DEPARTMENT OF ECONOMIC AND SOCIAL AFFAIRS
DIVISION FOR SOCIAL POLICY AND DEVELOPMENT
UNITED NATIONS, NEW YORK

United Nations Expert Group Meeting
Convened in preparation for the 42nd session of the Commission for Social Development
Priority theme:

Improving Public Sector Effectiveness

Dublin, Ireland, 16-19 June 2003

Report of the Expert Group Meeting*

* This report is a summary of the discussions held at the expert group meeting. The views contained herein represent solely those of the participants.

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Preface

The United Nations Expert Group Meeting on the theme "Improving Public Sector Effectiveness" took place in Dublin, Ireland from 16-19 June 2003. The Meeting was organized by the United Nations Department of Economic and Social Affairs and hosted by the Government of Ireland.

The purpose of the Meeting was to provide the United Nations Commission for Social Development with independent expert opinion and advice on this subject, which is the priority theme of the Commission at its upcoming 42nd session to be convened in February 2004. This document constitutes the outcome of the Meeting. It includes a summary of discussion as well as policy recommendations for submission to the Commission for its consideration and for use by the United Nations Secretariat in the preparation of its Report of the Secretary-General on the priority theme, also to be submitted to the Commission for its 42nd session.

The participants of the Meeting and the United Nations Department of Economic and Social Affairs wish to thank the Government of Ireland for co-financing, hosting and facilitating the Meeting and for their warm hospitality throughout the course of the participants' stay in Ireland.

Introduction

The success of social development depends upon a competent, well-functioning government and public sector. The international community recognizes the validity of this with its continued dialogue and debate on the appropriate mix of government policies for social development as well as its emphasis on good governance.

However, governments all over the world have also been under much pressure to reduce the size of the public sector, budgets and expenditures, (sometimes especially in the social sector), while at the same time improving their overall performance. Governments have therefore been asked to function and perform better, but without becoming "too big". While it has been often argued that less government is better, it appears to be more the case that a country's citizens do not necessarily always ask for either smaller or bigger government, but rather better government.

Making government function better implies not only improving the efficiency and cost-effectiveness of public sector functions and operations. Equally, if not more, importantly, it also means improving overall effectiveness of the public sector so that government policies and programmes function well, are better delivered, achieve the stated, desired objectives, treat recipients with respect and dignity and positively affect the people that they are designated to reach while minimizing any negative distortionary side effects.

In addition, while there are some principles, such as human rights, and objectives, such as eliminating poverty and achieving the Millennium Development Goals, which are universal and apply to all countries, it is also recognized that when it comes to development policy there are no one-size-fits-all solutions. Approaches to improving public sector effectiveness must take into account a country's specific socio-economic and cultural context and vary according to them. Therefore, throughout the discussion and recommendations proposed in this summary, it is recognized that specific national approaches to public sector effectiveness may vary according to cultural and historical contexts, legislative frameworks and institutions, as well as differences in levels of socio-economic development among high, middle and low income countries.

The focus of this summary is on public sector effectiveness in the promotion of social development and the provision of social services. The summary is divided into three major sections. This first section addresses objectives for public sector improvement; the second discusses issues and strategies to improve effectiveness; and the third is a series of policy recommendations.

I. Objectives of the public sector

A. The function of government

The function of government is to ensure the provision of public goods and services for the safety and security of its population and to promote harmonious living conditions and the general welfare and well-being (some would also include happiness) among the people it is serving. In this context, the terms general welfare and well-being would include, in the language of Amartya Sen, the process of expanding people's choices and their "functionings and capabilities to function, the range of things that a person could do and be in her life".[1] Concerns of social development, including reducing poverty and inequality, protecting vulnerable groups and individuals and supporting employment and social inclusion, are particularly relevant in the context of improving the effectiveness of the public sector. In this context, the World Bank's World Development Report 2004, *Making Services Work for Poor People*, which focuses on why government services fail poor people and how they can be improved, is a welcomed approach.

Social development is not possible without the involvement of the state. Government actions in the socio-economic sphere are justified by the existence of market failures,[2] poverty and equity considerations, and the need for the provision of merit goods,[3] such as education and health. In the context of globalization and volatile and highly unpredictable capital markets, there is an acute need for governments to ensure political, economic and financial stability and manage social, economic and environmental vulnerabilities. For the effective performance by the state of its role, certain pre-conditions are necessary, including the creation and support of strong political and social institutions (organizations, rules and regulations) to select and adopt appropriate social policies, along with principles of equity, social solidarity and social inclusion.

Improving the provision and quality of public services is an essential task of the state. The range of issues involves establishing public services where they are needed yet lacking, while, in the cases where they do exist, increasing their effectiveness to achieve improved outcomes. This is increasingly important in the context of globalization and the demands put on the state by the growing interdependence in the world economy; the importance of social development as

[1] Amartya Sen, (1989) "Development as Capabilities Expansion", *Journal of Development Planning*.

[2] Market failures include the cases of public goods, externalities (both positive and negative), monopoly and asymmetric information.

[3] Merit goods are defined as goods (or services) that would be provided in a free market system but would almost certainly be under-provided. This occurs because the market only takes account of the private costs and benefits, but does not take account of the external benefits that may arise to society. In this case, the only way for more to be provided is if the government subsidizes private sector provision or provides them itself. The main examples usually given are education, health and fire services.

recognized and articulated in the commitments of the Millennium Development Goals (MDGs) and the World Summit for Social Development and the need to effectively implement them; and the need to respect human rights, whether political, economic, social or cultural, which constitute an effective pre-condition for integrated social development.

Box 1

Improving Public Sector Effectiveness and the Human Rights Based Approach: Voluntary Guidelines for the right to adequate food

The World Food Summit: Five Years Later ended in June 2002 with a Final Declaration asking the United Nations Food and Agricultural Organization (FAO) to develop within two years "guidelines to support Member States' efforts to achieve the progressive realization of the right to adequate food". In November 2002, the FAO Council made a formal decision to set up an Intergovernmental Working Group to develop the Voluntary Guidelines for the implementation of the right to adequate food.

Why is it useful to develop guidelines for the implementation of the right to adequate food? The Voluntary Guidelines are far from being a legally binding document on the right to adequate food. However, there are several merits to the planned Guidelines. The Guidelines will combine, in a mutually supportive way, legal instruments and procedures with development strategies and policies conducive to the realization of the right to adequate food. This will provide a framework for human rights-based approaches to specific programming to reduce hunger and malnutrition and promote nutritional well-being. In addition, the Guidelines will increase the much needed coherence and consistency of governmental decisions at national and international levels as well as actions by the international organisations in the field of food security.

The Guidelines can also be used in the future as a reference for actions supporting, complementing or correcting government efforts. They will be of further use when assessing decisions of governments, international organisations and other actors. Civil society organisations will be able to invite various actors to meet their obligations or responsibilities and they will make observations when non-compliance with the Guidelines aggravates the vulnerability of food-insecure individuals and groups in all countries. The basic problem concerning the missing implementation of the right to food at the national level is mostly not inadequate supply of food but insufficient income or lacking access to productive resources of those who are hungry. In many countries, the government has not identified the socio-economically vulnerable and food insecure groups, and therefore has no policies in place to address their problems, and hesitates to challenge vested interests or to adopt unpopular policies. Furthermore, in many countries, the government's dilemma is between providing the urban poor with food at low prices and securing sufficient income for the peasants.

Source: FIAN International, Heidelberg, Germany.

B. Defining the public sector: key differences from the private sector

The public sector can be defined as those entities owned and/or controlled by government, as well as all the entities and relationships that are funded, regulated or operated solely or in part by government. This includes government departments, ministries, agencies, statutory bodies and public enterprises; it also includes contractual and other relationships with the private and voluntary sectors. Through these entities and relationships, governments produce various "outputs" in terms of public goods and social services.

When discussing the efficiency and effectiveness of the public sector and public sector reform, comparisons inevitably arise between the public and private sectors. While the two sectors are similar in that they should both perform effectively and efficiently, achieving their stated objectives while making the best use of committed resources, it is also very important to acknowledge their differences. Policy makers and managers must take into account, without excusing any shortcomings in effectiveness, key differences in the organizational constraints and cultures of each as well as the different operational environments in which they function. Such differences are usually characteristic of developed and developing countries as well as countries with economies in transition.

For example, public service bodies do not normally operate for financial profit but rather aim to increase availability of services and access to them in an equitable way, including and especially to those who are unable to afford them. Also, public sector bodies typically do not require immediate payment for goods or services prior to delivery. If public services are charged for, they are not usually sold to customers at commercial prices set to produce profits. Likewise, where private sector companies are contracted to public bodies for the provision of services, charges to the user may be subsidized for social policy reasons. These issues – availability, access, equity, and provision of services to those who cannot afford them – are not part of private commercial entities' objectives or operative principles.

In addition to their primarily non-commercial character, public services are often distinguished by an absolute, or at least comparative, lack of competition in the normal market sense of seeking to entice customers away from their competitors or rival service providers. Indeed, public services (such as social welfare and unemployment benefits) are often monopolistic. As a result, many of the basic features of a commercial marketplace are quite simply absent from the delivery of public services. In addition, given the nature of some public services, such as tax collection and law enforcement, not only are public services often monopolistic in character, but they can also be mandatory.

Other factors and constraints that affect the operating environments of the public sector and therefore set it apart from the private sector include "soft budget constraints", meaning that public sector entities receive government subsidies and financial support and therefore do not face bankruptcy[4]; the important role of political considerations in public sector decision-making; higher restrictions on personnel decisions, such as difficulties in firing and less flexibility for rewarding or punishing staff through salary changes; as well as higher restrictions on budgeting and procurement. (Further differences between the two sectors are also discussed in the context of public sector management in Section II. D. "Improving leadership, managerial

[4] The term "soft budget constraint" is used to describe the phenomenon where chronic loss-making state-owned enterprises, even though vested with a moral and financial interest in maximizing their profits, are not allowed to fail. They are always bailed out with government financial subsidies or other instruments. These firms can count on surviving even after chronic losses, and this expectation affects their subsequent behavior. The contention that these soft budget constraints underlie the low efficiency of socialist economies has gained wide acceptance. See Kornai, János (1986). "The soft budget constraint", *Kyklos*, 39:1, pp.3-30; and Kornai, János, Eric Maskin and Gérard Roland (2003), "Understanding the Soft Budget Constraint," *Journal of Economic Literature, December, vol. XLI, No. 4, pp. 1095-1136.*

effectiveness and human resources management”).

Such features can have important implications within public service bodies. Internally, a traditional administrative culture of “we know best” or “us versus them” can develop and, if left to itself, remain unchallenged. Sometimes deficient standards can persist in the absence of competition from alternative providers. Such problems can be exacerbated by pay arrangements that reward good as well as poor achievement equally. Innovation and the championing of citizen centered services can too frequently go unrecognized. Additionally, public sector sector managers often have to balance the needs of citizens with accountability to their elected representatives who may adopt a clientalist approach. All these factors operate within an entirely different financial framework, and often inflexible industrial relations climate, from that which prevails in the private sector. Given the absence of a profit motive and the inter-play of market forces in many public service bodies, it is important to identify and promote other means of achieving business excellence and to recognize exceptional performance.

It would, however, be misleading to imply that all differences between the public and private sectors had potentially negative implications from a social development perspective. For example, it must also be acknowledged that in the public sector different guiding principles, such as equitable treatment and the allocation of resources according to need, pervade the processes of decision-making, management and provision. While the social responsibility of the private sector has recently been promoted and various corporate social responsibility practices adopted by private companies, nonetheless fairness and equity considerations are not normally indicative of the private sector. Within a commercial, market-led context, private sector companies would not normally be obliged, because of their primary obligations to provide financial returns to their shareholders, to maintain non-viable services to geographically or financially disadvantaged groups.

C. Improving public sector effectiveness and service delivery

The effectiveness of the public sector can be defined generally by:

- the degree to which the goals and objectives specified in public sector policies, plans, projects and programmes are achieved to the satisfaction of the stakeholders; and
- the degree to which the provision of public goods and services are responsive to the needs and demands of the public.

The ultimate objective of improving public sector effectiveness is the overall improvement in people’s lives and in national development while making the most efficient use of resources. While specific goals depend on the particular context, the principal goal is improved and sustainable delivery of goods and services seen as the responsibility of the public sector using sound financial management and operating within fiscal constraints. Improved service delivery takes place when the public sector better responds to the public’s needs, best sought and indicated by improvements in the quality of services delivered, lower costs, more efficient delivery systems, and increased access to services by sections of the public for whom the services are intended, particularly the poor and the disadvantaged. Public sector services are generally seen to be most effective when they are equitable, coherent, transparent, efficient, effective, accountable and responsive to the needs of the public.

Important dimensions of improving public sector performance and effectiveness, associated with the principal objective of improving people's lives, include:

- ***Responsiveness***: being more responsive to public needs (i.e., needs assessments, policy guidelines to be discussed with the public before decisions are taken, the timely delivery of economic and social services and goods);
- ***Equity***: ensuring greater equity in the distribution of the benefits of the development process via the provision of services, usually on the basis of need;
- ***Quantity***: ensuring that the proper quantity of services are provided;
- ***Quality***: enhancing the quality of the services provided to individuals and organizations;
- ***Efficiency***: enhancing the cost-effectiveness and efficiency of the body providing the services;
- ***Provision***: enhancing the equity, accessibility, speed and reliability of service provision;
- ***Reducing impediments***: reducing the extent to which taxation and regulations impede economic and social progress (e.g., minimizing tax distortions and perverse incentive structures and reducing regulatory transactions costs);
- ***Transparent information***: providing timely, relevant, complete information that ensures both transparency and accountability; and
- ***Probity***: ensuring probity, i.e., honesty and decency, in the use of public funds.

For example, in order to improve the effectiveness of public sector programmes for poverty alleviation, reforms should be promoted to guarantee that the poor are included in the design and implementation of programmes that are effective in reaching the poor in a timely way and are equitable so that the poor are treated fairly and equally, regardless of their gender and race, ethnic or religious background. They should also ensure that the goods and services provided to the poor are of satisfactory quality and that the programmes are fiscally sustainable and rationalize other existing programmes, improving their cost-effectiveness through better management and targeting. It is also important that anti-poverty reforms and initiatives do not provide incentives for the poor to stay in poverty, overburden the poor with "bureaucratic red tape", or harm economic growth and that they transparently inform the poor about the programmes and how to benefit from them. Finally, it should also be guaranteed that the design and implementation of poverty reduction programmes are based on improved monitoring and evaluation mechanisms, detailed analysis and auditing of public spending and a better measurement of the effectiveness of existing programmes, for example, through the harmonization of donor inputs to a developing country.

As shown by these several different dimensions, the concept of public sector performance is multi-dimensional. However, it is also politically contested: different stakeholders – such as service users, taxpayers, politicians and staff in the organizations that provide the services – will view the relative importance of the numerous goals and their dimensions differently. Each of the groups of stakeholders may have different priorities for improvement, and attach different weights to the dimensions of performance listed above. Thus a crucial question in practice is not only "what goals should public sector improvement strive for?" but also "who is to define these goals and their relative importance?" The answer is bound to vary across and within nations and over time, and hence there are no one-size-fits-all solutions.

D. Public sector reform

Concerns about the functioning and effectiveness of the public sector have led to many calls for public sector reform to reinvent and re-engineer government. Some of the underlying drivers of public sector reform are:

- ***the need to control government expenditure***, both from political and ideological forces as well as from practical considerations where governments function under significant fiscal deficits and levels of public debt;
- ***the need to improve the quality of life*** of citizens who are now more educated, empowered, and demanding of quality services;
- ***the pressure to become more competitive*** and reduce the costs of doing business, resulting from government regulation or oversight in a highly competitive and dynamic international economy;
- ***developments in ICT*** leading to easier access to information and a demand for access to more government information provided quickly;
- ***changes in the global economic and political agenda***, such as new trading agreements and the redirection of official development assistance; and
- ***calls for new forms of governance*** which are more responsive, flexible and "modern", and for involvement of social partners in the decision-making and management process.

Driven by these considerations, attempts to reform the public sector have highlighted the need to find – within the context of an often-changing political, social and economic environment – the best way to integrate new incentives to improve performance of public institutions, guarantee widespread public access and ensure minimum standards for services.

Several different reform approaches have been advanced and implemented, often simultaneously. One approach focuses on improved management through basic merit systems, increased audits of financial practices, and introducing new public management (NPM), a term used to describe distinctive new themes, styles, and patterns of public service management, to instil greater and better managerialism in public agencies.[5] Another approach is market-based, using the power of the entrepreneurial process and market forces and introducing competition with accompanying reward and punishment incentives. Other approaches emphasize stakeholder participation and empowerment as well as and "e-government" (electronic government) and the greater use of information and communications technology (ICT).

However, it must be noted that some approaches are more appropriate than others, and priorities need to be conditioned upon the

[5] See, for example, Barzelay, Michael (2001), *The New Public Management: Improving Research and Policy Dialogue*, The University of California Press and the Russell Sage Foundation.

specific conditions and situation of the country or locale implementing the reform. In general, however, achieving improvement in public sector effectiveness could include a focus on eight areas for public service reform:[6]

1. rationalisation and restructuring to ensure a unified, integrated and leaner public service;
2. institution building and management reforms to promote greater accountability and organisational and managerial effectiveness;
3. increasing representativeness (gender, race) in the public sector through affirmative action within the structure of a merit-based system;
4. improved service delivery to meet basic needs and redress past imbalances;
5. the promotion of internal democracy and external accountability;
6. human resource development and capacity building;
7. improved employment conditions and labour relations; and
8. the promotion of a professional service ethos.

Implementation of reforms, however, should proceed in a realistic, practical manner. One pitfall to avoid is "reform overload", where the provision of services by public sector entities is hindered and sidetracked because the entities are so busy being heavily involved in the reform process. Furthermore, the reform experience of high and middle-income countries, where the reform process has yielded concrete results, is quite different from that of low-income countries, where instituting certain reforms can be very difficult and have often resulted in failure. In this context, the timing and sequencing of changes and reforms are significant, as are the capacity and education levels of the civil service as well as the level of resources. For example, ICT reforms for a civil service that does not have a sufficient level of human capital nor access to training in technology could well mean that newly purchased computers sit idly on desks.

II. Improving Effectiveness: Issues and Strategies

A. Factors that strengthen or weaken the capacity for public sector effectiveness

Strategies for implementing policies and programmes to achieve objectives are crucially important. For the recipients of public services and the participants in social development programmes, it is the "how" that is of direct relevance: how social policies are designed and implemented makes the difference of whether the system works and the objectives are achieved.

In order to effectively develop and implement strategies and policies, it is desirable and necessary to know, to the extent possible, the factors that strengthen or weaken the capacity for public sector effectiveness. From the academic literature, this issue has been researched in over sixty empirical studies, largely conducted in the United States. While some of these academic studies are not without controversy and not everyone reads or analyzes the evidence in the same way, it is nonetheless very important to review the state and extent of academic knowledge on the issue. From the empirical studies undertaken thus far, five major strategies for the improvement of

[6] In the transformation of South Africa's Public Service these aspects were considered as priorities. See Taylor, Viviene (2000), *South Africa's National Human Development Report: Transformation for Human Development*, UNDP, Pretoria.

public sector effectiveness have been examined:[7]

1. ***Investing extra resources, both financial and human, including the quantity and quality of staff in public organizations***. The evidence suggests that there is a general positive link between public expenditure and public service performance. However, two important issues remain unresolved: what is the strength of this link? (e.g., what percentage impact on service performance follows from a given percentage increase or decrease in spending); and are there diminishing returns to extra expenditure on services? It seems unlikely that spending levels in less economically advanced nations have reached this point, especially where levels of education and health leave much to be desired.

   And yet, to make matters more complex, in the short run this general positive link between public expenditures and performance does not necessarily hold for each and every particular case or country, and the issue remains controversial. For example, some academic literature on education spending suggests that spending levels don't make much difference.

   The link must also be further examined in the context of developing countries. As the result of a positive link is general, there are counterexamples which illustrate the opposite effect.[8] For example, one counterexample is the case of two African countries that made similar increases in spending on per child primary education during the 1990s, but the primary education completion rate for these two countries diverged completely, with the completion rate sharply increasing for one but decreasing for the other. Another counterexample is where vastly different changes in spending are associated with similar changes in outcomes: one Asian country increased public spending on primary education per child during the 1990s whereas a Latin American country decreased its spending, yet both exhibited decreases in their primary completion rates over the same time period. In instances such as these, further investigation is necessary to see why there are such diversions between spending and outcome.

2. ***Regulating local service providers***, for example through inspection, audit and performance indicators. One developed country in particular has made a large investment in this type of regulation in recent years. As yet, there is little empirical evidence that regulation leads to an improvement in public service standards. Thus expenditure on regulation may be disproportionate to the benefits that are achieved.

3. ***Altering market structures to encourage more competition***, either between public and private suppliers or between public suppliers (e.g., between schools or hospitals). While

[7] These five strategies are examined in Boyne, George (2003), "Sources of Public Service Improvement: A Critical Review and Research Agenda", *Journal of Public Administration Research and Theory*, Vol. 13, No.3, pp. 367-394.

[8] Counterexamples from "Making services work for poor people", presentation at the Expert Group Meeting by Bill Dorotinsky, Lead Public Sector Specialist, The World Bank.

there is much lore on the effectiveness of the introduction of market mechanisms in Australia and New Zealand, in general the evidence on the impact of competition is very mixed – some studies suggest that it leads to higher public sector performance whereas others suggest the reverse. The circumstances under which competition succeeds or fails are not yet well understood.

4. ***Changing organizational scale and structures***. Fashions on these issues have swung between "big is better" to "small is beautiful", and between "bureaucratic" and "organic" structures. The empirical evidence suggests that the extensive efforts made by governments to reform the size and structure of public service providers have made little consistent difference to their performance.

5. ***Introducing new managerial arrangements***, such as new planning, leadership, culture and human resource management arrangements. Although only around a dozen studies have been conducted, the evidence implies strongly that "management matters", and that significant service improvements can be achieved through new management processes.[9]

From these empirical studies, the existing evidence suggests that national governments should focus a significant part of their efforts to enhance public sector effectiveness on "money and management". However, how much extra money is required, and the exact form of management arrangements that are necessary, remain to be fully determined.

B. Government social expenditures

Sound financial management of public funds is critical to public sector efficiency and effectiveness and is a crucial aspect of good governance. This includes transparency and accountability in all aspects of financial revenue collecting, budgeting and expenditure through regular audits and other means, and enforcement of anti-embezzlement and anti-corruption laws. While the necessity of this for public sector effectiveness is clear and straightforward, there remain other significant issues related to finances and expenditures on social development.

All governments are under pressure to contain expenditures, and many, if not all, are also under pressure to reduce them, particularly developing countries and countries with economies in transition engaged in reform programmes. Much of this pressure comes from a fiscal orthodoxy of containing expenditures and budget deficits as a necessary part of a sound and stable macroeconomic policy framework. This orthodoxy experienced a rebirth in the 1970s and is now widely accepted by mainstream macroeconomists, taught at the highest-ranked university graduate economics programmes and adopted and applied by the international financial institutions.

This orthodoxy also came with a concurrent shift during the past two decades in the view of the role of government vis-à-vis the private sector in the development process. The result of this shift is that the role of the private sector is viewed much more favorably than before, and levels of government expenditure, taxation, state ownership and

[9] A similar discussion about management and the institutional environment is found in World Bank, "The experience and perceptions of public officials in Guyana", Draft for Consultation, downloaded from http://www1.worldbank.org/publicsector/civilservice/countries/guyana/guyana1101.pdf on 14 November 2003.

regulation that were once seen as acceptable are now viewed as too large and as an impediment to economic growth and development: too much taxation reduces incentives, government borrowing crowds out private investment and results in debt repayments by future generations, and private sector agents know better than the government, so funds are more efficiently used if left in the hands of those who earned them. Hence calls have been made for reduced taxation and expenditures, smaller re-engineered government, privatization, deregulation and a greater reliance on the market and market forces.

For those concerned with social development, this has brought much concern. While a stable macroeconomic environment and sustained economic growth are understood as necessary conditions for improved social development, they are also clearly not sufficient. And, when growth is weak or the macro-economy unstable, social protection and a strong commitment to social development programmes are needed more than ever -- the government needs to provide some minimum level of social expenditure in order to minimize human suffering and the costs to both individuals and society as a whole from negative economic shocks or outcomes.

During the past two decades, goods and services necessary to complement economic growth to improve social welfare and individual well-being, such as health, education, anti-poverty programmes and services to promote social inclusion, experienced reduced budgetary growth or cutbacks – often drastic – because of reductions in public sector expenditures. These reductions came, at least in part, from a perspective that viewed government spending less favorably, exhibited frustration with what is seen as a low level of results from expenditures on poverty programmes, included discussions of aid fatigue and welfare dependency, and illustrated less willingness on the part of many taxpayers to pay higher taxes or to finance welfare programmes and foreign aid expenditures. In many developing countries, these reductions also came as a result of fiscal austerity brought about through macroeconomic stabilization and structural adjustment programmes after experiencing balance of payments and debt crises.

The issue of linking and balancing macroeconomic policy objectives with social policy objectives and outcomes through the national budgeting process can be a significant part of debates over public sector reform and the desirable level of government involvement in providing social services. There is a fundamental tension in balancing the desires for domestic social justice, especially in the context of large-scale poverty and unemployment, on the one hand and macroeconomic stability and international competitiveness on the other.

In the case of many poor countries, in order for government expenditures to be effective they need to cover a wide range. However, one consequence of the pressure for smaller government and reduced government expenditures for social policy objectives is that the resources can become so thin that their effectiveness is reduced. In addition, improvements in social conditions also go together, as it is rare for one indicator to outpace others by much over long time periods. For example, expenditures on health care are more effective when parents are literate, expenditures on education are more effective when children are healthy, and poverty alleviation would be more effective if the targeted population were more healthy and literate. The provision of one or the other in the absence of the combination makes government expenditure less effective than if they were provided together. That is, social expenditures are complementary -- the effectiveness of government expenditure for social development can be raised substantially if the main elements of social development are addressed together.

Addressing a combination of policies together requires societies at low levels of income to mobilize collective resources to pay for these goods. Although the private sector can and does contribute to social causes, it cannot be expected to provide health services, education or food at subsidized rates for the poor.[10] Hence, the drive for low government taxation and expenditure in countries with low levels of income and large numbers of the poor makes the provision of these goods and services extremely difficult at a level where they could bring about significant positive results.

However, approaching the issue from a different side of the argument, several questions have been asked, such as: has the bar been set too high for low-income developing countries? Are they expected to implement developed country social programmes before they are ready – programmes which developed countries didn't introduce until they were middle-income? Other questions include whether introducing developed country social programmes in low-income developing countries promotes or impedes growth, as well as the extent to which this spending actually reaches the poor.[11]

One proposed response to the issue of the pressure of decreasing expenditures is that measures should be taken during the budget process, particularly when expenditures are being reduced, to protect social spending and social services at a pre-determined minimum target level. However, these targets should remain as targets and not be seen as a guaranteed level. For example, if a sector is guaranteed 30 per cent of all expenditures then this changes the incentives for efficient and effective spending and increases the risks that the spending will be wasted.[12] Therefore, within targets and ranges, there must remain some flexibility so as to allocate between sectors to obtain highest social rate of return in accordance with a country's political and development priorities.

Another measure to be taken is to deeply and thoroughly analyze social expenditures and their impacts. While the common wisdom is that public spending on primary education and basic health care favours poverty reduction, in reality often too little concrete information is available on the impact of other expenditures on poverty, particularly the various subsidies on food, energy, water, public transportation and housing. This lack of analysis and evaluation results in the unfortunate fact that when countries need to reduce social expenditures

[10] Governments should nonetheless develop guidelines and policies to oversee how the private sector can play a role in the social sectors, but within a framework set by the government.

[11] For a recent comprehensive assessment of factors determining growth in developing and transition countries, see the findings and papers from the Global Development Network's first Global Research Project contained in McMahon, Gary and Squire, Lyn (2003) *Explaining Growth: A Global Research Project*, Palgrave Macmillan.

[12] That is, there would be what is called a "moral hazard" problem. Moral hazard is defined as the risk that the existence of a contract will change the behaviour of one or both parties to the contract. For example, it is the risk that a party insured against fire will take fewer fire precautions.

for fiscal reasons, there is no evidence readily available to prove the impact of the specific types of public services for the poor. Frequently these expenses are among the first to be reduced without full knowledge of the consequences.

For example, there is evidence that well-designed, well-targeted food subsidies, especially those linked to counterparts from the beneficiaries, such as obligatory schooling for children or training courses for women, can reach most of the poor, improve their nutritional status and open new opportunities for them.[13] Yet many developing countries have been forced to cut these kinds of subsidies for fiscal reasons, but without a thorough impact, efficiency or effectiveness analysis. Therefore, public expenditure should be better analysed and assessed in order to prioritize the services provided to the poor.

[13] Example from presentation by Dr. Ana María Arriagada, Chief of the Social Protection Unit for Latin America, and the Caribbean, World Bank, at the event "Women, Poverty and Human Rights," San José, Costa Rica, 23 August 2001.

Box 2

The size of the public sector – the case of countries with economies in transition

One of the major challenges facing post-communist countries of East-Central Europe at the outset of their transition from a centrally-planned to full-fledged market economy was to dramatically reduce the size of the public sector through privatization, as well as to restructure the government and redefine its functions in the new institutional environment. The nature of the latter challenge for the government boiled down to taking an active role in initiating and overseeing the process of systemic transformation while simultaneously voluntarily downsizing in accordance with the logic of the emerging market economy.

One of the peculiarities of systemic transformation in Eastern and Central Europe is due to the fact that while the public sector, as measured by the total share of its contribution to gross domestic product (GDP) has shrunk considerably between 1990 and 2002, the size of government in the same period, measured as a proportion of public expenditure or revenues to GDP, has remained at much the same level as in 1989.

For example, as of the end of 2002 the public sector contributed between 20 per cent (the Czech Republic, Estonia, Hungary and Slovakia) and 35 per cent (Slovenia) of GDP in eight EU candidate countries of East-Central Europe,* compared to some 97-98 per cent in 1989 (the only exceptions being Poland and Hungary where the margin for private initiative had been relatively larger).

However, in 1990 the share of consolidated public expenditure in GDP in Poland amounted to 45.1 per cent and in 2001 it diminished only slightly to 44.2 per cent. Similar trends have been recorded in other EU accession countries in Eastern and Central Europe; as a result, while in 1995 the average ratio (unweighted) of public expenditure to GDP in the entire group amounted to 44.3 per cent, in 2001 it was still above the 40 per cent level, averaging 41.5 per cent (calculations based on EBRD, *Transition Report 2002,* London 2003).

The relative size of government in transition economies of East-Central Europe may be deemed excessive, in light of their development level. Available empirical evidence seems to suggest some form of positive correlation between these two variables. According to one recent study covering 102 countries, in 1997 the average ratio of public expenditure to GDP in middle-income countries (GDP per capita between US$ 2,500 and 5,000) amounted to 23.4 per cent; on the other hand, the same ratio exceeded 40 per cent only in the most advanced economies (GDP per capita over US$ 20,000).

Source: Polarczyk, K., *Public Finance Sector in OECD Countries* (in Polish), Office of the Sejm, Warsaw 2000.

* Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia.

C. Alternative means for public service provision: decentralization, marketization, public-private partnerships and privatization

In an environment of decreased government expenditures, a major issue is how to get more out of the level of government expenditure that does exist – that is, how to raise the effectiveness of current government expenditures. In examining ways to raise the effectiveness – particularly the cost-effectiveness – of public services and their delivery, governments have looked to alternative service delivery mechanisms, including the extent to which decentralization, public-private partnerships, NGOs or the market could supply services traditionally provided by the public sector.

However, any public sector reform must aim at good governance and sound financial management to ease the government's fiscal and debt constraints, facilitate poverty elimination, improve the quality of life for all citizens and incorporate the population's views. How successful a reform has been should be measured not only in terms of its impact on national finances but also its impact on social development, such as in school enrolment and literacy rates, infant mortality and the proportion of people with access to clean water.

Decentralization

When deciding upon whether social services be provided through the government budget, the market, NGOs or other means, the basic criteria for choosing the allocation mechanism for social services are the effectiveness of the mechanism in achieving important mission-driven goals and its adherence to important values. In general, other things equal, there is a strong case to be made for preferences for the mechanisms that are both closest to the individual and most effective in achieving goals. This implies a preference for the individual, family, and community over government, and a preference for local and state government over national.

This is referred to as the principle of subsidiarity, and it has become a common remedy for raising the effectiveness of government expenditure of all kinds and social development expenditures in particular. That is, to match services with preferences and get the most out of government expenditures, it may be appropriate to adopt decision-making processes that are as decentralised as possible in a given set of political and economic circumstances.

However, other things are seldom equal, and so general preferences, whether for the market, for government, or for close-to-the-ground institutions, have to be assessed in the very specific contexts of particular tasks and localities. This is particularly relevant in the context of low-income developing countries, where the right conditions for decentralization and the principle of subsidiarity often do not prevail.

For example, parents who have never been to school may not fully realize the value of their children going to school. In circumstances of poverty, they may prefer children, particularly girls, to work to add to the meagre income of the family at home rather than attend school. Other factors and conditions to be considered include adequate tax revenues at subsidiary levels of government to pay for services, clear and defined responsibilities for public service employees at both the central and decentralized levels, proper training of public service workers at all levels of government, and safeguards to ensure that those in government at the subsidiary levels are not captured by local elites or local criminal elements. In addition, implementing the principle of subsidiarity through decentralization often requires a systematic capacity building of civil servants in how to plan and implement a decentralized system and get it to function properly.

Box 3

The marketization of education in New Zealand

Proposals for market-based school reforms seek to expand household choices of where children should be schooled. According to the authors of *When Schools Compete: A Cautionary Tale*, the New Zealand experiment in educational reform is "arguably the most thorough and dramatic transformation of a compulsory state education system ever undertaken by an industrialized country."

After the influential Picot Report (New Zealand Department of Education, 1988), which was strongly critical of the existing centralized administration, New Zealand's schools underwent a radical marketization, with production units held accountable for outcomes and a clear separation of provision from performance assessment. School zoning provisions were initially modified so that every pupil could attend the nearest school, with schools entitled to enroll others who could be accommodated. From 1991, however, pupils were permitted to enroll in the school of their choice but were no longer guaranteed a place in their local school. Schools had to accept all applicants unless operating at capacity. Enrolment schemes emerged, with capacity-constrained schools having rights of choice among applicants.

Although the marketization of education involved significant changes, central authorities continued to retain a major role in determining teacher employment contracts, approving school charters, and maintaining educational standards. Capital works continued to be the province of the Ministry of Education, which also determined the national curriculum and significant changes therein which accompanied the governance reforms.

The general impacts of the reforms have been summarized as follows. There is widespread agreement that the decentralized administrative structure chosen has been preferable and that a viable accountability system has been established. Parental choice of schools appears widely accepted as appropriate, and many families have exercised their rights. No widespread desire to retreat is detected (although some retreat has recently occurred). Definitive judgments have not been able to be made about whether the overall level of student achievement has improved, since a comprehensive national system for assessing student performance in core academic subjects has never existed in New Zealand. In the view of the authors of *When Schools Compete*, the ostensible goal of providing choice for all students was not realized, and increasingly stratified enrolment patters occurred in part because of the rights of oversubscribed schools to choose students. The "culture of competition" is argued to have produced mixed results rather than uniform improvements in quality.

Source: Fiske, Edward B. and Ladd, Helen (2000), *When Schools Compete: A Cautionary Take*, Brookings Institution Press, Washington D.C., p. 3, as quoted in Woodfield, Alan and Gunby, Philip (2003) "The Marketization of Schools: Assessing Fiske and Ladd", *Journal of Economic Literature*, Vol. XLI (September 2003), pp. 863-884.

Box 4

The alternative provision of education – the state, the market, decentralization, competition and vouchers in the case of the United States

Education provides an interesting example of the exploration into alternative delivery mechanisms. Both because education, at least at the primary and secondary level, generates positive externalities, and because access to such a fundamental aspect of human life ought to be equitable, education in most countries is both financed and provided by the state. Alternatively, one could rely substantially on market forces, as the United States does in higher education, where education expenses are at least partially financed by the student and his/her family and where there is competition for students between private and public providers. It can be argued that, in higher education, and especially in professional education, the returns are both large and private, and that it makes sense for the individuals who benefit to also bear the cost, as long as easily available financial assistance and/or loans make this a reasonable prospect for children from less affluent families. For secondary and especially primary education, however, the argument is that an educated citizenry and work force is a public good which would not be effectively achieved by substantial reliance on the market.

In many countries, education has always been decentralized—operated and funded at the local level—and other countries have recently chosen to decentralize operation and/or funding. The argument for decentralization is usually that of responsiveness—that communities are the best judges of what their children ought to learn and how they ought to learn it. But this decision can raise important equity issues around both financing and content. Thus in the United States, for example, states have taken on larger roles in the financing of education. Both the states and the national government are taking on increasingly important roles in setting standards and administering centralized tests to see if standards are met. Whether these moves actually improve equity in educational outcomes remains to be seen.

Another current issue, at least in the United States, is that of the role of private schooling, particularly the question of public funding of privately provided education, through such mechanisms as vouchers. There are two important issues, which different countries have addressed in different ways. One has to do with religion: most privately operated schools in the United States are religious, and many believe that public funding to these schools would violate the traditional separation of church and state. The counter-argument, recently endorsed by the United States Supreme Court, contends that freedom of religion requires even-handedness, not avoidance, as the more relevant criteria for public support. In a religiously pluralistic society with no established church, the application of these criteria could increase diversity, for good and for ill. The United States, like other countries, has to struggle with the issue of how to enforce basic standards and socialize children into a common citizenship within a more pluralistic education system.

A second issue has to do with the value of competition versus that of common schooling. In many places, especially poor central city areas in the United States, parents believe, with cause, that the public schools have failed their children, that whatever the theoretical virtues of common schooling they are overwhelmed by this failure, and that competition through charter and private schools has at least a chance of improving the situation. Whether this is true or not is probably not a normative question but an empirical one that must be answered in very specific contexts. The relevant questions are about both achievement and equity. The large-scale experiment with school choice in New Zealand, is understood to have led to greater stratification of children by both social class and ethnicity, with better educational opportunities for children of better off parents. This outcome could be prevented or alleviated by certain design features in a voucher system, but is the kind of detail that makes general statements about how to allocate so difficult to make.

Source: Bane, Mary Jo (2003) "Improving Public Sector Effectiveness," background paper for the Expert Group Meeting.

Box 5

Public-private partnerships and development cooperation in Germany

In Germany, the debate in recent years on public-private partnerships (PPP) in development cooperation arose from the problem of shrinking public funds available for official development assistance. The *Internationale Weiterbildung und Entwicklung*, Capacity Building International, Germany (InWEnt), an organization of the German Federal Government, has made concrete cooperation and joint ventures with the private sector a prominent feature of its programme work. This goes beyond co-financing to develop, together with commerce and industry, the goals, content and design of programmes.

From InWEnt's experience and perspective, there are four basic conditions for the public sector to meet when partnering with the private sector:

- ***Do not attempt to make commerce and industry an instrument for development cooperation***. PPP is often interpreted as an attempt to involve the private sector in the interests and goals of development cooperation. Such an objective, however, is unrealistic. Commerce and industry do not need to allow themselves to be instrumentalized for development cooperation. After all, public-private partnerships did not arise from the inability of companies to earn money, but rather from the problem of a shrinking availability of public sector funds. Therefore it is development cooperation that must be open to the interests of the private sector.
- ***Accept private sector interests***. Companies do not enter into a public-private partnership out of developmental motives, at least not first and foremost. They are focused on profits. Often, this is accepted in development cooperation only in the sense that unfortunately that cannot be changed. But understanding business orientation toward profit as rather a potential for development is one of the most important prerequisites for achieving success for the PPP approach.
- ***Identify potential synergies in the core business***. In many cases, PPP programmes, especially if they are financed from their own budget lines, tend to be run as a "side business" apart from the implementation of an organization's "actual" work programme. In contrast, using synergy potential means tying in PPP activities with "normal" work and avoiding the build-up of a portfolio of special projects. Such a mainstreaming of PPP can truly use the huge potential of cooperation between government and the private sector. This, however, presupposes a new kind of conception of programmes and projects; the private sector – from both the donor and recipient countries – must also think as partners right from the start.
- ***Partnership instead of application processes***. It is important to not commit companies to long waiting lists in application and funding decision processes. Rather, they should be offered clear, transparent, non-bureaucratic, and above all swift cooperation mechanisms. Partnership ends and bureaucracy begins when application

forms must be completed. There should be no application forms for companies interested in a PPP – suggestions should be accepted in an informal way.

Source: Internationale Weiterbildung and Entwickling, Capacity Building International, Germany (InWEnt).

Privatization

Privatization is perhaps the most controversial of the alternative forms of service delivery, eliciting strong opinions both for and against its use. From the perspective of improving government effectiveness, partial or full-fledged privatization may be seen as a viable option when other, less radical reforms of the public sector failed or are not feasible. But success also depends on the circumstances. The no "one-size-fits-all" point must also be re-emphasized, as what may work in one country under a particular set of circumstances may not work well in another, where the circumstances may be quite different.

The term "privatization" has been used in many different ways and, interpreted broadly, it can take on a whole range of differing forms and degrees. However, the major and most common forms that privatization takes are:

- ***Outsourcing services to voluntary or private organizations***. Under this arrangement, a public body retains responsibility for specifying the service to be provided, but loses direct responsibility for delivering the service. Empirical studies have shown that outsourcing leads not only to a reduction in public employment, but also to a reduction in public expenditure. However, the verdict is more mixed on issues of efficiency and equity, both for staff and customers.

- ***Transferring a function to the private sector*** (as happened in the United Kingdom in the 1980s in the cases of gas, electricity and telecommunications utilities). Although this looks like "full scale" privatization, it is in practice a hybrid arrangement for two reasons. First, the formally private companies still have public interest obligations; and secondly, they often retain much of the monopoly power that the public sector entity had. Thus any expected benefits and costs from operating in an ostensibly private market are correspondingly reduced.

- ***Government disinvestment in publicly traded companies***. In some countries, the government owns shares of a publicly traded company, such as in the banking sector, usually of a significant enough amount or percentage to give them a controlling interest or at least significant influence. Disinvestment of these shares by Government amounts to a relinquishment of this control or influence.

- ***Sale of public sector enterprises previously wholly owned by the government*** (i.e., "full-scale" privatization). This could take the form of the sale of a previously wholly state-owned enterprise (SOE), as has happened in many economies in transition. It also could, at least theoretically, take the form of the government withdrawing from the provision of a service, and thereby transferring the function to the private sector but without private companies having a monopoly and the corresponding public interest obligations and regulations.

A common rationale for privatization is the pursuit of cost-cutting and as a means to maximize the efficiency of service delivery. Privatization is believed by many to turn the public provision of services into efficient and effective private service operations. Major advantages of privatization include:

- removal of the "soft budget constraint";[14]
- increases in allocative and operational efficiency resulting from improved incentive structures built into private ownership; and
- privatization as a precondition for economy-wide marketization and a means to enhancing economic competition.

However, most, if not all, forms of privatization are associated with short-term disruption in established procedures for public service provision, but their long-term benefits are open to dispute. Whereas "best practice" has frequently pointed to the need for cost-cutting, marketization and privatization to maximise the efficiency of service delivery, others have cautioned against the uncritical adoption of such an approach.[15] This was in recognition of the adverse effects of cost-cutting and privatisation in a number of developing countries, evidenced for example in declining service standards, worsening conditions of employment, rising unemployment and the increasing marginalization of disadvantaged groups, particularly women and children.

International research supports such a cautious approach to privatization and points to wide differences in countries' ability to ensure equity through the private provision of public services and goods.[16] Especially in countries with extensive poverty and weak state capacity, many people are not able to benefit from the private provision of public services. Evidence in Latin America and Africa, for instance, indicates that when the provision of essential services (health, education, transport) was outsourced to the private sector or non-governmental sector, access to these services by the poor declined and the gap between the poor and the non-poor populations grew.

In addition, in least developed countries the private sector is often very small, not well developed and often plagued with problems. It often is not in a position in the short-run to assume some of the roles and responsibilities of the public sector. Privatization also involves costs associated with the contracting, regulating and monitoring of public funds that have been turned over to the private sector for which the least developed countries often do not have the capacity to carry out.

Whether or not delivery of a social service is privatized, in such essential service areas as health and primary education the government is still responsible for striving towards universal access to the service in a sustainable manner and is also still responsible for proper regulation and oversight. Although the government may ultimately be responsible for ensuring that all people enjoy access to

[14] See footnote 4 above for the definition of a soft budget constraint.

[15] See, for example, South Africa's White Paper on Transforming the Public Sector.

[16] See Carol Graham, (1998), *Private Markets for Public Goods: Raising the Stakes in Economic Reform*, Brookings Institution Press, Washington, D.C.

essential services at an affordable cost, the private sector provider of the service should also share in this social responsibility.

For the private delivery of public services and goods to have positive outcomes for poor people, the initial distribution of services and the level of development in a specific country matter significantly. The preconditions for success in the private delivery of these public services include:

- Consultation with concerned stakeholders on the proposed change;
- An effective exit strategy from privatization arrangements with regard to sequencing and design concerns and clear frameworks for implementation, including regulatory and monitoring and evaluation frameworks, with explicit sanctions for lack of delivery;
- Public information on the shift from public to private arrangements, with sufficient lead time for the public to fully understand and adapt to the change;
- The capacity of affected people to make choices and to have the freedom to act on these choices and to be represented in decision-making.
- The human capacity to deliver the necessary competent financial and technical management and oversight of the privatization process as well as the subsequent regulation of the privatized service providers.

The state has an irreplaceable role in establishing and enforcing regulatory frameworks and service standards to ensure both public and private service providers deliver in accordance with contractual agreements. But there is little agreement on how the state should correct for inequitable market outcomes and incorporate equity goals through private arrangements. In fact, the most important arguments against privatization are usually based on equity grounds. In developing countries, the incapacity of the state to address these concerns leads to costly and destabilizing distributive conflicts and chronic poverty. Therefore, privatisation decisions should be made prudently, with due consideration given to the capacity of the state and its ability to address inequitable outcomes, and governments must define their own policy towards privatization based on the conditions of their respective countries.

In addition, privatization often makes many workers redundant, at least in the short and medium term, causing hardship to affected workers and their families, unless they are provided with adequate social protection schemes. Paradoxically, this can happen in public sector enterprises that are already making profits, as it is often easier for governments to find buyers and raise higher revenues from the sale of profitable entities. Privatization foreseen to have a negative impact on workers should be implemented carefully, in full consultation with workers and their representatives. Affected workers should be ensured that they and their families will be protected by special social protection schemes.

In order to measure the social effects of privatization, including that of social services, several criteria should be used:

- ***The impact on the cost-effectiveness and quality of, and access to, services rendered by the privatized entities:*** This impact may vary across such spheres as transportation and utilities, on the one hand, and education and health service, on the other. It would appear that the cost-effectiveness criteria are of importance in both cases, while the access and quality criteria may play a bigger role in evaluating the effects of privatization in the sphere of social services.

- ***The impact on employment in the short and long run:*** Although privatization may be conducive to lay-offs in the short and medium run, the long term expansion and investment as well as efficiency gains in privatized companies may offset the initial losses in the number of jobs. In fact, studies on employment consequences of privatization have shown that privatization does not always bring about redundancies. There may also be special devices designed, aimed to protect the level of employment or compensate for a lay off. The experience of Poland with the so-called social pacts in state-owned enterprise privatization and the free transfer of ownership rights up to 15 per cent of equity in privatized state-owned enterprises is an example. Enfranchising one social group with property, however, may be inconsistent with equity objectives.

- ***Welfare implications:*** The evaluation of this impact should encompass such issues as the changes in social costs and benefits and the resulting increase or decrease in social welfare, as well as any changes in negative and positive externalities prior to, during and after privatization. This evaluation should be carried out both in the short and long run and with respect to both net consumption and production benefits.

- ***Distributional consequences:*** Privatization may in some instances be inconsistent with equity objectives as it is likely to bring about – at least in the short run – rising income and wealth disparities as well as possible growth in the incidence of poverty. This is, however, not necessarily the inherent outcome of ownership changes; the experience of some top-reformer transition economies, such as the Czech Republic or Slovakia, which embarked on fast-track privatization, has demonstrated that income distribution may not necessarily suffer.

Ultimately, the success of privatization should be evaluated and judged bys its impact on all stakeholders, especially the poorest and most vulnerable members of society and including the affected workers and their families.

Box 6

Privatization of Public Sector Undertakings – Alternatives Emerging in India

The privatization process in India began with the sale of minority stakes in some Public Sector Undertakings (PSUs) as a result of the structural adjustment policies of 1991-92. From 1999-2000 onwards, the focus shifted to strategic sales. The target set by the Government of India for disinvestments of PSUs for 2002-3 was Rs. 1,200,000 million (approximately $25,806 million), but the actual figure turned out to be Rs. 56,320 million ($1,211 million).

One of the concerns with respect to privatization is that the interest of employees would suffer. In the last decade (1991-92 through 2000-01) there was a 20 percent reduction in employment. Thirty-six million employees opted for the Voluntary Retirement Scheme (VRS).*

Recently, the workers and trade unions have come forward with an alternative to privatization. The case of Fertilizer & Chemicals Travancore Ltd. (FACT), a PSU located in the state of Kerala in South India and employing 5600 permanent(5343 after the Vuluntary Retirement Scheme was implemented)** and 25,000 casual workers,*** is noteworthy in this context. It was a unit that turned a profit for 15 years, but in the last two years it has been running at a loss – partly due to the removal or reduction of subsidies to agricultural inputs as per WTO stipulations.

The Government of India is contemplating privatization of FACT. Fearing that such a move would adversely affect the interest of the workers, the trade union leaders have proposed that workers be given a chance to run it as a cooperative. The state government is also prepared to take it over from the central government and bring it under the cooperative sector. The workers have agreed to certain conditions, such as a wage freeze for the next few years, longer hours of work, implementation of the VRS, and the state government's control and regulation.

Although the negotiations are at a nascent stage, in the case of a medical college and hospital the cooperative model is already functioning: Kerala State Co-operative Hospital Complex is a cooperative society registered under the Co-operative Societies Act and runs a 1000 bedded Superspecialty Hospital. Due to extreme opposition from the public to starting this health sector unit in the private sector, the government of Kerala decided to start it in the cooperative sector.

Workers cooperatives are emerging as an alternative to full-scale privatization in the manufacturing sector, plantations and the social sector and may, over time, be an alternative in the financial sector. In some cases, the loss-incurring units of the private corporate sector are being handed over to workers' cooperatives. This needs to be handled cautiously, as the workers need to have the necessary technical expertise, managerial ability and professional training for running modern large-scale industrial units on corporate lines.

Source: Uma Devei Sambisavan, participant at the Dublin Expert Group Meeting, provided for this Summary.

*Economic Survey 2002-03, Government of India 2003: 149-50.

**"Fact Proposes to Cut Staff Strength," The Hindu, January 9, 2004.

***From an unpublished paper (in Malayalam) by Trade Union Leader Mr. Divakaran of AITUC in Kerala entitled "FACE Crisis- Problems and Solutions."

D. Improving leadership, managerial effectiveness and human resource management

Improved performance of the public sector depends not only on defining the role, scope and organizational arrangements for service delivery, it also depends on the efficiency and effectiveness of the internal management arrangements that are in place. Public service organizations should implement integrated performance management improvement systems, which include the development of organizational strategic plans, operational plans, individual action plans and targets, resource requirements, performance standards and means for obtaining those resources and mechanisms for monitoring and evaluating performance at organizational and individual levels.

Drawing upon research and international best practice/quality frameworks, it is possible to identify a number of key issues that need to be addressed in order to increase managerial efficiency and effectiveness within public service organizations. These issues include:[17]

- ***Leadership* –** particularly with respect to providing overall strategid direction and achieving change;
- ***strategy and planning*** – developing and implementing strategies and policies derived from the overall strategic direction;
- ***people*** **–** planning people processes, empowering people and improving communication, managing human resources systems, developing skills and competencies, reward and recognition and employee well-being and satisfaction;
- ***organizational management*** – effectively managing internal resources, external relationships and information and analysis;
- ***processes*** – including the design, management and improvement of processes, customer-focus of processes and reform processes and change management;
- ***customers*** – customer focus, knowledge, relations, satisfaction and results; and
- ***civic responsibilities*** – responsibilities to the public/society, support of key communities and the results and impact on society.

While their mode of expression may vary, many of these issues are common to both the public and private sectors. In order to help identify strengths and weaknesses with current arrangements within an organisation, it can be helpful to use diagnostic tools, such as the Common Assessment Framework (www.eipa.nl), to assist where best to start. Otherwise, the task for public service organisations can be daunting and discourage improvement.

In addition to the general issues, specific measures that can be taken to enhance managerial effectiveness include:

- ***reduction of micro-management*** by politicians (for example, by Ministers);
- on-going, relevant ***capacity development and training***, with staff being able to use skills acquired during training programmes;
- adoption of a ***research orientation*** for evidence-based policy action;
- introduction of ***performance incentives***, both monetary and non-monetary systems;
- improvement of ***physical working conditions***;
- implementation of ***periodic operational reviews***;
- application of ***informational and communications technology (ICT)*** in operations;
- adoption of ***performance budgeting and variance analysis***;
- greater ***inter-departmental meetings*** of senior staff;
- adoption of ***work plans and performance standards***; and
- use of ***quality of work-life surveys and employee and customer suggestions***.

Measures to enhance managerial effectiveness also need to be complemented by merit-based human resources management systems. Skilled and motivated employees under a competent human resources development staff management system with full transparency and accountability deliver efficient and quality service. Developing and

[17] See Humphreys, P., Butler, M., O'Donnell, O. (2001), "A Quality Customer Service Mark for the Irish Public Service", CPMR Research Report No.4, Dublin: Institute of Public Administration.

maintaining such a staff management system entails:

- ***open and transparent recruitment and promotion*** based on merit and transparent career development policies;
- ***competitive pay*** (factoring in inflation, private sector pay, or specific job requirements) and working conditions to attract and retain qualified staff;
- ***mandatory training*** and retraining to promote efficient administration and productivity;
- ***decent working environment*** (space, tools, supportive infrastructure) also in support of productivity;
- ***security of tenure or renewable contract and decent pensions*** in support of fairness, efficient administration, and incorruptibility;
- ***accountable performance*** to promote fairness and impartiality to the public; and
- ***political neutrality*** to ensure continuity and predictability of government business, loyalty to incumbent political leadership and smooth leadership succession.

In several countries, the most highly qualified persons are employed in the private sector because this sector can afford to pay for such human capital. While many of the persons employed in the public sector are highly qualified, their remuneration often does not fully reflect their human capital. The security of tenure is usually an important element in keeping such persons within the public sector. Some of the ways of recruiting and retaining highly qualified persons in the public sector are:

- ***delinking some of the conditions of service and remuneration*** of qualified workers in statutory bodies from those in central government, such as the use of executive staff categories in UK, USA;
- ***use of performance contracts*** (comparable with private sector);
- ***use of promotion*** to reward high performers;
- ***on-going skill training*** – local, regional, and international;
- ***permission for limited attachment to institutions***, such as colleges, universities, institutes, centers, for re-tooling and research, including having sabbaticals and special leave;
- ***adoption of teamwork and matrix management*** for special projects;
- ***use of qualified persons in internal training programmes;*** and
- ***employment of new developments in ICT*** that allow employees to keep abreast of recent developments in their field.

There are, however, also some caveats when it comes to improving public sector managerial effectiveness. First, it must be noted that introducing improvements in human resource management is especially difficult in the LDCs, where wages are extremely low, working conditions are poor, corruption is high, incentives are skewed, and accountability and transparency are absent. In addition, while job security is one of the attractive features for hiring and retaining quality staff, structural adjustment and privatization in LDCs have reduced the potential for job security.

It should also be noted that the scope for managers to implement successful programmes of change is more limited in the public than the private sector for several reasons. This is related to the discussion in Section I.B. above on "Defining the public sector: key differences from the private sector". First, public sector management is different from private sector management in numerous areas and ways. For example, the source of funds and revenues is different, decisions are made through the political system and based on political objectives, and the measurement of outcomes is often more complex. There can also be simultaneously different clients for the same service but with different needs and agendas, such as particular recipients of the government services, but also taxpayers who fund the services but may not be direct recipients or beneficiaries. There are also regulatory structures and procedures that must be followed in the public sector and that can be more restrictive than in the private sector, limiting the scope for public sector manager decision-making. Further complications and obstacles can arise if these regulatory structures or procedures are not kept up to date.

Second, discretion by public sector managers over hiring and firing is very low. It can be argued that this constraint is appropriate, because it is important that equal and equitable selection criteria are satisfied, and that staff are protected from discrimination, for example, on the basis of political loyalty rather than technical ability. Yet, there is also a danger that too much emphasis is placed on processes rather than results. This can hinder the efforts of senior managers to bring in staff more sympathetic to objectives of public service improvement. The challenge is therefore to combine flexibility and accountability.

A third problem in managing change in the public sector is that public sector employees are often less strongly motivated by material rewards than their counterparts in the private sector. Thus it is difficult to create monetary incentives for change at an individual level through promises of "payment for results". Indeed, there is evidence that performance-related pay is counterproductive in the public sector, particularly for professional groups such as doctors and teachers. Instead, it is necessary to frame policies that harness the moral commitment of such groups to the ideals of public service, such as altruism and work that promotes the common good. A danger, however, is that such policies will appear to place too much power in the hands of service providers and too little in the hands of service consumers. This tension between producer power and consumer power cannot be avoided but must constantly be recalibrated in the light of national and local circumstances.

Finally, while good management is important in order to make for more efficient and better use of resources and overcome constraints in the public sector regarding human resources, effective leadership can be just as important in giving direction and meaning and making a difference in performance. Effective management is necessary, but so is effective leadership.

E. Measuring effectiveness

1. What to measure and the Balanced Scorecard Approach

Improving public sector effectiveness is a dynamic process and government has the responsibility to evaluate the effectiveness of its policies, spending and programmes. Public sector goals and strategies for achieving them should be accompanied by targets and indicators so that public sector performance can be measured and monitored over time. The measurement of effectiveness involves a comparison between the realized and planned or expected output, impact and outcomes.

Measurement is essential for improving public sector effectiveness. Measures show

how well public sector agencies are meeting certain prescribed goals and encompass both quality and quantity elements. They are necessary to evaluate if goals are achieved, to hold managers and politicians accountable for service delivery and policy changes, and to keep government action transparent with the public properly informed. Social cost-benefit analysis, and not just financial or economic cost-benefit analysis, should be used as a basic analytical tool to ensure the inclusion of social aspects and the social perspective in measuring and enhancing effectiveness in both the short- and long-run. Such social cost effectiveness analysis has been widely used in social projects such as health and education. The fundamental criterion for assessing public sector effectiveness is whether social benefits of a programme or public sector action exceed its social costs to ensure that the net social benefit is positive. It is also important, when measuring public sector effectiveness, to include distributional considerations.

Public sector goals are ideally expressed as outcomes and assessed as to whether outcomes are achieved. For example, the Millennium Development Goals, including halving the number of people living in extreme poverty or eliminating gender disparities in all levels of education by 2015, are public sector goals expressed as outcomes. However, since it is usually difficult, if not impossible, at least in the social arena, to hold individuals and agencies accountable for outcomes, since they can be affected by different variables (including the macroeconomic and physical climates), it is also important to specify goals in terms of outputs that are demonstrably or at least arguably related to outcomes. Examples of outputs would be the total number of child vaccinations carried out, the number of new schools built and teachers hired in rural areas where schools did not previously exist within a certain geographical distance, reducing the average amount of time for income-support applications to be fully processed or the number of unemployed placed in new jobs by a job placement agency. Outputs are usually much more practical to measure than outcomes, and can be more useful in specifying responsibility. Outputs are also, usually, easier to cost than are outcomes, as outcomes are indirect and affected by several variables.

Nonetheless, outcomes must still be kept in mind and analysed whenever possible, and there must be proper evaluation of social policies, programmes and projects in the social sector to measure, to the extent possible, the impact/effect that these outputs have on the desired outcomes. For example, one outcome to be analyzed is whether more people are better off (either objectively defined or assessed as perceived well-being, for example, from survey data) following policy changes or programmes to improve effectiveness of service delivery. Other factors to be assessed include:

- the degree to which the intended purposes of a service are being met;
- the occurrence and costs of unintended, adverse impacts, with one example being behaviour exhibiting the “acquired helplessness syndrome” by recipients of public services;
- the adequacy of the quality of the services provided relative to the public’s needs, desires and willingness to pay;
- the level of courtesy in responding to citizens’ requests; and
- citizens’ and customers’ perception of and satisfaction with the service.

Some specific examples of measuring effectiveness could include such measures as the number of error-free tax returns processed, the number of persons finding suitable jobs after a skills training programme or the number of houses which violate the building code. Other measures would involve:

- determining if basic needs of the population are being met through administrative records associated with service provision and via customer surveys and impact analysis;
- determining how each of the stakeholders, including service users, public employees, taxpayers and politicians, view the reforms through focus groups and customer panels – which have become part of the mainstream – that can also be used as "sounding boards" for the development of new ideas before they are implemented and not just after implementation;
- examining outcomes not only for short-term results but also from a longer-term perspective through impact studies, as assessments should encompass both a short- and long-term time dimension; and
- determining how resources are being allocated through financial records, statements and audits.

In order to confront the challenges of measurement and avoid potential pitfalls, public sector entities introducing measurement systems into their work should start small, with clear, focused and balanced measures. They could also introduce the "Balanced Scorecard Approach",[18] which provides a framework for measuring and evaluating measurement from a management system perspective. The Balanced Scorecard Approach is a concept developed to overcome shortcomings of previous performance management systems in which measurement focused primarily on indicators of operational performance and quantitative financial measures. Such systems had the disadvantage of tending to focus on the past without identifying areas of strategic improvement. The balanced scorecard is meant to be a management system, and not only a measurement system, to provide feedback around both the internal business processes and external outcomes in order to continuously improve strategic performance and results. The approach takes four perspectives: learning and growth, business/operational process, customer perspective and financial perspective. Measurement should therefore also be incorporated in a regular and structured way into everyday management.

2. Caveats

While measurement is necessary, there are also some caveats with respect to measurement that need to be acknowledged and dealt with. One aspect to be confronted is that in their bid to measure effectiveness, governments can become completely inundated with indicators, including both output measures and process measures. Yet the fundamental questions remain of what to measure and how best to measure it, which, even with a host of indicators, may not be straightforward. For example, tracking links between national reforms and improvements can be difficult because there is no "counter-factual" – that is, there is no place in the country where the reforms are not being implemented, so therefore there is no "control group" or area not affected by the changes against which the outcomes of the group or area affected by the changes can be compared. (Although in recent years, economists and social analysis have been working with randomized experimental and quasi-experimental methods to analyze the impact of social projects and programmes in developing countries.)

Similarly, in the context of a monopoly provider of goods or services there are no competitors with which the good or service

[18] See Kaplan, R.S. and D. P. Norton (1992). "The Balanced Scorecard – measures that drive performance." *Harvard Business Review: 70-79.*

can be compared, rendering measuring customer or citizen satisfaction problematic. Satisfaction surveys must also be objectively reviewed to ensure that they are not self-serving, constructed to rationalize decisions that were made in the past. It could also be viewed as patronizing and inappropriate to ask people their opinion and level of satisfaction if there are no other means for them to be engaged in social dialogue and in receiving feedback in the design of service delivery systems.

A further difficulty is that results from consumer surveys may have to be adjusted for expectations. People in different income levels and in different localities can have different levels or patterns of expectations that influence their stated levels of satisfaction. Perhaps somewhat ironically or paradoxically, in at least one developed country that regularly carries out citizen satisfaction evaluations, people in poorer areas have shown themselves to have the highest level of satisfaction. It was concluded that a major reason behind this result was that the people living in the poorest areas had lower initial expectations.

A related caution is that people from some classes or strata in society, particularly from educated classes, are able to articulate their needs – and dissatisfactions – better than others. Without taking this into account, measures of satisfaction and related actions may fall into the pitfall of the "squeaky wheel principle", from the saying that "the squeaky wheel gets the grease". That is, those who are best able to articulate their dissatisfactions could receive a disproportionate and inordinate amount of attention and improvement in services relative to others who may be more in need.

Measurement also needs to be focused and appropriately timed, as there are diminishing returns to performance measures and indicators. When there is an over proliferation of indicators, then measurement has gone way beyond the point of diminishing returns, its usefulness breaks down and it becomes counter-productive. This can be particularly the case in the context of the poorest developing countries, where the civil service can be quickly overburdened with new initiatives and measures. There is also no point from both efficiency and effectiveness points of view in producing many different measures that are not used or taken into account. Measures should ideally be clear, focused and manageable within the capacities of those administering and using them. It is also important that relevant stakeholders be engaged in the choice and use of indicators, and sanctions against public sector employees for breaches of performance must be based upon measures that are clear, appropriate and fair.

Box 7

Specific approaches adopted to support the identification and introduction of public sector effectiveness measures – the case of Ireland

As a result of the *Public Service Management Act* (1997), all Civil Service departments and offices in Ireland are required to publish three-year *Strategy Statements*, which include explicit goals and high-level objectives, with associated performance indicators, that link with specific commitments to enhance the quality of services they deliver. *Annual Progress Reports* are made to the Oireachtas (National Parliament) and annual Business Plans prepared at the individual unit level to reflect and operationalize the department/offices' strategic level objectives.

Additionally in areas such as Quality Customer Service (QCS), which are particularly relevant from a social development perspective, each Civil Service department/office is required to produce a two-year *Customer Action Plan* indicating how full effect would be given to a number of guiding principles for the delivery of quality customer service. Some of these principles have also been informed by key legislative developments including the *Ombudsman Act (1980)*, *Freedom of Information Act (1997)*, the *Employment Equality Act* (1998), *Equal Status Act* (2000) and the *Official Languages Equality Bill*. Most recently, all departments/Offices are now also required to publish a *Charter Statement of Service Standards*. Likewise, the *Comptroller and Auditor General Amendment Act 1993* has introduced for the first time a statutory requirement on departments to be accountable for the effectiveness and value for money of their operations.

Similar approaches have also been adopted at the local government level and other parts of the public service as part of the Irish Government's major programme of modernization of the Irish public service, referred to as the Strategic Management Initiative (SMI).

Overall, such developments have already contributed to, and are continuing to help in, fostering cultural change within public service organisations: encouraging a shift in emphasis from inputs and processes to outcomes and effectiveness. In addition to the new measurement and reporting arrangements incorporated in the changes noted above, external oversight of improvements in public service effectiveness is provided through a number of means including oversight by the political domain (e.g., through the Public Accounts Committee and the All-Party Oireachtas Committee on the SMI). Progress against specific modernization targets has also been incorporated into recent national pay agreements, such as the *Programme for Prosperity and Fairness* (2000) and *Sustaining Progress* (2003). Oversight of progress against targets is provided by independent Quality Assurance Groups, including representation from the public and private sectors as well as stakeholder groups.

Source: Humphreys, Peter (2003) "Improving Public Sector Effectiveness", background paper for Expert Group Meeting.

F. Social dialogue

Effective social dialogue, in which stakeholders are involved in the decision-making processes in the delivery of quality service, should facilitate the functioning of the public sector. This involves having governments not using a top-down approach but rather include stakeholders and partners in a participatory approach to policy-making and evaluation. Social dialogue in member States of the International Labour Organization (ILO) is based upon the ILO tripartite (or bipartite, in certain sub-sectors where services are provided strictly by the public sector) model of consultations and negotiations among the representatives of government, workers' and employers' organizations.

Establishing effective social dialogue mechanisms can improve public sector effectiveness through greater transparency and accountability in national decision-making; greater information sharing and better communication; better democratic participation and governance; and opportunities for creative thinking and brainstorming among stakeholders.

An important aspect of the social dialogue is the inclusion and involvement of public service workers. Including public service workers in decision-making processes and involving them directly in the efforts to improve effectiveness should not only increase morale but should also translate into workers who are more invested and involved in their job and more committed to implement corrective reforms and make them work. However, many public service workers throughout the world do not enjoy the right to participate in social dialogue, as they do not have freedom of association and the right to engage in collective bargaining. In some countries, they have such rights in principle but not in practice. The International Labour Organization has been promoting the ratification and application of the International Labour Conventions, particularly those which concern the fundamental worker rights in the public sector and which would facilitate social dialogue in the public sector.

Countries may wish to consider widening these partners (government, employers and workers) to social dialogue to include civil society organizations. Other measures to may include: effective use of media briefings; town hall and other community meetings; radio and television call-in programmes; publication of research papers and policy briefs; and establishing public commissions. In this context, it is very important to train public sector employees over the short- and long-run to effectively use these means of communication to improve social dialogue.

Box 8
Social Partnership in Barbados

After a period of moderate economic expansion, Barbados, a small developing country in the Caribbean, experienced a decline in economic activity during the 1990-92. Unemployment increased to over 20 percent in 1992, the deficit in Balance of Payments increased to over Bds $100m (US $50m) in 1991, and both the fiscal deficit and inflation grew from 1989 to 1991. The Government was forced to undertake a structural adjustment programme as part of the requirements for an International Monetary Fund loan. The Government was intent on maintaining its fixed exchange rate parity with the US dollar (Bds $2 to US $1) and hence the adjustment process involved a cut in public sector wages and the lay-off of public sector workers. During the months of October and November 1991, there were demonstrations against the austere stabilization programme implemented by the Government.

In an effort to design ways of coping with the crisis and resuscitating the economy, the Government began talks with a coalition of trade unions, staff associations and private sector employers. On August 24, 1993, the three parties signed a ***Protocol for the Implementation of a Prices and Incomes Policy*** covering the period April 1, 1993 to March 31, 1995. A Second Protocol was signed to cover the period April 1995 to March 1997. These Protocols covered wage restraint, productivity/performance-based pay increases and cost-based price increases. The third Protocol covered the period 1998-2000, while the current fourth Protocol covers the period 2001 to 2004. The relationship between the three parties has been strengthened to form a Social Partnership which promotes greater social dialogue, and the Protocols have been widened to include such issues as human resource development, crime, poverty alleviation, public sector reform, HIV/AIDS and globalization. The institutional and administrative arrangements governing the Protocol have been strengthened with the establishment of a National Productivity

Council (1993) and a sub-committee of the Social Partners.

The core objectives of the Barbados Protocols have been the maintenance of the existing parity of the rate of exchange and a stable industrial relations climate, the sustainable expansion of the economy through improved competitiveness, the restructuring/repositioning of the economy, the reduction of social disparities through increased employment, a national commitment to increased productivity and improved efficiency, a balance between wages and prices and a consolidation of the process of tripartite consolidation.

The Social Partnership has been an effective framework of governance for a small developing country at the macro level. The trade union movement and private sector employers have been able to influence government policy through a series of national consultations and social partners meetings. The social partnership has been instrumental in fostering public sector effectiveness and national development.

Source: Fashoyin, T, "Barbados: Fostering Economic Development through Social Partnership," Working Paper No 1, Infocus Programme on Strengthening Social Dialogue, ILO, Geneva, October 2001.

G. Improving the public perception of the public sector

The best way to improve the image of the public sector is through improved performance in achieving stated goals, which includes improved service delivery, and through improved adherence to the human values that the public has entrusted to the government to uphold. Public participation is important to both of these, and if done well will have the benefit of improving the image that people have of their government. Improved performance should also be transmitted and communicated to the public, for example, via the press, in a transparent and accountable way.

Improved public perceptions of the public sector may, in turn, assist to improve effectiveness through higher employee morale and pride in work, which can be important for boosting productivity. It can also bring about a higher level of cooperation and support from a public more willing to work "with the system" rather than "against it". This could become a crucial political issue in terms of support for programmes directed toward only one portion of society, such as poverty reduction programmes, where the beneficiaries are not the public at large and are not the citizens financing the programme.

It is therefore in the interest of public sector effectiveness to effectively counter the stereotyped caricatures of public sector entities as "old fashioned", "inefficient" and "bureaucratic", run by "incompetent", "lazy" and/or "corrupt" civil service workers. It is not an easy task to change long-held, stereotyped perceptions, and if perceptions do change, they often do not change quickly. Interestingly, however, and perhaps even ironically, in one survey of public perceptions of a country's civil service, those who had experienced direct contact with a governmental department over the previous 12 months had a higher image of the civil service than those who did not.[19]

[19] Survey conducted in Ireland by Lansdowne Marketing (2003), cited in the 2003 background paper for the Expert Group Meeting entitled "Improving Public Sector Effectiveness", by Peter Humphreys.

In terms of improved performance and service delivery, there are two main aspects: internal operations and external delivery. In the area of internal operations, public perceptions will be enhanced by achievement of publicly stated goals; increased efficiency; greater transparency of operations; and human resource practices based on performance and merit. In terms of external delivery, the public image of the public sector will be improved through better customer relations; the provision of quality goods and services that reflect the taxes and fees paid by citizens; the timeliness and responsiveness of service delivery; greater information and public accountability; and reduced favouritism and political influence.

Ultimately, it is up to each individual public service organization to carry out an objective assessment of its activities, actively and systematically monitor customer satisfaction and undertake remedial action through specific, targeted steps. This needs to be an integral part of each organization's planning process and activities. On specific issues where the perception has been particularly inaccurate due to lack of information or even misinformation, internal and/or external actors could initiate a citizens' education campaign to properly inform the public and set the record straight.

Governments also need to be careful about starting up new service areas unless they meet a stringent public good test. It is easier to not start services that are unnecessary or not cost-effective than to cut off these services once they are already being provided. New social programmes should be carefully scrutinized and should not be undertaken by the government unless it is clear that they have a high social rate of return; will not be undertaken by the private market or civil society organizations, such as NGOs, and do not have perverse distributional, distortional or other secondary effects.

Other efforts to invest in image building of the public sector, such as investment in public relations activities, may not be a cost effective activity, particularly if they are not backed up by improved performance. An exception to this could be when a country undertakes a systematic public sector reform programme and needs to communicate to and inform stakeholders as part of that effort.

III. Recommendations

The purpose of this section is to provide recommendations that promote the improvement of the effectiveness of the public sector in the area of social development. These recommendations both reflect and add to the preceding discussion in the text above.

In addition, there are some universal principles, such as human rights and social and economic equity and empowerment, as well as shared objectives, such as achieving the Millennium Development Goals, which apply to all contexts and countries. However, in the recommendations that follow, it must be recognized and emphasized that the following recommendations are not intended as a "one-size-fits-all" approach and should therefore be adapted to the particular circumstances prevailing in each country.

Objectives of the Public Sector:

All stakeholders and development partners should:

a) recognize the need of the public sector to be reformed, as appropriate, in pursuit of its effectiveness in a changing socio-economic environment, while recognizing the important function of the public sector distinct from that of the private sector;

b) re-emphasize the importance of social development, as articulated in the outcomes and programmes of action of the United Nations World Summit for Social Development, held in 1995 in Copenhagen and the 24th Special Session of the United Nation General Assembly, held in Geneva in 2000.

Government social expenditures, financial resources and budgeting:

To improve public sector effectiveness in the area of social expenditures, financing and budgeting, Governments should:

a) within the overall fiscal framework, determine what resources are needed to provide basic levels of services and then examine ways to finance – and better finance – these services, such as through increased levels or better collection of taxes, user fees, prudent borrowing and appropriate use of aid;

b) determine clear objectives and priorities when making decisions about the allocation of public resources, both in terms of programme areas and intended beneficiaries, while always aiming to protect the poor and disenfranchised;

c) take into account the interdependence of social development expenditures, such as primary education, nutrition and basic health, and strive to achieve a critical mass of funding for these areas so as to raise effectiveness in all areas and programmes of social development together in an integrated manner;

d) ensure that government budgetary measures do not create adverse economic conditions or effects, such as inflation/deflation, balance of payment crises, crowding out of private investment and low growth, which can undermine the achievement of social objectives;

e) ensure transparency and accountability in the budget and budgetary formulation process, including provisions for adequate citizen and stakeholder consultations as well as clear communication and full information about revenues and fiscal constraints;

f) determine clear objectives and priorities when designing budgets, both in terms of areas and beneficiaries, while always trying to protect the best interests of the most poor and marginalized sectors of society;

g) give priority to those budget expenditures which are intended to enhance public well-being, promote capacity building, etc., before expenditures used to finance its own (government's) existence and functioning;

h) take steps to reform the budgetary allocation system to avoid or minimize the financing of those projects and social programmes that are pork-barrel in character and/or are the result of selfish, opportunistic political motives;

i) give special attention to the necessity to ensure that the public funds allocated to particular goals are used accordingly, as a system of monitoring and evaluation should be in place to ensure that the resources and benefits arrive at the intended destination;

j) implement measures and establish systems to remove barriers to service delivery and performance, including

    i. adopting a Medium Term Expenditure Framework (MTEF) to better estimate trade-offs, within an affordable multi-year fiscal framework, assuming affordability of policies and availability of resources for programmes; and

ii. better cash management and reporting in-year to assure resources flow to budget priorities;

k) give attention to choosing the right time horizon when outlining plans and programmes in regard to capacity-building activities, taking into account the current, mid-term and long-term horizons;

l) set prices, when setting prices for public services, that balance the necessity to combine in a satisfactory manner two very important – but not easily compatible – aims: covering expenses while remaining affordable to wide circles of people;

m) design their own policies towards cooperation, where possible and appropriate, with the private sector and promote, within the guidelines of these policies, cooperation in designing and creating institutions to render public services to the population so as to achieve a sound balance between social and purely economic aspects of public sector activities.

Alternative means for public service provision:

Governments should:

a) continue to review and give further consideration to a range of alternative approaches to the delivery of social services including, where appropriate, such steps as decentralization, marketization, public-private partnerships and privatization and the impact that these alternative delivery systems have on social development;

b) take into account that in many countries, the proper conditions do not exist for applying the principle of subsidiarity – that decisions are taken and the implementation is supervised at the level which is closet to those that benefit – as a remedy for raising the effectiveness of government expenditure, and that factors such as necessary capacity development and the geographical size of the country and its infrastructure, including road access and available means of communications, must be fully taken into account;

c) continue to review and rethink the relationships between public and private services while at the same time assume the ultimate responsibility for the provision of social services even when these services are provided by private entities;

d) evaluate and judge the success of alternative means of provision of traditionally government-provided services by its impact on all stakeholders, especially the most poor and vulnerable members of society and including affected workers and their families (See also recommendations below related to measuring and evaluating effectiveness in the section "Measuring Effectiveness".);

e) continue to assume its full responsibility for the striving toward universal access to the essential services areas of basic health and primary education in a sustainable manner and for proper regulation and oversight of services provided by alternative means;

f) make privatisation decisions prudently, with due consideration given to the capacity of the state and its ability to address possible inequitable outcomes, and define their own policy towards privatization based on the conditions existing in their country.

Leadership, managerial and human resource effectiveness:

In order to improve public sector managerial effectiveness, Governments should:

a) recognize that the leadership dimension is crucial to effective public sector management, and that there is especially a need for sound and solid leadership when introducing improvement initiatives into the public sector so as to ensure a proper transition as well as to motivate the staff who are implementing the changes;

b) implement, in their public sectors, integrated performance management improvement systems, which include the development of organizational strategic plans, operational plans, individual action plans and targets, resource requirements, means for obtaining those resources, performance standards, and mechanisms for monitoring and evaluating performance at organizational and individual levels;

c) design, advance and implement human resource management measures and a transparent, accountable performance, merit-based system of recognition and promotion for public employees to motivate them to perform more efficiently and effectively and to promote staff who perform well and with fairness and impartiality to the public;

d) pursue greater transparency in hiring and promotion practices, including gender representation as well as other forms of diversity, within a merit-based hiring and promotion system.

e) also recognize that while many people enter the public sector for reasons other than financial reward, the salary structure and remuneration system can nevertheless serve as important incentive factors for employee motivation and productivity;

f) ensure that the remuneration and working conditions in the public sector be such that they attract and retain qualified staff, while recognizing that a pay system strictly based on performance cannot, in many cases, be considered as a broadly applicable solution or fully practical in the context of public sector management;

g) provide training opportunities to civil servants throughout their careers in response to changing skill requirements so as to enable employees to keep abreast of new technologies, including ICT developments;

h) foster good industrial relations through fair and impartial treatment of public sector employees and through improvement of safe, physical working conditions.

Measuring Effectiveness:

In order to effectively measure public sector effectiveness with a view toward improving it:

Development partners should support government monitoring and evaluation efforts, including monitoring PRSP reform progress, and especially capacity-building.

Civil society should be encouraged and facilitated to actively monitor and assess, or be involved in assessing, the effectiveness and impact of reforms and programmes.

Universities, research institutions and other competent organizations should undertake studies helpful in conducting the measurement of public sector effectiveness. The results of these studies should be made available to government agencies, parliament and other bodies who review the conduct and effectiveness of government as well as to the public at large. Developing such institutional capabilities will also assist in national capacity building.

Governments should:

a) establish clear goals and indicators as well as monitoring and evaluation systems in order to measure the level of effectiveness achieved, both in terms of outputs and outcomes;

b) study and evaluate impacts of public programmes or government actions on individual and social welfare, both from the equity and efficiency perspective;

c) introduce appropriate systems to measure the effectiveness of public service provision. Such measurement systems should include objective stakeholder engagement and benchmarking. Such systems should include stakeholder engagement and benchmarking and be subject to on-going monitoring and review. Among different measurement techniques, cost-benefit analysis provides a general, useful framework for assessing public sector effectiveness;

d) establish measures of effectiveness that go beyond matching actual expenditures against their allocation. The additional measures must include unit costs of providing the services, coverage of actual beneficiaries against targets, the quality of the services offered, the timeliness in which the services are provided and the impact of the provision;

e) develop a set of indicators associated with public programmes, policies and projects in order to assess goal achievement and overall effectiveness. Indicators may be very different, but should be chosen and established in direct relation to the policy objectives. In this regards, a Balanced Scorecard Approach should be considered;

f) select indicators that are objective. This would include indicators common to all public services as well as others specifically related to each service;

g) take into account, when assessing public sector effectiveness, the side effects or trade-offs resulting from its actions, including, for example, the possible "acquired helplessness syndrome" that can result from government welfare programmes;

h) also take into account that while measurement is necessary, there are circumstances under which it can also be very difficult and the results are not always reliable. To balance this, qualitative tools, such as expertise, expert judgement based on observations and experience, should also be taken into account and used effectively;

i) provide for the regular monitoring and evaluation of public sector programmes using an appropriate set of social indicators based on surveys, administrative record and impact studies using data disaggregated by, for example, gender, age, and other relevant categories which should inform the on-going development of policy and programmes;

j) take into account, when conducting monitoring and evaluation, not only the supply side, such as gathering information on effectiveness of service delivery, but also the demand side – the use to which the results of the evaluation are put to – in order to improve decision-making and accountability;

k) establish benchmark service delivery standards and assess the extent to which they are met through surveys and analysis of administrative records;

l) be highly transparent and ensure that the results of monitoring and evaluation exercises are made public and inform on review and decision-making for the future.

Social Dialogue:

In order improve public sector effectiveness through social dialogue, governments should:

a) establish effective social dialogue mechanisms to improve public sector effectiveness through greater transparency and accountability in national decision-making; greater information sharing and better communication; better democratic participation and governance; and opportunities for creative thinking and brainstorming among stakeholders;

b) recognize that quality service is delivered only by motivated workers who are involved in decision-making processes for improving the effectiveness of the sector and therefore ratify and apply the International Labour Conventions, particularly those concerning fundamental worker rights, including in the public sector, to facilitate effective social dialogue;

c) consider widening the tripartite partners (government, employers and workers) to social dialogue to include NGOs, civil society organizations and social groups;

d) increase social dialogue and transparency through the use of media briefings; town hall and other community meetings; radio and television call-in programmes; publication of research papers and policy briefs; and the establishment of public commissions.

Improving the public perception of the public sector

To improve the public perception of the public sector, Governments should:

a) recognize that the best way to improve the image of the public sector is through improved performance in achieving stated goals, which includes improved service delivery, and through improved adherence to the human values that the public has entrusted to the government to uphold.

b) also recognize that in the area of internal operations, public perceptions will be enhanced by achievement of publicly stated goals; increased efficiency; greater transparency of operations; and human resource practices based on performance and merit.

c) also recognize that in terms of external delivery, the public image of the public sector will be improved through better customer relations; the provision of quality goods and services that reflect the taxes and fees paid by citizens; the timeliness and responsiveness of service delivery; greater information and public accountability; and reduced favouritism and political influence.

d) ensure that new service areas meet a stringent public good test, as it is easier to not start services that are unnecessary or not cost-effective than to cut off these services once they are already being provided, and carefully scrutinize new programmes and undertaken them only when it is clear that they have a high social rate of return, will not be undertaken by the private market (or civil society organizations, such as NGOs), and do not have perverse distributional, distortional or other secondary effects.

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