits and costs of the position based system in LDCs but a decentralised staff management system which the position based system implies has already shown clear signs of being abused in Uganda, which has moved further on this point than Tanzania.

Finally, there is a move towards introducing performance management. This attempts to link increased managerial freedom as prescribed by the NPM approach with increased emphasis on outputs. This requires organisations, managers and staff to work to performance targets and output objectives that define individual tasks (Larbi 2006, 38). Rewards for performance can then be linked to achievements of individual employees. In Tanzania and Uganda this has resulted in a push for strategic plans, action plans, client service charters, the carrying out of service delivery surveys and self-assessments, staff appraisals and the establishment of M&E systems. These are very ambitious undertakings. Tanzania are moving more decisively than Uganda, where the Results Oriented Management approach was introduced in 1996 but has not yet been seriously implemented (Therkildsen 2006). Again, it is difficult to assess the outcomes of these systems – although non-implementation is an outcome of sorts - both because they are new in LDC settings, and because they have not been seriously evaluated.

In analyses of reforms in a number of African countries Engberg-Pedersen and Levy (2004) found that reforms involving staff and human resources management tended to be more difficult to implement than more administrative reforms due to the political issues involved in the latter. Steedman, Poate et al. (2005), who recently did a review of the Tanzanians reforms, questioned whether sufficient progress had been made in basic reforms (pay, SASE, personnel management and control, recruitment systems, etc) to push ahead with more performance-management oriented reforms without consolidation. This is remarkable because the Tanzanian reforms are widely regarded as among the more successful.[9] Nevertheless, they argued that "an important lesson of international experience of public sector reform is that unless these basics are in place it will be virtually impossible to sustain overall reform efforts over the medium term" (p 7) – especially with respect to organisational level performance management (see next section). This echoes similar warnings by Schick (1998) and by McCourt (2006), who both advocate for an incrementalist rather than a radical approach to reform. This issue is dealt with in more detail in chapter 4.1.1.

Four conclusions can be drawn from this. Major retrenchments need to be better planned, and with involvement of employee representatives/unions to minimise the destructive effects of past exercises. Second, decentralised staff management is generally desirable for implementing merit-based systems, but some degree of central control is still needed to reduce the pressures for patronage. Third, the conditions for introducing performance management are generally not in place and until basic administrative and budgetary requirements exist such NPM-inspired reforms will not work well. Finally, more attention to the 'softer' side of staff management (motivation

[9] Stevens and Teggeman (2004, 76) claim, for example, that Tanzania has the most advanced integrated personnel and personnel system in SSA.

through leadership, teamwork, and strengthening of professional pride) can often have a significant impact on organisational performance as shown in chapter 3.2.3, but this tends to be ignored in present reforms.

3.1.3 Performance enhancement reforms

Performance improvement, so central to NPM, is an inclusive and elusive concept that refers, variously, to enhanced outputs, outcomes and/or impact. Nevertheless, such improvements are clearly relevant in relation to many of the specific government functions identified in the UNCTAD agenda.

Frustrations of first-generation reform attempts to improve performance through the implementation of the same set of changes across all MDAs have, in some countries, resulted in so-called "quick-win" programmes to encourage organisations to introduce relatively easy improvements which produce immediate results and encourage subsequent more difficult changes. Some improvements in various organisations have been recorded as a result of these quick-win programmes.

Ghana, Tanzania and Zambia also experiment with Performance Improvement Funds (PIFs) to encourage MDAs to embrace the performance approach more fully. The idea is simply to provide incentives (money) to organisations that show willingness to do things in new ways and that succeed in meeting specified performance targets. Such funds are often supported by donors – in fact, there may be no such fund operating in an African LDC exclusively on government funds. Money is used for capacity initiatives and as an incentive for service delivery improvements. In Tanzania, participating organisations are supposed to compete for access to funds (Kiragu 2002). Moreover, three year strategic plans and annual 'business' plans are typically used to identify outputs and outcome targets against which performance can be measures, managed and publicised. Self-appraisal instruments, 'customer' surveys and diagnostic workshops are used to develop and monitor the approach. Release of funds is against service improvement plans and accountability reports.

Results are mixed at best. Tanzania has been the recent front-runner. PIF started around 2000 as a pilot with four organisations involved but by the end of 2004, 25 ministries and 20 executive agencies had the performance management system in use; and a further 9 independent departments, 21 regional secretariats and 8 executive agencies were in the process of having the system introduced. Parastals (103 public institutions) have so far been omitted from the reforms. However, there are problems at central level manageing the process, and at MDA level at implementing it. The impressive speed of introducing PIF "must be tempered by the quality of the work done and the shallow extent to which the reforms have changed behaviour in the MDAs" (Steedman, Poate et al. 2005, 20-21). In Ghana, the PIF approach was launched in 1995, but "little overall improvement" in performance has resulted. The main performance constraints - unpredictable government funding of organisational budgets and low pay according to Stevens and Teggeman (2004, 70) — were beyond the control of the PIF and the individual organisations.

In Zambia, the MDAs showed little enthusiasm for the logic of quick wins and PIF. The funds were regarded as supplementaries to ordinary government funding. Requests for computers, cars and the like were therefore common. MDAs did not focus much on innovative changes or on output improvements to benefit 'costumers' (Ibid).

Without basics in place - predictable multi-year funding, reliable measurement of performance, rewards sufficiently large to make a difference, and credible commitments to reward actually performance and not patronage - the PIF model appears to be a "building without foundation" (Ibid, 70). Moreover, some government functions are so important that they their funding should not be reduced because performance is poor. Such problems cannot be dealt with only by manipulating economic incentives.

The main lesson on performance improvement funds (and their associated processes) is this. If incentives for performance are limited, uncertain and/or transaction cost intensive then PIFs are unlikely to succeed. If, on the other hand incentives are substantial and predictable and given without too many strings attached then strong administrative capacities are needed to utilise them efficiently. The country experiences cited above indicates that basic conditions for introducing PIF are not yet in place (see also chapter 4.1.3). Perhaps the tail is presently wagging the dog.

3.1.4 Building general state capacity

Capacity development (CD) of the public sector in LDCs has been pursued for decades. To improve "the ability of an organisation to produce appropriate outputs" - the definition of capacity introduced in chapter 3 - is of course central to the UNCTAD agenda. However, building state capacity is not 'merely' the sum of developing capacity in a number of individual organisations that make up the state. Capacity development efforts that only focus on training, improved inputs of equipment, buildings, etc often miss this point and have repeatedly had modest or no impact. The key challenges are to identify which organisations are the most critical for development in particular sectors and to address specific institutional, social and political impediments to the performance of these organisations. This requires consideration of a much broader range of factors (especially external to the organisations in question) than are normally considered in practice. It also requires explicit acknowledgement of the political nature of capacity development.

Assessments of the effects of capacity developments are very difficult make: current definitions of capacity are broad and general (see the introduction to chapter 3) so that assessments often become unfocused. Moreover, there can be many causes of capacity change, and organisations that did well for a period may subsequently deteriorate (and vice versa). All this indicates that lessons about how to do capacity development should, to a large extent, be country and sector/organisation specific. However, certain general observations can be made.

Overall, support to capacity development for the public sector in Africa has had "limited impact" although there are variations across countries, sectors and intervention modalities. This is the main conclusion of the major evaluation by the Operations Evaluation Department (2005, 43) of the World Bank of its own $10 billion support during the last ten years. "[T]he Bank's support for capacity building in Africa remains less effective than it could be" – a remarkably timid wording (Ibid, viii). Similar findings on CD-assistance can be found in several other evaluations. It also illustrates, as discussed above, the methodological problems that result from the very general definition of capacity and approaches to capacity development currently in used.

Public sector capacity to implement results-oriented programmes[10] is particularly "elusive" (World Bank 2003, 83). Result-orientation is at the heart of the NPM approach, the Millennium Development Initiative, the PRSP processes, and the Paris-declaration on aid effectiveness, but the results principles a particularly difficult to implement where technical capacity and monitoring and evaluation is weak (ibid. 43). Moreover, Therkildsen and Tidemand (2007) found that public servants have not embraced a performance oriented culture although performance orientation has been a key reform focus for years.

Neglect of political economy issues and fragmented support are among the main weaknesses of current CD approaches. Thus, only about half of the 62 assessed country study projects reviewed by the Operations Evaluation Department of the World Bank adequately addressed the political and institutional environment for capacity building (2005, 16). Moreover, donors' CD support is often fragmented (Ibid, viii). This makes it difficult to capture cross-sectoral opportunities and constraints as well as inter-governmental capacity linkages (Ibid, 44). Public organisations are 'open systems' in the parlance of organisational theory, but this is rarely reflected in current approaches to CD.

Successful capacity development is most likely when it involves purely "technical" issues or enjoys "broad political support" (ibid, xv). Both criteria are, however, rarely fulfilled in practice. Most technical issues have a direct or indirect political dimension; and political support is rarely broad and unchanging.

Moreover, the traditional capacity building tools of technical assistance and training have often proved ineffective**,** because they are "not applied within a broad human resource management framework linked to necessary organizational and institutional developments" (Ibid, 44). Dual use of TA as advisers and controllers of donor resources, for example, causes conflicts of interest and deter the greater use (and strengthening) of government systems.

The potential impact of government and donor support on capacity development is consistently overrated. Governments and donors tend to set unrealistic objectives and targets. The recipient capacity to reach them is often not assessed sufficiently prior to support (Ibid, 17). Assessments of how fast donors can help to alleviate capacity constraints are often overly optimistic, too. Especially capacity issues at local government and community level tend to be neglected in sectoral support.

Finally, the types of capacity development activities that donors are likely to do well normally do not lead directly to significant improvements in state capacity (Teskey 2005). Thus, more technical and specific CD activities at individual or organisational level (e.g. training and organisational development), even if they are done well, normally do not have significant positive externality effects at the institutional level.

[10] The focus is on outputs, outcomes and/or the impact of the organisation's activities on people and their needs evaluated through measurable, on-the-ground results and used as inputs to management decisions.

It is at this level that interventions can have significant capacity impacts because they affect inter-organisational relations and the rules of the game. But if such interventions are not domestically owned they will not have much impact. That is a key lesson of many decades of donor assistance.

3.1.5 'Growth coalitions'

Growth coalitions arise when relations between business and government elites take the form of active cooperation of both parties to work out policies and implementation arrangements that foster investments and increase productivity. A review of the business associations literature, and case studies from Mauritius, Zambia and Zimbabwe, show *that* such growth coalitions can be central for a government's ability to design country-specific credible policies to enhance productive capacities; [11] *that* they are possible in some African countries although fragile polities – especially during periods of economic crises – can unravel their sustainability; and *that* even where business associations are well organised, growth coalitions still depend on factors within the state to flourish: leaders, ideas and capacity (Bräutigam, Rakner et al. 2002, 519-520). This makes growth coalitions interesting in the context of the UNCTAD agenda. The focus here is therefore on what states can do to encourage growth coalitions. It is based mostly on the work by Bräutigam and her colleagues (but see also Garforth, Phillips et al. (2007), Moen (2003) on Zambia; and Arthur (2006) on Ghana).

At the outset it should be noted that 'growth coalitions' scarcely get any attention. How they emerge and why (not) is hardly researched. This disregard of growth coalitions in Africa (and elsewhere where donors are influential in reform work) reflect theoretical assumptions to some extent. Dominated by principal-agent and rational choice theory, growth coalitions are dismissed as potential useful instruments because business interests are assumed to seek short-term rents and try to capture the state. Such interest groups are considered to be divisive and parasitic. In any case, they are regarded as unlikely to emerge because of collective action problems. But there are two counterarguments. One is that poor African states are generally *not* captured by business interests. To the contrary, African states have failed to allow local business classes an effective presence in policy making as both Bräutigam et al and Mkandawire (2001) point out. Political elites often tend to be suspicious of their own capitalist class. The other counterargument is that growth coalitions are not always doomed as the case studies from Mauritius show. Even in Zambia and Zimbabwe such coalitions did function for a while. Certainly, historical experiences show that such coalitions have been central for shifting economies towards export-oriented growth (Kohli 2004).

However, there is no clear evidence that strong business associations or democratisation on their own further growth coalitions. They require active state nurture. For example, "if an association is given the right to broker export quotas among its members, association leaders have an incentive to support policies that

[11] Uganda Manufacturing Association in Uganda, for example, were closely involved in the broad set of Ugandan reforms in the 1990s, Associations elsewhere have often been more concerned with targeted interventions and indigenisation laws. The Tanzanian National Business Council established in 2001 is a new attempt at strengthening relations between business and government.

support exports, while members have an incentive to fall in line behind their association if they are to gain access to these non-public goods. Or, privileged information on government policy and how it is likely to affect businesses" might deliberately be channelled by government to associations (Bräutigam, Rakner et al. 2002, 522). More generally, growth coalitions may emerge when political and bureaucratic elites have greater technical expertise and are able to articulate a vision and a viable and credible strategy of how to support growth (Ibid, 539). Such capacity can sometimes be deepened and strengthened during economic crises if that promotes unity. Economic crisis can also undermine such capacity if it is not institutionalised, or if the economic policies pursued do not convince business leaders that they will benefit from growth friendly policy packages. Also political leaders must believe that growth coalitions can strengthen rather than undermine their political and social power base. "In Africa, however, these beliefs (and realities) are likely to be complicated by aspects of race, class and ethnicity" (Ibid, 540).

The bottom line is that states wanting to pursue growth enhancing strategies must also pay attention to how they can encourage business associations to enter into growth coalitions, and how the state can increase its own capacities to nurture them. Part of the answer, according to Bräutigam et al is that the capacity to develop credible policies is central.

3.2 Strengthening specific capacities

The UNCTAD agenda envisages a more direct role for the state in development than current market focused development approaches do. This requires the *strengthening of specific state capacities*. Three issues are dealt with here (regulatory reform, executive agencies reform, and the creation of 'islands of excellence').

3.2.1 Regulatory reform

Regulation is central to the NPM model. Market-oriented institutional changes such as privatisation, contracting out and the establishment of executive agencies (ought to) go hand in hand with improved regulation - both external regulation of private sector organisations and internal regulation (one public organisation attempting to shape the behaviour of another). Hence the notion of a regulatory state as described in chapter 2, "one that puts heavy emphasis on rule making, monitoring and enforcement…rather than on subsidies, direct ownership or state operation." For both the purpose and nature of present day regulatory reform has changed as a result of the introduction of the NPM-model.

Earlier regulation in many poor countries was based on the view that markets were exploitative and a threat to the public interest; hence the need for anti-market regulation. Present regulations aim to make markets work more efficiently and, in the case of monopolies, to make them work as if they operate in a competitive market. In addition, the past concern with regulating probity in the process of service delivery has shifted to a stronger focus on regulating the efficiency and value for money in the outcomes (Batley and Larbi 2004, 180-186). In this way, managers of public and private organisations are supposed to be freer to manage but at the same time expected to be more clearly accountable for performance. Regulatory arrangements shall ensure that. However, this conventional focus on efficiency and competitiveness does often not pay explicit attention to regulation to achieve poverty alleviation, employment generation and access by the poor to services (Minogue and Cariño 2006, 12-15).

Unfortunately, systematic evidence about what works and what does not with respect to regulation are scarce in poor countries because: the NPM-type regulatory reforms are fairly new; there are many forms of regulation; approaches to particular forms of regulations vary significantly across countries; and attribution is difficult because firms in poor countries may need much more support or a different approach to regulation – and are much more dependent on government to provide such support and regulation to become successful -- than firms in middle income countries.

Larbi and Batley (2004) have done one of the few independent comparative studies of regulatory reforms.[12] It includes one in-depth LDC study (Ghana) in addition to similar studies on India, Sri Lanka and Zimbabwe. Out of eight different types of regulation of the private sector, they studied two of particular relevance for the UNCTAD agenda, namely the performance of economic regulation of urban water supply (a monopoly service), and the enablement of market actors through the provision of information and support services to private businesses.

With respect to economic regulation of urban water supplies, Larbi and Batley found that the regulatory framework was still embryonic or poorly performing in Kenya, Ghana, and Zimbabwe. Nevertheless, compared to the previous situation, where water tariffs were decided by a ministry without any formal procedures, except political judgement about what was considered acceptable to the public and the politicians in power, even this rudimentary regulatory framework did help to improve water standards and adjust tariffs to reflect real costs. The key challenge in these situations is for the regulator to be sufficiently detached from both the government and the provider.

Two types of enabling services to business were studied: ‘facilitation’ of firms through consultancy, advice, training and research and development; and ‘promotion’ of investment, marketing and export. The organizational arrangements to carry out these functions varied significantly.

The Ghana Ministry of Industry and Commerce, for example, was asked by the government to shift from its previous focus on import licensing to help firms to adopt efficient management and marketing practices. But the ministry retained its organisational structure and staff and did not perform well in its new role. The Ghana Investment Promotion Centre was also an old established organisation, but has now turned into a more arms-length relationship with the government and towards a modified role in supporting private industry (other countries have established entirely new agencies to promote business). It has done relatively better.

Generally, Batley and Larbi found that regulators/business support services worked best – that is was most responsive – to business needs where there was some degree of

[12] However, the Centre on Regulation and Competition, for example, also provides much information (see http://www.competition-regulation.org.uk/index.shtml)

autonomy from the government, some resource dependency on the firms to be supported (in the form of (some) payment for services), and some structural relations to businesses such as representation on boards, etc.

However, governments and their regulatory agencies need substantial capacity to meet their pro-market regulatory and enabling roles. Market conditions and incentives must be understood and assessed continuously; information must be collected and analysed to help to make appropriate regulatory and business promotion decisions; and there must be some arms' length distance to and protection from political and business self-interests. Batley and Larbi (2004, 232) found that in "all sectors there were wide failures in regulatory practices at two levels: first, basic bureaucratic failings to collect information and keep records; second, the invasion of regulators' autonomy by political and vested interests." Table 5 lists some of the constraints in a more systematic and detailed manner.

Provided that there is sufficient political demand for regulation and business support, it is fairly straight forward to deal with basic administrative failings. The autonomy issue is more complex. Batley and Larbi regard this as a serious issue that must be addressed. Others argue that the models of regulation now being transferred to poor countries are inappropriate.[13] Such models may work in rich market-based economies with highly institutionalised economic, social, legal, administrative and political arrangements, but not in typical poor country contexts with problems of the types listed in table 5.

The advice of these dissidents is to be more pragmatic. Regulation inside government may often work better than regulation outside it. Independent regulation may be rare and this should be acknowledged. In poor countries, there are legitimate reasons why regulators and politicians must be concerned with the poverty and development implications of regulation – not just with market efficiency and competition.

Table 5. Key constraints on governments' capacity to regulate and enable private firms

	Regulation of urban water	Enabling the business sector
Internal organisational factors	Regulatory mandate and autonomy not respected in practice Lack of staff expertise in account-ting and economics Inadequate information on prices, profitability and performance	Unclear and multiple purposes of agency Hierarchal organisation (does not work well in enabling role) Lack of autonomy in staffing, finance and decision making Low pay, motivation and expertise
Inter-organisational Factors	Blurred boundaries between government, regulator and firm Neutrality of regulator in question	Lack of clear industrial policy Weak private sector participation Services not paid for
External	Economic and political	Economic instability

[13] See papers are referred to in ID21 Insights, number 49.

institutional factors	instability Political influence on regulator Weak demands of civil society Partiality of judiciary Asymmetrical information and power (firm/regulator/ government)	Direct political control of agencies Distrust between government and firms Weak private sector capacities

Source: adapted from Batley and Larbi (2004, table 8.5).

3.2.2 Executive agencies reform

Executive agencies are typically established through the conversion of government departments, previously operating in a hierarchical civil service system accountable to (sometimes) democratically elected authorities, into semi-autonomous contracting units operating under administrative accountability mechanisms. A central NPM argument for the establishment of such organisations is that they can concentrate on the efficient execution of the functions they perform without the distractions of policy making, evaluation and so on. Clear, well-designed targets will allow them to concentrate on their core business (Manning 2001, 304). Targets will also help to improve accountability vis-à-vis the supervising ministry. Moreover, by moving the execution of functions out of central government, managers of agencies are not encumbered by stifling administrative and bureaucratic rules but are allowed (indeed encouraged) to manage. All this improves the possibilities for creating contract-like arrangements that will enhance performance.

Agentification, which the establishment of agencies is also called, is distinct from other methods to distance the state or to reinvigorate the public sector in that it usually deals with its core functions (although what is considered to be "core" is changing and often country-specific). It often turns a monopoly provider into a contracting agency. It is typically used where it is deemed that some functions are "core," yet there are no firms to privatise to, or privatisation is met with resistance by the political/ administrative elites or the public, while at the same time the efficiency gains of market competition and/or de-bureaucratisation of those functions are regarded as attractive.

Many agencies have been established in recent years, especially in English speaking countries. (In French speaking West Africa there has been a greater focus on divesture and privatisation of State Owned Enterprises according to Caulfield (2006)). In Tanzania, twenty agencies were established by 2004 and more are under way. The design is directly inspired by the "next step" initiatives in the UK and based on an act of Parliament, which ensures a uniform approach. The act specifies in some detail the extent of agency autonomy, budgetary and personnel management arrangements and so forth. Agencies in Tanzania refer to the chief executive of the parent ministry, not to the minister as is the case in the UK (President's Office 2005). In Ghana, there are some 300 Subvention Agencies which, by definition, receive budgetary support. Some are fully funded while others generate some incomes. Administrative and management arrangements differ widely because different legal instruments have been used to establish them. All SAs have individual governing boards appointed by the president. A 1999 plan to restructure them as part of the public sector reform was not implemented as a subsequent change of government put this (and reforms in general) on hold (Stevens and Teggemann 2004, 67). Zambia has about 40 agencies established by an act of parliament but it provides a rather loose framework for design and operations. Government policy was to gradually reduce budget support to them to force them to stand on their own feet, and to provide a new and more focused legal framework for their operations, but progress on both initiatives is slow (Ibid, 68). Uganda has around 75 agencies including a number of independent commissions but their set-ups vary widely and the government has not yet established a uniform approach to establishing and supervising them. As a result they are not well integrated in the government's budgetary and financial management systems although their requirements for government funds are substantial.

While the Tanzanian agencies mostly operate in productive and infrastructure sectors (roads, forestry, civil aviation, business registration, etc.), and where they can generate some income (various specialized training institutions), the Ugandan ones seem more widely used for social service delivery. Here one ministry alone—the Ministry of Gender, Labour and Social Development—is responsible for 12 agencies plus two statutory bodies (Caulfield 2006). A similar picture emerges from Zambia.

Evidence-based assessments of agency performance in these African countries are few – as they are even in rich countries (Pollitt 1995; Pollitt, Bathgate et al. 2001). Their promotion has been based mostly on a priori reasoning and faith, and by strong pushes from donors. Given the variations in agency approaches in the four countries just described, it is not surprisingly that the results have been mixed.

Examples of well performing executive agencies can be found in each of the countries dealt with here. Owusu (2006, 701-702) reports about the "the phenomenal transformation" of the Ghana Institute of Management and Public Administration" from an institution "marked for closure within 24 months" to one that has become the pride of Ghana's public-sector reforms. Anecdotal evidence points to "the critical importance" of the support of the government and the board of directors, the institute's relative financial autonomy, and a change in leadership, which brought in an 'outsider' who "skilfully took advantage of the crisis to implement crucial reforms which laid the foundation" for the turnaround. A sister organisation, the Uganda Management Institute, is also a relative star performer and has been so for years. It illustrates the importance of some of the similar success factors as the Ghanaian case does (Therkildsen and Tidemand 2007). On Tanzania, Kiragu (2002,10) states that significant improvements in the services provided by these agencies have been made, i.e., better road maintenance, higher quality airport services, faster business registration and improved counter services, and a more efficient and effective National Statistics Office (see also Rugumyamheto (2004) and the next section). The Zambian Patents and Companies Registration Office has successfully achieved a self sustaining financial autonomy and has utilized this autonomy to transform into a revenue generating institution driven by customer satisfaction and improvement in the quality of service delivery according to the UN (2006, 57-58).

Despite such examples there is insufficient evidence to support a general claim of success for the agency model in African LDCs. A rare and serious attempt at assessing the model by the Government of Tanzania itself, for example, led to inconclusive results. It showed that the quantity of service delivery in some twenty agencies *had* improved in most of them, while quality and efficiency had probably not (yet). However, it is uncertain what caused the improvements, which were moderate in any case.[14] For on the one hand, government/donor funding and attention seem to have increased during the formative years of the agencies (agencies are now more dependent on government subsidies than when they started). On the other hand, not much "new blood" entered the agencies. Former directors of ministerial departments, and their staff, were basically transferred "en masse" to the agencies. Thus, rules and organisations were changed, but the people operating them largely remained the same (President's Office 2005, chapter 3). This makes it difficult to sort out the extent to which performance changes can be attributed to the executive model per se.

Also Manning (2001) and Caulfield (2006) report about very mixed performances based on their literature reviews. Batley (1999), in a comprehensive five-year study of reforms in developing countries, concluded that the transactions costs of establishing agencies tended to outweigh the efficiency gains of unbundling, and that the accountability of agencies decreased, thereby, probably, contributing to increased inequality.

Revenue authorities in particular have been studied as many countries have opted for the agency model for various tax responsibilities (Kenya, Malawi, Rwanda, Tanzania, Uganda, Zambia and South Africa). In all cases the authorities were physically separated from their ministries of finance. Some, but not all, obtained additional 'autonomy-enhancing features' such as self-financing mechanisms, boards of directors with private sector representatives and autonomous personnel systems. Taliercio (2004) argues that the authorities with the highest autonomy and stability (South Africa and Kenya) have consistently performed best in terms of revenue/GDP. This is the standard view on autonomy among donors supporting executive agencies. But this is surely too simplified. Good performers may simply enjoy good government support (political, administrative, funding) and that may be as important for performance as agency autonomy per se. We do simply not know enough about the various autonomy arrangements[15] and their effects on performance. Moreover, early success by, for example, the Ugandan Revenue Authority, which pushed revenue collection up from 2% to 12% of GDP in just ten years may prove short-lived because corrupt practices and political interference, most openly in staff recruitment, have resurfaced (Therkildsen 2004).[16]

This leads to the political economy of executive agency formation and operation. The mixed success of executive agency reforms in the region has been explained as either a problem of institutional capacity or the absence of grassroots democracy to hold agencies to account. Caulfield (2006) takes a different stance, arguing that such

[14] Eight agencies had improved, four had remained static and two had deteriorated.
[15] These can take various forms, for example: Internal self-management, notably in relation to personnel and salaries; procurement; and procedures. Long-term guaranteed budgets. Long-term guaranteed tenure of senior staff and members of the 'oversight board' and pluralism in the procedures for nominating its members. 'Solidity' of the separate legal status of the authority. Etc.
[16] The new Commissioner General, for example, has close family ties with the President. This gives her clout to enforce tax compliance of powerful taxpayers and firms (revenue collection has improved modestly since her entry). On the other hand, differential treatment on political grounds may also result (several large firms and powerful individuals, for example, had their huge tax liabilities cancelled in October this year).

reforms are highly political and sometimes resisted not only by politicians and public servants but also by an aware and sceptical public. Similarly, Pollitt (2002 , 6) notes that attempts to set up UK-style performance-oriented agencies in Tanzania “ran into difficulties partly because of hugely influential relationships ‘outside’ the agencies themselves, such as the centralized strength of the Presidential system of government, and the acute budgetary instability of a poor, developing country.” Moreover, the differences between the new executive agency construction and the parastatal model of the past have proven difficult to explain to senior politicians and civil servants in Tanzania (Therkildsen 2000, 68). Indeed, the differences are often minor and only obvious to the experts. The promises of the parastals of the 1960s were undermined when they became weighed down by political goals separate from those of the organisations themselves (patronage, rent seeking, subsiding particular segments of the customers, etc). The irony is that executive agencies face the very same threats today.

Three lessons from the recent experiences with executive agencies stand out. Autonomy is not static and autonomy can be abused. Without the discipline of the application of performance criteria and the enforcement of contracts, autonomy has obvious dangers, for example by providing access to generous staff benefits without requiring commensurate performance (van Arkadie 2003, 14). Moreover, Caulfield (2006) found that where agencies can tap lucrative sources of funding in the private sector, they have proved more successful than those dependent on government subventions. The third lesson is that the promotion of executive agencies in poor countries has often been driven by the prospect – also attractive to donors - that escape from dysfunctional central government ministries promises. However, this is not a constructive motivation. Dealing with the administrative and political problems of agency performance can often be as challenging as invigorating moribund ministries. There are few technical and political short-cuts to better performance.

A good dose of pragmatism is therefore called for although executive agencies do provide the opportunity for reintroducing the idea of a more active role of the state in the economy in general and in promoting productive capacities in particular.

3.2.3 Creating ” islands of excellence”

Current quantitative measures of the quality of governance hide as much as they reveal despite donor and academic indicator obsessions. Khan (2002) argues that the indicators do not measure what has historically proven to be important factors for promoting growth; therefore they are of little relevance for growth-enhancing country-specific policies. Arndt and Oman (2006) question the technical soundness of many indicators. The third problem is that the indicators seek to measure country-wide governance qualities, thereby hiding the wide variation in governance quality and organisational performance *within* countries. For organisations that perform well are important sources of information about what *can* work in difficult situations. The people who manage and run them are practicing precisely what many academics and donors are now also preaching as a recipe for better performance: seeking to find the ‘best fit’ to the political, social cultural and administrative context in which the organisations operate.

Implementation of the UNCTAD agenda can benefit from insights from some of the few studies of organisational performance differences. It is also worth noting the creation of 'islands of excellence' (IOE) seems to be central to the strategies of developmental states. For all of these had, at some earlier stage, many of the features that we today associated with neo-patrimonial states (Kohli 2004).

IOEs refer to organisations that – by deliberate political design or by own efforts – manage to perform well under difficult circumstances. To identify them when performance data are poor and unreliable is, of course, a challenge. However, Therkildsen and Tidemand (2007) used a few well-informed people inside and outside the public sector to identify such organizations (ministries, executive agencies). Their identification of the top and the bottom performers were remarkably similar. It illustrates a lively interest in and knowledge about public sector issues that is fairly easy to tap into. The results are as reliable as those of many international country ratings, which are also based on the assessments of a few individuals.

The more substantial challenge is to explain what it is that make IOEs perform well. Both Grindle (1997) and Therkildsen and Tidemand (2007)[17] arrive at some of the same factors based on interviews of public servants. First, there is no doubt that leadership and management make a difference. In well performing organisations staff have a sense of mission and purpose; management gives clear signals about expected work effort and quality and rewards accordingly (monetary rewards where this is possible; in addition promotions, study leaves, recognition, respect, etc); and some extents of participation, flexibility, teamwork, problem solving and equity are practiced. Grindle adds 'mystique' to that list. She found that *prestige* (recognition associated with working for a respected organisation); *professionalism* (working for an organisation that subscribe to universal standards) and *service to the country* (positive nationalism) were important in explaining performance.

Second, merit in recruitment, promotion, demotion and dismissal of staff is a key factor. This finding is confirmed by many others (see, for example Rauch and Evans (2000) and Evans and Rauch (1999)). Recruitment practices are especially emphasised in that literature, but public servants in Tanzania and Uganda were actually more concerned with the (non)use of merit principles in promotions, demotions and dismissals. Grindle singles out autonomy in staff management as a key to merit practices. This is correct, but some of the well performing organisations included in the Tanzania-Uganda analyses did not have such formal autonomy. Yet, executives succeeded to protect their organisations from external political and patronage interferences in staff matters, undoubtedly using their own network of connections to do so. Autonomy is not the only way to ensure the application of merit practices.

It is also interesting to note that certain factors commonly mentioned in the literature as central to performance enhancement were not accorded the same importance by the public servants interviewed. While salary levels are important for staff motivation, neither Grindle nor Therkildsen and Tidemand found these to be decisive in explaining performance differences. In Tanzania and Uganda it was rather salary *differences* within and among organisations in the public sector which caused *de-*

[17] Grindle included 29 organisations in Bolivia, Central African Republic, Ghana, Morocco, Tanzania, and Sri Lanka. Therkildsen and Tidemand included 9 organisations in Tanzania and Uganda.

motivation. Staff was well aware about such differences – especially between ministries and executive agencies – and staff in the former regarded them as highly unfair. This means that deliberate attempts, for example, to paying high salaries to selected professionals, and to executives of IOEs, to enhance performance may well have a down-side effect by the dissatisfaction and de-motivation it creates in the public sector at large. What may be gained on the islands may be lost in the sea. The dangers of focusing on enclaves are real as donor experiences clearly show (Manning 2001, 26; World Bank 2004, 26).

'Client' demand for services and 'client' oversight mechanisms to put pressure on organisations to deliver are also frequently mentioned as important to enhance performance, but such factors were not identified in any of the two studies. It indicates that the importance of the 'demand side' for performance enhancement in public sector organisations may well be overrated. Market competition is also regarded as instrumental in enforcing organisational discipline and enhancing performance. Grindle does not deal explicitly with that issue. In the Tanzania-Uganda study, this factor was important for one of the well performing organisations. However, the sample composition prevented a more thorough investigation because ministries do not operate under competitive conditions and only a few of the executive agencies do.

As these analyses show, good leadership and management are clearly important for organisational performance in difficult settings. They influence staff motivation, the organisational culture in general and the extent to which merit principles are applied. The fundamental question is therefore why the good performing organisations are endowed with such leadership and management. The developmental state literature indicates that this is a result of deliberate political decisions to create capacity in key parts of the public sector. Similar considerations are undoubtedly at work in Tanzania and Uganda, for example. It is perhaps no accident that ministries of finance (World Bank 2005,45) and education in Uganda are (or were) run by highly competent executives. There can be clear political interests in such ministries having adequate capacity. Not only are they central for the implementation of the political agendas. The ministries are also important in handling substantial donor support. Major failures in implementation would have wide ranging domestic implications and sour the relationship to important donors as well.

The imponderable question is, of course, why such concerns do not result in many more well performing organisations across the public sector. The answer must be that at some point, limits to political capacity and to the availability of highly skilled staff to run key institutions become real constraints. Islands are, after all, islands. An equally valid answer, going by experiences from emerging developmental states, is that islands of non-performance can also be useful for rulers that need patronage opportunities to build or sustain political support. IOEs and non-IOEs are, perhaps, complementary.

A final observation on IOEs is that they need not emerge by design only. They may also emerge by accident when staff and management in organisations grab chances to perform better. Some of the Tanzanian and Uganda performers clearly illustrate this point. Such cases are easily drown by general notions of the ills of neo-patrimonial states (Therkildsen 2005). They are, in many respects, the unintended positive consequences of operating in weakly institutionalised settings, which allow administrative and political entrepreneurs to operate without too many formal constraints.

The strengthening of both general and specific capacities is clearly needed in poor countries and the common sense position is these should go hand in hand. Unfortunately, that piece of advice is often very demanding. Hence, creating IOEs and subsequently spreading their ways of doing things to other parts of the public sector is a viable approach. For IOEs provide concrete country and context specific lessons on what works and what does not. This is a great advantage compared to reforms initiatives designed from models transferred from rich countries. We also know that the deliberate creation of IOEs was often a central element in the strategies of developmental states to strengthen often clientelist and inefficient bureaucracies. The same strategy may be useful for LDCs if adopted to the political, economic and cultural conditions here.

3.3 Conclusions

This chapter has illustrated that to develop state capacity across the entire public sector is a long and difficult task. Eight approaches to achieve that have been analysed, and some of their pros and cons have been highlighted. Two general conclusions can, however, also be made. The attempts at improving state capacities to perform have had mixed results. Moreover, *the success or failure of reforms often depend as much on the context and strategy of reform implementation as on the content and policies of the reform* – a point also made by Andrews (2006, 159) with reference to budget reforms, by Polidano (2001, 357) on civil service reforms, McCourt (2001) on NPM reforms, and by Kohli (2004, 418) on industrialisation in developing countries in general.

The next chapter presents some of the lessons from current reforms that may useful for developing a more strategic approach to public sector reform based on the insights from the analyses presented here.

4 Drawing lessons

After years of seeking to reform on the basis of notions of 'best practices,' a simple but important lesson can be drawn from the literature – and from the preceding analyses: 'Best practices' cannot be transferred from one country to another, or even, in certain cases, from one organisation/sector to another within a country. This insight is captured in the notion of 'good fit,' which is now stated as a basic principle for work by the World Bank and other donors on institutional and governance reforms. The 'good fit' notion it is repeatedly mentioned in the literature, too. The advice is to start with what exists on the ground -- emphasizing 'good fit' rather than 'best practice' -- and deepen analytic work to understand existing situations better, including a broadening of the approach to focus on the "demand" as well as the "supply" side of reform (World Bank 2002, 1). This advice may not generally be adhered to in practice but is, nevertheless, sound. It also opens the door for a higher degree of recipient ownership of reforms, which is now regarded as central for reform success.

But while the notion of 'good fit' is helpful, it does not tell us much about what it entails in practice. Figure 1 presents factors which need to 'fit' for reforms to move. The proposition is that there must be some degree of fit between the political capacity to drive reforms, the type and extent of change implied by the reform and the technical capacity to design and implement it. The figure also shows how these three main factors interact. Reforms will progress *if* their outputs/outcomes of reform meet political demands for them; *if* implementing arrangements and political power to support reforms match their resource requirements; and *if* the technical competencies match requirements of the reform tasks.[18]

The proposition highlights that reform progress is not just a matter of one single factor (political will; technical capabilities; need for reform, etc) but depends on how well the key factors pictured in the figure fit together in specific situations. Another important insight illustrated by figure 1 is that "how to do reforms" often depend on "what is to be reformed" and the extent of changes aimed at.

Figure 1 does not cover everything. Good fit – or misfit – occurs in institutional and general contexts that influence how and if a fit occurs. Some of the implications of this wider context are discussed below. However, the figure does capture some of the important "how to do reform" factors that this background paper seek to highlight. The different elements in this model are explained in more detail below.

[18] The figure is inspired by Korten (1980), who focused on conditions for successful community oriented projects.

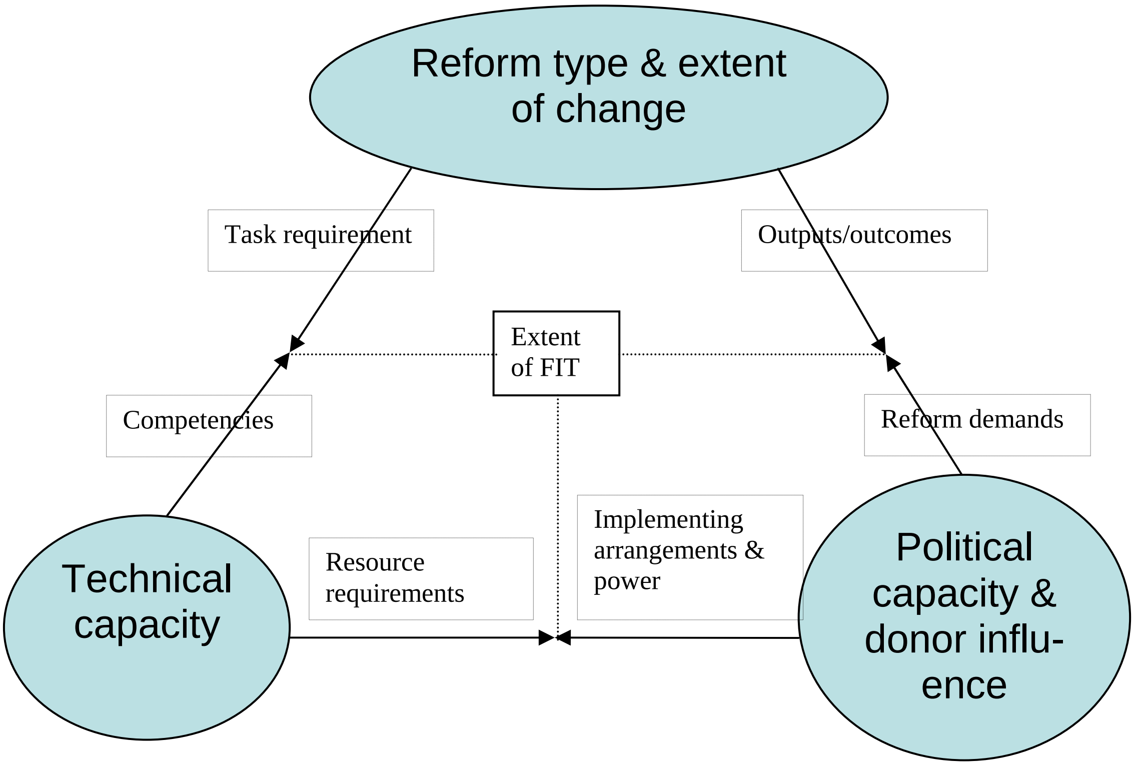

Figure 1. Schematic representation of fit requirements in reform processes

4.1 Reform types and extent of change

The main lesson is simple. Reforms that imply modest technical changes are more likely to succeed than reforms aiming at significant changes that create losers with political clout. This may appear to be common sense argument for incremental change, and so it is. But there are situations when 'big bang' approaches to reform may sometimes work.

4.1.1 Bases for incremental versus 'big bang' changes

Many reform types are relevant for the UNCTAD agenda. Only a few of them have been discussed in chapter 3. But given the general lesson highlighted above, this section will focus on *incrementalism versus big bang* strategies to bring about changes. Issues of reform types are discussed in chapters 4.1.3 and 4.2.2 (different reform types imply different constellations of political support and different task requirements and these do, of course, also influence the extent to which reforms are actually implemented).

There is a long and strong incrementalist tradition in public administration presented, for example, in two seminal articles by Lindblom (1959; 1979) and in March and Olsen (1989). Lindblom's main argument is that reform implementation in real life is not guided by a conscious comprehensive strategy (although it may exist on paper), but usually by ad hoc and partial government responses to specific problems. Policies are incremental in the sense that attempts to change outputs and outcomes are cautious; policy problems are analysed one at a time, rather than in a comprehensive and synoptic manner; and the process of policy decision making is fragmented and/or decentralised, so that the resultant 'policies' reflect attempts at mutual persuasion by main stakeholders, rather than a decision by a single unitary body. The 'art of muddling through,' as Lindblom calls it, can result in significant changes over time as incremental changes accumulate. Experiences of public sector reform in rich countries fit this model well (Pollitt and Bouckaert 2000, 184).

Incrementalism also fits reform experiences in many LDCs (e.g. McCourt 2001, 245; Engberg-Pedersen and Levy 2004). The conventional argument for incrementalism is that "big bang" approaches have failed because they overstrain (and overestimate) implementation capacity (World Bank 2004, 45). But that explanation represents just one corner of the triangle of factors shown in figure 1. And 'big bang' reform strategies *are* tried out in poor African countries. Why?

Kiragu (2002, 15) argues that fragmented and piecemeal reforms are rarely successful. They lead, for example, to "downsizing without capacity building, capacity building with pay reform… and without service delivery focus." The problems of the public sector in LDCs are so pervasive and deep that only a comprehensive and radical approach will make a significant difference. Agendas are of necessity broad because they reflect multiple and interlinked reform needs. Partial approaches will not work. Even though more radical reforms may seldom attain their goals, they sometimes help to push some improvements through. Among the examples are: the decentralisation reform in Uganda; the Kenya Revenue Authority; and the implementation of comprehensive reforms in Tanzania have made some progress (World Bank 2007, 49).

The key factor in the incrementalism versus big bang debate is not the 'objective need' for reform, as Kiragu argues, but political support (see chapter 4.2). In most cases the strength of this support implies that "strategic incrementalism" is often appropriate: highly focused and pragmatic interventions grounded in the political realities and consistent with the capacity constraints of the country in question. To the extent that donors are involved in this, the implication is that they should be so flexible and risk-willing that their support can be quickly used when 'windows of opportunities' arise. Real and significant reforms tend to happen in spurts.

4.1.2 Reform outcomes and outputs

The fit requirement is that reform outputs/outcomes should satisfy the reform demands (see chapter 4.2.2)

Reform outcomes have been very mixed and vary widely *across countries*. van de Walle (2001, 61) wrote in 2001 that "virtually all observers" agreed that in most African countries "the state's ability to get things done has weakened over the least twenty years" and this trend is certainly observable. It is partly a result of lasting negative effects of the reductions of government organisations (staff retrenchments, pay and recruitment freeze, etc) during the Structural Adjustment period (Helleiner 1992; Mkandawire 2001; Kiragu 2002). Others note that some trimming of state functions were necessary and helpful (Stevens and Teggemann 2004) and that the negative picture is exaggerated. Moreover, it is possible that significant reform progress in some countries have not yet resulted in significant service delivery and growth enhancement (Kiragu 2002, 13). Thus, some African countries are progressing well on the MDGs although most are still far from reaching them (the gap is as much a result of unrealistic global targets applied without regard for country-specific starting points as of poor implementation). And recently a more upbeat view of growth prospects in African countries has emerged.[19] In any case, evaluating the outcomes of major reforms is notoriously difficult anywhere in the world and has not really be done even in countries with good data (Pollitt 1995).

However, some quantification of the large variations in reform outcomes is possible as shown in table 6. It focuses on two of the key indicators of goal achievement that were pursued from the mid-1980s to the mid-1990s, namely downsizing of staff and reduction in the size of government, here measured as government consumption per capita. The very mixed results across countries – even with respect to key indicators

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[19] The latest World Bank "Africa Development Indicators 2007," for example, shows that Africa is "achieving steady and healthy growth rates." As a result, the Bank's negative views on governance in Africa, which drove much of its past reform work, are changing too. The Chief Economist for the Africa Region now says that "past pessimism about Africa's ability to grow and compete with the rest of the world "does not arise from the failures of Africa enterprise and workers… Rather, it "arises from the fact that the continent faces an infrastructure gap and a level of indirect costs that are anywhere from two to three times as high as those in competing economies in Asia." http://web.worldbank.org/WBSITE/EXTERNAL/ COUNTRIES/AFRICAEXT/ 0,,contentMDK:21548806 ~menuPK:258657~pagePK:2865106~piPK:2865128 ~theSitePK:258644,00.html. Accessed December 7 2007.

of the structural adjustment inspired reforms – is striking. To explain such variation requires a country-by-country analyses. It is really difficult to generalise.

Table 6. Changes in the size of the state from mid 1980s to 2000 (compounded percent change per year)

	Government employment		**Government consumption per capita**	
	Mid-1980s – Mid 1990s	Mid-1990s- Around 2000	Mid-1980s – Mid 1990s	Mid-1990s- Around 2000
Kenya	1.4	0.4	-2.3	1.9
Malawi	2.0	2.8	0.0	1.4
Mozambique	-0.8	1.2	-0.6	13.8
Tanzania	-1.2	-6.1	-2.8	-9.7
Uganda	-3.0	3.0	5.6	8.7
Zambia	2.2	0.9	-6.1	-2.5
Zimbabwe	0.4	1.5	-4.0	0.4

Source: (Therkildsen 2006, table 2.1)

In addition, there are variation in reform implementation *over time* in one country. Yesterday's donor darling can be today's worry. Uganda, for example, was regarded as a star reform performer during the 1990s (Collier and Reinikka 2001), but unsolved problems of presidential succession and the emergence of an increasingly authoritarian regime have cooled enthusiasm both at home and abroad. In contrast, Tanzania was earlier regarded as a slow and reluctant performer, but is now seen as a good example for others to follow (Hyden, Court et al. 2004). Ghana has its ups and downs with reforms (Owusu 2006). Kenya have done little for years (Cohen 1993; Kiragu and Mambo 2002) .

Moreover, variations in reform implementation *across sectors within countries* are also considerable. Batley and Larbi (2004, 98-102) concluded, in their four-country/four sector study of reform in developing countries, that industry and agricultural sectors had undergone much more significant reforms (commercialisation, agentification, privatisation) than water and health due to their larger exposure to structural adjustment conditions and liberalisation. The results have been mixed in agricultural marketing (and health), and generally poor in urban water supply due to a mixture of political, organisational and economic reasons.

Finally, reform *outputs/outcomes affect perceptions about the desirability of reforms*. There are three reasons why perceptions tend to be rather negative. First, many agree with this statement by Kiragu (2002, 17): "The legacy of the pains of the SAP-driven reforms (retrenchments, employment stops, wage freeze, cost-sharing, etc) still makes the general public and political leaders weary of reforms." Moreover, his observation that current reform progress in many countries is good, but their impacts are still limited (p. 13) also rings true (the operations went well, but the patient is not improving). Third, the generally pessimistic views on Africa may also be significant in shaping the perceptions (among donors in particular) that supporting reforms is an uphill battle.
Yet, this picture is a general one which hides as much as it reveals. Chapter 3.2.3 and the analyses above showed that there can be significant differences between and

within countries with respect to reform progress and outcomes. To capture that requires more attention to what actually takes place. As Gabre-Madhin and Haggblade (2004) for example note, despite the pessimism of the outside world and of donors at large, the agricultural specialists close to the ground are often upbeat about the prospects of African agriculture. They base this on a broad range of agricultural successes across the continent – including institutional successes in national agricultural research centres, farmers associations, and crop specific initiatives. Perhaps an important lesson is that wider dissemination of reform successes are central for political and popular support for them?

4.1.3 Task requirements

Both the NPM-style and the good governance reform agendas are very demanding to implement. The public sector competencies (chapter 4.3.3) may not match the task requirements involved.

Transferring a NPM model to developing countries involves a double move, namely a transfer of management ideas from rich western countries to poor southern ones, and a transfer of functions from the public to the private sector. This often conflict with social and political dynamics of public organisations and systems (Schick 1998; Taylor 2001; Pollitt 2002). Moreover, result-oriented management,[20] which is a central element of NPM and is at the heart of the Millennium Development Initiative, the PRSP processes, and the Paris-declaration on aid effectiveness, has proved to be difficult principles to implement and especially "elusive" as stated in chapter 3.1.4. Public sectors in poor countries are often ill equipped to carry out the indirect and direct roles of states implied by the current New Public Management agenda (Batley and Larbi 2004, 219). No surprise, therefore, that NPM style reforms in most developing countries have a high failure rate (Polidano 2001, 56). Although other types of reform also have a problematic track record, Polidano raises three specific arguments against NPM-inspired reforms in LDC contexts (57-60): (a) lack of expertise and poor information systems will undermine attempts at creating internal markets in government as well as introducing performance-monitoring systems; (b) corruption and nepotism is widespread in LDCs against which central controls are necessary safeguards; and (c) formal contractual mechanisms of accountability for performance will be circumvented by informal practises. Manning (2001, 307) adds that public expectations about government performance in service delivery, regulation and development in general are "justifiably poor." Complaints are therefore rare and often drowned by donor expectations and conditionalities about what should be done and how. Demand side accountability has proved to be weak (see also chapter 4.2.2).

Others concur. Instead, the 'informality of the public sector operations' (Schick 1998), the 'administrative fundamentals' (McCourt 2001), or 'basic reforms' (Steedman et al 2005), need to be addressed first. These include improved input oriented budgeting and budget control, better staff and payroll control, pay reform, and reforms to diminish the informal influence on the public sector.

Counterarguments in favour of NPM-inspired reforms in LDCs are, however, worth recording too. First, LDCs tend to incur all the disadvantages of central controls

[20] See footnote 10 for an explanation.

advocated by Weberians without reaping their potential benefits because rules and hierarchy create considerable transactions costs and are often bypassed in practice as Polidano (2001) notes. In that situation decentralisation of controls as advocated by NPM proponents may be a feasible way to go. Second, while it is true that many NPM-inspired reforms fail, or are only partly implemented, the same is the case for more traditional Weber-inspired reforms as noted above. Third, the World Bank argues that waiting to adopt full-scale NPM does not mean that governments should wait to adopt performance management. "A focus on monitoring and evaluation of results and on transparent reporting of those results is always called for, even if not accompanied by full-fledged managerial flexibility" (World Bank 2000, box 14). This results-orientation adjusted to contry-specific circumstances is feasible in many situations.

The present good governance reform agenda is also difficult to implement, and may often contribute to partial, poor or no implementation by undermining or paralysing the very state capacities that reforms aim to build. There is a growing awareness of this problem (Grindle 2007). She advocates for a 'good enough government' concept. This requires a prioritised sequencing of reforms based on "assessments of the context in which governance reforms will be introduced and the ways in which their contents affect interests and institutional capacities" (which is consistent with the approach recommended in this paper). However, it appears that the good enough governance concept has not yet led to significant changes in donor demands for across-the-board governance reforms.

Both the NMP and the good governance reform agendas can, however, be broken down into more specific initiatives, which involve different task requirements and produce different outputs/outcomes (Figure 1). Everything else equal:

- Technical aspects of reforms are easier to implement than more political reforms, including those that affect public sector staff directly (chapter 3.1.4 and Boesen and Therkildsen 2005)
- Reforms aimed at specific 'measurable' goals are easier to implement than more process oriented ones (Engberg-Pedersen and Levy 2004, 91).
- Public sector capacity to implement performance management reforms is especially scarce (see chapter 3.1.4 and Grindle (2007, table 6)), although a stronger focus on results is often possible as indicate above.
- Organisational design and management initiatives are easier to implement than institutional reform initiatives (chapter 3.1.4 and Teskey (2005)).
- Reforms of one ministry with clear mandates for one sector are easier to implement than reforms involving several sectors and ministries/organisations because the inter-organisational/ institutional relationships are difficult to manage and change (Maxwell (2003, 18)).
- Reform implementation seems especially difficult when government policy vis-à-vis the private sector are important for outcomes (Foster 2000). Agriculture is a case in point
- Donors typically overrate the positive impacts they actually have with respect to policy advise (Mosley, Weeks et al. 1994) and to capacity development (Boesen and Therkildsen 2005). Indeed, uncoordinated and poorly aligned aid can undermine ownership and recipient government competencies.

- Reform success ultimately depends on fitting task requirements, technical capacity and political capacity (Manning 2001)

4.2 *Political capacity and donor influence*

The current consensus view is that successful reforms depend significantly on the extent to which domestic political capacity to push for changes fit the power and resources that need to be assembled for reform implementation (figure 1). Moreover, it is widely agreed that recipient ownership is often weakened by the deep involvement of international actors, although it can sometimes strengthened ownership by the resources and technical skills provided and without which reforms would not be initiated and implemented.

4.2.1 Bases for political capacity and donor influence

A central "how to do it" question is to identify the conditions under which internal political settlements for reform are sufficiently strong to push them forward. Although 'growth coalitions' (chapter 3.1.5) and reform coalitions more generally cannot not emerge everywhere, there are fairly different views about the conditions that may be conducive for them to emerge.

Kohli (2004), for example, uses differences in class formation to explain the extent of structural transformation of developing countries since colonial times. He concludes that the differences in their growth and industrialisation can be explained by the way state power is organised. In South Korea, industrialisation was driven vigorously by a *capitalist-cohesive* state (an 'ideal type' concept). The cohesion of state authority is manifest both at the intra-elite and the elite-mass levels and characterised by centralised and purposive structures that penetrate deep into society. Social links with producer and capitalist groups are especially close. Contrast this with Nigeria, where a *neopatrimonial state* (another ideal type) blurs the distinction between public and private realms. As a result the state is weakly centralised with authority structures that are barely legitimate. Despite the facade of a modern state, public officials tend to treat their office and public resources as their own. State-led development under such circumstances have often had disappointing results mainly because "both public goals and capacities to pursue specific tasks… have repeatedly been undermined by personal and narrow group interests" (p9). Kohli explains the differences in the political organisation of state power as a result of three sets of influences: "colonialism, nationalist movements, and coercive politics of national armed forces". The point is that present day organisation of power is rooted in the past, and is not likely to change significantly in the short run. The political conditions for structural transformations are therefore limited in countries with weak capitalist-cohesive states.

McCourt (2001, 245) takes a much shorter time perspective than Kohli and is less concerned with reforms from a structural transformation perspective. From this pragmatic vantage point McCourt rejects the predictive power of regime types with

respect to the type of reforms demanded.[21] Uganda's regime characteristics, for example, cannot explain the types of reforms being pushed there.
Consequently, McCourt argues for a contingency approach to reforms. Contingency implies adaptation to the organisational, institutional and political contexts in which they are deployed rather than a standard prescriptive 'manual' for reforms. However, a complete fit to situation-specific contexts would preclude change. Logically, reforms must therefore involve some degree of purposive non-fit. This implies that both incremental and big bang approaches to reforms are possible (chapter 4.1.1), but the contingency model encourages a pragmatic and heterodox approach to identifying suitable reform activities.

Moreover, the political bases for 'big bang' reforms may often be most conducive in post-conflict countries. The Ugandan experience shows that in a power vacuum left by a civil war, the winners can push through quite dramatic reforms of the public sector. The radical devolution reform that has been pushed by the ruling regime – initially against the resistance of the World Bank and many donors – illustrates this. Reform resistance may emerge later, however, and slow down the speed of reform as is happening now (see, for example chapter 3.1.1).

Donors are a main driving force in many reforms. Despite much talk about partnership, common interest and ownership, donors are de facto deeply involved in the design and implementation of reforms in donor dependent poor countries. The very ambitious reform agendas often pushed by donors have helped them to become an accepted/tolerated and even institutionalised part of the reform process: there is always a 'need' for more reforms and for funds to design and implement them. Therkildsen (2000) has documented Tanzania's 'reformitis,' for example. Moreover, the debt relief initiatives of the early 2000s were conditioned on meeting various governance requirements and this has provided new impetus for reforms. It is too early to tell if the Paris Declaration process on aid effectiveness will help to reduce direct donor involvement in the reforms – or lead to better coordination of reform initiatives - but a recent survey showed that the process of donor harmonisation and alignment is very difficult (OECD 2007).

4.2.2 Reform demands

How to win support for reform is a real challenge. Donor requirements and funding may encourage governments to start reform initiatives, but domestic support are needed for them to be sustainable. Key domestic groups must have continuing incentives to support reforms – either because of the benefits that support brings, and/or because of the higher costs that withdrawal of support incur. A fit between reform outputs/outcomes (chapter 4.1.2) and reform demands is therefore important. This raises two questions of relevance to incentives: what types of reforms are actually demanded? Who have sufficient capacity to influence the reform agenda?

Reform types

[21] Various regime type classifications are popular in the literature. See, for example, Manning (2001); Moore shown in Grindle (2007); and the World Bank (2005, table 9.2) The usefulness of such classifications decline if they substitute in-depth analyses. In any case evidence to show that these typologies are actually helpful is weak.

Privatisation has generally faced widespread resistance since it was introduced as a central part of the structural adjustment programmes in the 1980s. Public and political resistance to privatisation is still prominent. There are many reasons for this resistance (Kirkpatrick 2001) but one tends to be overlooked: when a public entity is privatised ownership is often transferred to members of an ethnic minority (e.g. Asians in Tanzania). This clearly affects public demands for privatisation. Ownership is still a potent political issue and stakeholder activism to prevent privatisation of public organizations, assets and services is often strong. As Caulfield (2006 19) writes: "elected officials have legitimate claims to represent their constituents, and these constituents are not always supportive of reform agendas that seek to remove public goods and services from state control."

Public/private partnership (PPPs) is the most recent privatisation reform initiative to emerge in sub-Saharan Africa with substantial donor backing. Governments in several countries have adopted them as an alternative to full divestment. PPPs as "a model for reform (and apparently one acceptable to the donors) has allowed national governments to save face with their constituents, in what has otherwise been a highly controversial reform" (Caulfield 2006, 25).

Reforms to strengthen general state capacity - pay reforms, reforms of human resources management and performance- management inspired reforms (chapter 3.1) - mainly draw attention from public servants (in rich countries such reforms are rarely initiated by public demands either). Pay reform in particular are often demanded (i.e. much better pay), but with increasing political competition politicians seem to prefer to give modest pay improvements across the board rather than substantial increases to selected groups of strategically important staff (engineers, doctors, etc). There are more votes in primary school teachers and health staff than in professionals. The slow pace of pay reform has resulted in a virtual explosion of allowances, for example Tanzania and Uganda, resulting in a non-transparent type of 'pay reform' reflecting domestic political conditions (chapter 3.1.1).

Reforms to strengthen specific state capacities (chapter 3.2) also take place without much political and public attention. They seem to be driven mostly by technocratic – and donor – concerns. Moreover, the emergence of executive agencies sometimes creates tensions vis-à-vis traditional (often highly politicised) ministries. Such agencies may eventually spearhead demands for deeper reforms of ministries – or eventually become a constituency for status quo as was the case with parastals until they ran aground, were privatised or became moribund.[22]

Politicians prefer quick-win reforms – and so do donors now. A major problem with the structural adjustment reforms, and many other change initiatives of the types discussed above, were that their costs were immediate (retrenchments, pay and employment freeze, etc) but benefits were uncertain with respect to timing, incidence and size. Quick-wins reforms have therefore been a main feature of recent change strategies (e.g. Tanzania) and some successes have been scored (Stevens and Teggemann 2004). Such quick win reforms should also concentrate on building 'reform space' in which governments "define, motivate and implement reforms suited

[22] In contrast, elections have helped to generate effective public demands for social sector reforms especially in education and health (e.g.Tanzania and Uganda).

to their own situations” (Andrews 2006, 159). Islands of excellence (chapter 3.2.3) may represent such starting points.

Finally, since the impacts of comprehensive reforms are difficult to predict (extents and incidences of gains and losses) resistance to them may be diffuse; determined technocrats backed by donors may therefore have a fairly free hand to push such reforms. This – not strong and visible political support - explains the comprehensive reform approach set in motion in Tanzania in the late 1990s (Therkildsen 2000).

Who demand reforms

Seven observations can be made about the current *domestic bases* for political capacity to push reforms in LDCs in Africa.

First, most reform initiatives tend to be demanded, designed and implemented in a top-down fashion by bureaucratic elites and with substantial donor involvement. Poor people – typically politically disorganised - have little influence. In any case, weak institutional means for negotiations and dialogue makes it difficult for interest groups to get effective influence on reforms. Moreover, bureaucratic elites are centrally placed to mediate between donors and domestic stakeholders (Therkildsen 2006, 69), and sometimes ambiguities in the roles of top civil servants and politicians diffuse the power of politicians in reforms (Andrews 2006, 158). [23] Social sector reforms are sometimes the exception as noted above. Thus, “stakeholder activism to prevent privatisation of public utilities in Ghana illustrates the politically salient nature of the ownership question” (Caulfield 2006, 19).

Second, technocrats dominated reforms during the last decade compared to the often limited influence of political elites. Political leadership, “where it existed, was concentrated at the highest levels — the president, prime minister and/or minister of finance.” Otherwise, “political engagement was usually weak and more often aimed at defending existing interests and arrangements” (Batley 2004, 53-54). Ministries of finance has been strengthened compared to other ministries because many reforms concern economic and budgetary policies, in which donors also have a strong interest, (Therkildsen 2006, 69-71).[24]

Third, professional staff — engineers in water, doctors in health (and teachers in education) — are much more important for the direction of reforms of these sectors than they are in ministries of industry and agriculture (see chapter 4.1.3 for explanations). These professionals are also likely to have a continuing role in future reform initiatives (Batley 2004, 53-54).

Fourth, it is typically not public demands, the legislature or interest groups that define reform initiatives as Batley and van de Walle (2001, chapter 3) found. There has, for example, been little organised societal opposition to reform even when structural

[23] In Tanzania, Permanent Secretaries report to the Chief Secretary rather than their Ministers.

[24] See also chapter 4.2.3 on change teams.

adjustment programmes were implemented – except in urban water utility as already noted. The main organised opposition to reforms is not from interest-group pressures on the state (as argued, for example, by Bates (1981) Collier and Gunning (1999) and most donors) but resistance within the state itself due to clientelism, low capacity and ideological preferences as van de Walle writes.

Fifth, chapter 3.1.5 showed that growth coalitions - active cooperation of government and business elites to work out policies and implementation arrangements that foster investments and increase productivity – are typically weak. Consequently, business and private sector demands for increasing the role of the state in developing productive capacities are likely to remain feeble. This is, perhaps, especially the case with agricultural reforms in many countries (see also chapter 4.1.3).

Sixth, and as a modification of point five, demands for and resistance to reforms are not static. As Batley (2004, 52) puts it: "Liberalization, the privatization of state enterprises and deregulation of industries and agricultural trade are unlikely to be reversed. They have created a new set of incentives for entrepreneurs and, sometimes, led to the creation of private and public support agencies whose services are in demand. Government officials in Kenya who had opposed the removal of the state monopoly in maize marketing eventually came to support it after seeing its positive effects. The millers and traders who began to deal in imported maize and rice in Kenya and Sri Lanka became a constituency for further liberalization. Urban consumers who benefited were a latent source of demands for the freeing of agricultural trade if it could deliver cheaper and better food"

Finally, and perhaps currently most importantly from a LDC perspective, the IMF, World Bank and donors have the greatest reform impact "with regard to the weakest governments, with the greatest dependence and the least capacity to negotiate." Consequently, "proposals for reform, including in the social and utility sectors, have often been most sweeping and radical in the countries with the deepest crises. The consequence has been a large gap between radical reform design and modest outcomes, particularly in Africa… The deep involvement of international lenders or donors in the policymaking of countries in crisis can lead to the ventriloquizing of policy through national political leaders. This can give the impression of local 'ownership' of reform without substance" (Batley 2004, 54).

4.2.3 Implementation arrangements and power

The fit requirement is that implementation arrangements and the political power to support them match the resources required to establish sufficient technical capacity (chapter 4.3.2).

Even if the political demands for reform are strong and a political reform leadership is in place, reform outputs/outcomes depend significantly on the quality of implementation arrangements. Such arrangements vary significantly across countries. Issues include the location(s) of the implementing agency(ies) inside an existing public organisation or outside it; the formal and informal links of such agencies to the political leadership (extent to which political oversight committees actually work and provide support and guidance); staffing (civil servants, local or foreign consultants);

staff remuneration and reform funding arrangements; coordination arrangements with donors supporting reforms (the extent to which donors deal directly with line ministries bypassing the central reform agency)

Unfortunately, there are few systematic studies of the comparative advantages of such arrangements. The issues involved are complex. Stevens and Teggemann (2004, 54-56), Batley (2004) and Therkildsen (2006, 67-74) provide some observations:

- A variety of arrangements can work as long as high level political support to the reform agency(ies) exist (whether established through formal links (e.g. oversight committees) or informal ones (e.g. personal relationships)
- The implementing agency should be centrally placed within the government machinery (externally placed agencies may have short term advantages in some cases – and can therefore be justified - but the eventual phasing out or integration into government is often conflictual and endanger reform sustainability)
- Arrangements to facilitate coordination across reform areas is needed (e.g. pay reform has both financial and civil service implications should therefore not be done separately)
- Arrangements to coordinate donor support is also important, as they are often the largest funders of reform by far (The Paris declaration initiatives on aid effectiveness are, however, facing an uphill battle (OECD 2007)).
- While central agencies are often needed to initiate and push for reform, they have much less impact on reform implementation at line ministry level. Chief executives at this level are therefore crucial to overcome reform resistance – and to drive often fairly intractable reform initiatives through.

Batley (2004, 49) summarises these insights well: “Where reform was successful, it had high level political and donor support and a working combination of senior officials and external advisers.” Small ‘change teams’ attached to the political executive, are important. “The initiators of change were usually outside the ministry that was subject to reform. Crisis and adjustment often put into the driving seat the ministry of finance and agencies answerable to the president’s or prime minister’s office.”

4.3 Technical capacity

Despite much recent attention to the importance of political capacity for sustained reform, the technical capacity to design and implement reforms is also important. But figure 1 illustrates that it is political power (including the resources provided), and the implementing arrangements authorised by politicians that provide the incentives for technical capacity to be used. Table 7 provides a more detailed picture of the two dimensions of capacity and the four major options for capacity change that this imply.

Table 7. Four major options for capacity change in public organisational (examples)

	Predominantly functional-rational dimension	Predominantly political ("power") dimension
Interventions targeted at internal systems elements	**A .** Change of administrative systems and processes; organisational re-structuring; changing procedures, technology; skills training; general management training, funding and equipment; etc	**B.** The extent of merit in promotions, hiring, firing; extent of organisational control over these functions; targeted support to "groups of reformers", support to sanctions against rent seeking, performance-based benefits to key staff, etc
Interventions targeted at or influenced by external agents and factors	**C.** Output-based budgeting, change of resource envelope, change in external supervisory and inspection modalities/agencies, change in formal/legal mandate, extent of results-orientation, etc	**D.** Extent of management autonomy vis-à-vis other government organs; building coalitions of external stakeholders strong enough to impose change. Building user pressure for accountability, support to advocacy and lobby groups, NGOs, training of politicians, journalists, etc.

Source: Boesen and Therkildsen (2005)

Nevertheless, resource requirements for reform and the specific competencies needed are important in their own right and will be briefly addressed below.

4.3.1 Resource requirements

Reforms do need sustained political support to succeed as already discussed (chapter 4.2) but they also need resources for design and implementation (funds, staff, skills). Often the resources actually available do not match the requirements.

Skilled staff is another requirement which is often in short supply. For example, government capacity to regulate is sometimes severely hampered by the lack of appropriately skilled economists and lawyers (see for example chapter 3.2.1). The NPM inspired reforms result in demands for new types of skills to which the educational and training systems are often not well geared.

Some, like Jeffrey Sachs et al (2004, 27), argue that technical capacity problems can be solved in most African countries within ten years if enough money is provided for education and training. Capacity problems are simply investment opportunities. Hence the appeals to significantly higher donor funding. The analysis in this report shows that this influential view is seriously flawed.

It is, however, difficult to obtain hard facts about funding levels. There is, however, little doubt that the Tanzanian reform efforts in the 2000s have been comparatively better funded than the Ugandan, for example, and that this is an important part of the explanation for the relatively stronger reform progress in Tanzania.

In both countries, as in most other LDCs, funds for reforms are mainly provided by donors. But public sector reforms are not likely to produce the short-term 'value for money' and results that donors and recipient country politicians increasingly demand.[25] Donor support to public sector reform is probably also more politically

[25] Rugumyemheto (2004, 446), a central technocrat in the Tanzanian reforms, explains that many of the reform measures implemented do not have a direct impact on reducing poverty or even on improving service delivery. However, an efficient and effective public service is a necessary condition for achieving improvements in service delivery and reducing poverty. While this "may satisfy the academic community and bureaucrats it will not remain accepted for long if service delivery

sensitive than other types of support and is therefore more vulnerable to political events than 'ordinary' aid is.[26] This adds to the unpredictability of reform funding by donors. Given the long gestation period of many reform initiatives, more modest levels of predictable donor funding is often more useful than short-term – but volatile - injections of larger funds.

4.3.2 Competencies

There must be a fit between technical competencies of reform implementing agencies (including organisations targeted for reform) and the reform task requirements (chapter 4.1.3);

To advocate for more sophisticated skills – and therefore the need for more training and better educated technocrats to enhance competencies – is non-controversial. So is advice about the need for better analyses as preparations for reforms. Possibly, neither is generally very relevant. Instead, learning reform by doing reform is often needed. This approach is one of the items on the UNCTAD agenda to improve productive capacities: there should be flexibility to experiment, to make mistakes and to make incremental improvements so as to learn what works and what does not in a particular country (UNCTAD 2006, 300-301).

Learning by doing typically proceeds in stages. Learning what works precedes learning how to be efficient; and learning how to be efficient precedes learning how to expand what works to organisations beyond a limited number. Errors will be made in all stages, but they are often important sources learning to improve (Korten 1980). This learning-by-doing approach has two additional advantages. One is that it may help to put recipient public servants and politicians in better control of reforms and therefore increase their ownership to it. The other is that the learning approach fits the incremental approach to reforms.

What then to do when more radical reforms are pushed onto the agenda as past experiences show is likely to happen again (see chapter 4.1.1)? The answer may be to revive an old reform tradition from the past – before donors became influential reform mongers. Then African countries sometimes initiated fairly radical reforms on their own (e.g. Quick 1980). Often this was done in campaign style with politicians mobilising civil servants (and the public) to seek to bring about significant change (Hyden 1983, chapter 3). Interestingly, this type of short intensive mobilisation of resources and political energies may fit public sector organisations well. It invigorates limited technical capacities and stretches permanently resource starved organisations, albeit only for short periods of time. The advantage is that this approach builds on competencies that already exist or are developed 'on the run' and therefore strengthen competencies and ownership rather than undermining them.

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improvements and real reduction in poverty is not forthcoming. The main challenge is how to manage that situation."

[26] With regular intervals, presidential purchases of private jets (at a cost of 3-400 million dollars) seem particularly upsetting, and sometimes result in (temporary) slowdowns in aid disbursements. Right now this drama is played out in Uganda.

4.4 Conclusions

Regardless of their specific content, most (but not all) reforms in most countries, poor *and* rich, fail (Caiden (1991); Kiggundu (1997); Poladino (2001)): reform plans are not implemented or only partly so; reforms are implemented but aims are not met; and actual outcomes are sometimes unintended (see also van de Walle (2001)). It is therefore surprising that so little is written about *approaches* to reform implementation and about the context in which reforms are implemented.

These issues are really at the core of the "how to" questions that this report deals with. The key argument is that reform implementation approaches ("how to") are often as important for the actual outcomes as the specific policy content of reforms ("what to do"). The success or failure of reforms often depend on the extent to which such approaches fit the organisational, institutional and political contexts in which they are carried out.

Consequently, there must be some degree of fit between the political capacity to drive reforms, the type and extent of changes implied by such reforms and the technical capacity to design and implement them. These three main factors interact. Reforms will progress *if* the outputs/outcomes of reform meet political demands for them; *if* implementing arrangements and the political power with which they are supported match the resource requirements of reforms; and *if* the technical competencies of the reform implementing agencies match requirements of the reform tasks. It is important to think strategically about how to achieve these fits. Figure 1 does not present the whole range of factors that need to be considered, but it prompts thinking about underlying causes for (mis)fits and encourages strategic thinking about what may be done to achieve better fit.

Polidano (2001, 357) present the minimalist position on "how to do" reforms to achieve such fits: "keeping the scope of change narrow, limiting the role of aid donors, and giving the reform a firm leadership while simultaneously allowing for line management discretion. These are strategic and tactical issues in relation to which the wrong choices are made again and again…. often leading to the failure of reform efforts."

Clearly, the merit of this pragmatic view about reforms is that it warns against general expectations about quick, real, significant, and positive changes. The reform business suffers from illusions about the conditions needed on the ground to implement NPM and good governance reform agendas. However, realism, not pessimism is called for. Some of the evidence in this report shows that reforms can bring about positive change; that incremental change can help to bring about structural transformations; that sometimes 'big bang' reforms are possible too; and that donors can play a constructive role provided that reforms are home grown and owned. Such improvements depend on the extents of fits mentioned above.

More specifically, this report showed three things about the role of the state in developing productive capacities. One is that this role requires the strengthening of basic bureaucratic capacities through, for example, pay reforms, human resources management reforms and results oriented capacity development efforts. The second is that *specific* capacities are also needed, and that creating 'islands of excellence' in key organisations may sometimes be strategically relevant. Finally, domestic political power to define and implement reforms is crucial but there are nogeneral recipe for how such powers can be strengthened. The bottom line is that reforms, to succeed, must be tailor made to country and sector specific conditions. “How to do” that must be based on an in-depth understanding of those conditions. General advice about ‘best practices’ or about transfers of specific public sector models to poor countries have limited value.

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