

DANISH SUPPORT FOR GOOD GOVERNANCE

- EFFECTIVE AND ACCOUNTABLE PUBLIC SECTOR MANAGEMENT

BACKGROUND ANALYSIS

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MANAGEMENT

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ABBREVIATIONS

DAC	Development Assistance Committee of the OECD
DFID	Department for International Development (UK)
EC	European Commission
EU	European Union
HIPC	World Bank-led debt-relief initiative for highly indebted poor countries
IFI	International financial institution
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
IPA	Independent Pro-Accountability Agency
LG	Local government
MTEF	Medium-Term Expenditure Framework
NGO	Non-governmental organisation
NPM	New Public Management
OECD	Organisation for Economic Cooperation and Development
PEFA	Public Expenditure Financial Accountability
PFM	Public financial management
PRSP	Poverty reduction strategy paper
SWAp	Sector-wide approach
TA	Technical assistance
UN	United Nations
UNCAC	UN Convention against Corruption
UNDP	United Nations Development Programme
VFM	Value for money
WB	World Bank

1. INTRODUCTION

In any society, the public sector has a key role to play in providing basic services, an enabling environment for private sector development, the rule of law, including the protection of freedom and human rights, as well as poverty reduction, income redistribution, etc. But exactly what role it should play, and what should be left to the private sector and others, is subject to continuous debate.

Regardless of the precise roles assigned to the state, a more effective, efficient, transparent and accountable public sector will contribute to improving the way in which these functions are performed.

Part of Denmark's commitment to poverty reduction is to help develop sustainable capacity for better management in the public sector. Better management entails greater effectiveness and efficiency, as well as enhanced accountability in the relationship between the public sector, on the one hand, and the private sector and civil society, on the other. Accordingly, supporting the improvement of public sector management comprises measures not only to strengthen the public sector, but also to empower citizens and their organisations to demand accountability from the public sector.

Improving public sector management is an important part of the good governance agenda, whose other concerns are to strengthen human rights and democracy. Obviously, these aspects are closely related, but specific support for human rights and democratisation, including the judicial sector¹, will be covered in a separate paper to be prepared in 2007/08.

The present document provides a background analysis of some of the problems and challenges of poor capacity and poor management in the public sector in Denmark's partner countries, issuing recommendations as to how Denmark should approach future development cooperation in this area.

¹ The judicial sector is thought to be better dealt with in the context of human rights and democracy. Although it clearly forms part of the public sector, it is meant to function with a high degree of independence from the rest of the public sector and the executive branch of government. This also applies to ombudsman institutions, anti-corruption agencies, national audit offices, and others, of which support for the first normally pertains to a human rights and democracy context, whereas the two latter belong to the public sector entities dealt with in the present document. Conversely, legislatures and political parties do not form part of the public sector, but are targeted as essential actors under the heading of both HRD and public sector management.

It provides the analytical background to a new strategy paper on good governance, in which the recommendations are further advanced and fleshed out in terms of concrete steps. The paper builds on the publication “Partnership 2000” (Danish Strategy for Development Co-operation) and on the Danish Government’s annual Priority Policy Papers with a five-year horizon. The document is mainly concerned with those partner countries with which Denmark has entered into long-term partnership (so-called ‘programme countries’), though it is also relevant to Denmark’s position in international forums and support for multilateral agencies. The specific issues faced by ‘weak’ or ‘fragile’ states are, however, not covered, as this would have required an overly heterogeneous field of study².

The document reflects a strategic decision, taken in 2006, to focus future Danish support in the field of public sector management on a limited number of areas. This choice springs from the fact that Danida is a comparatively small organisation with limited staff resources. It therefore needs to limit the scope of its activities in order to secure the required quality of its work, including its contribution to the dialogue with partner organisations and fellow donor agencies. In the areas selected, Danida will seek to develop particular competencies and expertise, while being less ambitious in other fields in terms of developing in-house technical capacity. Eventually, Danida should thus be able to build some measure of comparative advantage in the selected areas, to offer its services as a qualified lead donor where relevant, to serve as a well-resourced dialogue partner, and to be well placed to locate and source supplies of technical inputs, etc.

Note, however, that focusing attention on a few areas is not tantamount to Denmark withdrawing from financing other areas of public sector management. This could still take place in the form of contributions to joint funding arrangements, depending on how the various reforms³ are ‘packaged’ in each country, on funding gaps, on the pattern of donor harmonisation, etc. In addition, funding of the whole field of public sector management forms part and parcel of general budget support, whose success, in turn, obviously hinges crucially on public sector management.

2 See e.g. M.S.Grindle 2005, (in particular Table 3) for one attempt to demonstrate the differences in the governance agenda between weak and more stable states.

3 In this document, ‘reform’ is used as a fairly general term for “...deliberate changes to the structures and processes of public sector organisations with the objective of getting them (in some sense) to perform better” (from Pollitt and Bouckaert 2004), without specifying the scope of such changes, regardless of how fundamental, specific, broad, long-term, etc. they might be.

It is also important to note that the focus areas will not be approached in isolation, but always on the basis of knowing and understanding the overall reform agenda in each country, as well as the relationship between the overall agenda and the area in question.

The three areas chosen are: decentralisation; public financial management⁴; and anti-corruption. These areas are central to the governance agenda in most of Danida's programme countries, and they tend to be closely interrelated, thus offering good opportunities for interventions that foster synergies between them.

Furthermore, all three areas are highly relevant to most sectors and cross-cutting areas for which Denmark provides sector programme support (SPS). Accordingly, in Danida's sector work, they constitute entry points in the pursuit of the new public sector management strategy. Given past inconsistencies between interventions at the sector level and at the overall level of public sector management, it is essential that the understanding and the principles expressed in the new strategy be applied across the board in Danish development aid.

Finally, there is an important link between public sector management and Danida's efforts to tackle and to mainstream the cross-cutting and priority themes of Danish development aid. Of these, the gender dimension undoubtedly has the most general relevance and importance, and will need to be taken into account most consistently when dealing with public sector management.

Chapter 2 presents the overall rationale for addressing public sector reforms by elaborating on the association and causality between strengthened public sector performance and development outcomes. Chapter 3 provides a discussion and definition of some key concepts and principles. Chapter 4 gives a brief overview of issues in public sector management and reform. Subsequently, the three sections of Chapter 5 present and discuss the three areas on which Denmark will focus its support in the field of public sector management, namely anti-corruption, decentralisation, and public financial management. Finally, Chapter 6 sets out recommendations meant to serve as inputs to the strategy paper.

⁴ Within PFM, the budget execution phase, including procurement, will be particularly targeted.

2. DEVELOPMENT DIVIDEND OF IMPROVED PUBLIC SECTOR PERFORMANCE

To justify the massive attention and efforts to improve the performance of the public sector in partner countries, a closer look at the association and causality between strengthened public sector performance and development outcomes is warranted. Consequently, this chapter will examine the development dividend of improved public sector performance, adding a few examples of how public sector performance can be strengthened through increased transparency and accountability.

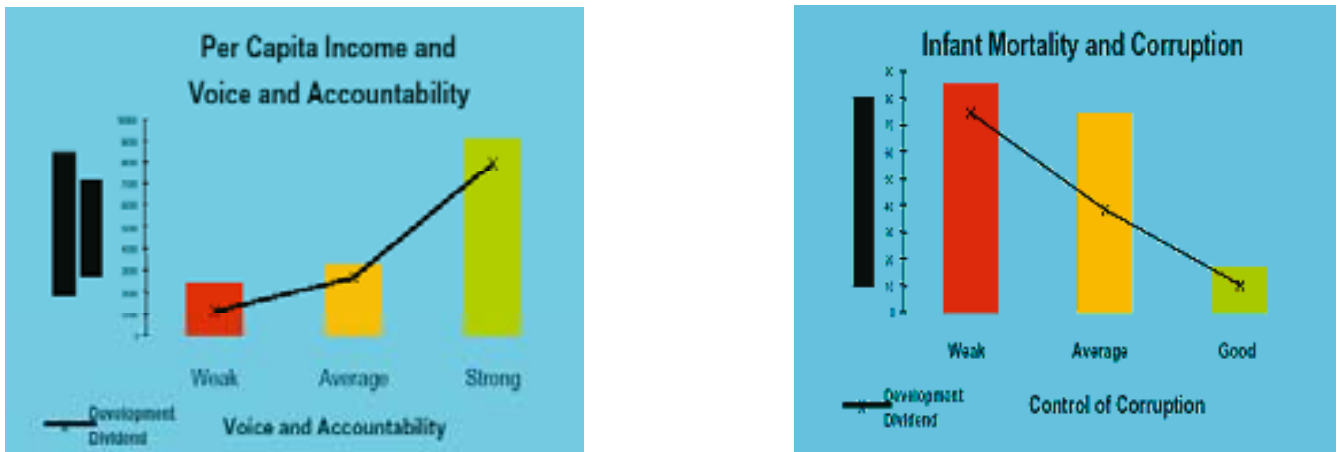
Reducing poverty through improved public sector performance

Poverty reduction stands out as the prime objective of all Danish development assistance. Accordingly, the fundamental question to be raised in this background analysis concerns the relation between strong public sector performance and poverty reduction.

The Millennium Development Goals (MDGs) establish the current objectives and benchmarks for all development efforts. Accordingly, it is worth taking a closer look at the link between indicators of public sector performance and progress towards some of the MDGs. In figure 1, the bars depict the simple relation between some aspects of good governance and development outcomes. While the underlying causality is multi-dimensional and complex, the line shows a ‘development dividend’ from aspects of improved governance – in one case voice and accountability, in another control of corruption⁵ – translated into better outcomes in terms of GDP per capita and infant mortality.

⁵ ‘Voice and accountability’ are here defined as “the extent to which a country’s citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and free media”, while ‘corruption’ is “the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as ‘capture’ of the state by elites and private interests.” The definitions follow Kaufman, Kray & Mastruzzi (2005).

Figure 1: Attaining the MDGs through strong public sector performance



Source: World Development Indicators and the World Bank Institute, 2004

Furthermore, it is possible to document a positive correlation between stronger control of corruption, a proxy for good public sector performance, and progress towards most of the MDGs, as illustrated above.

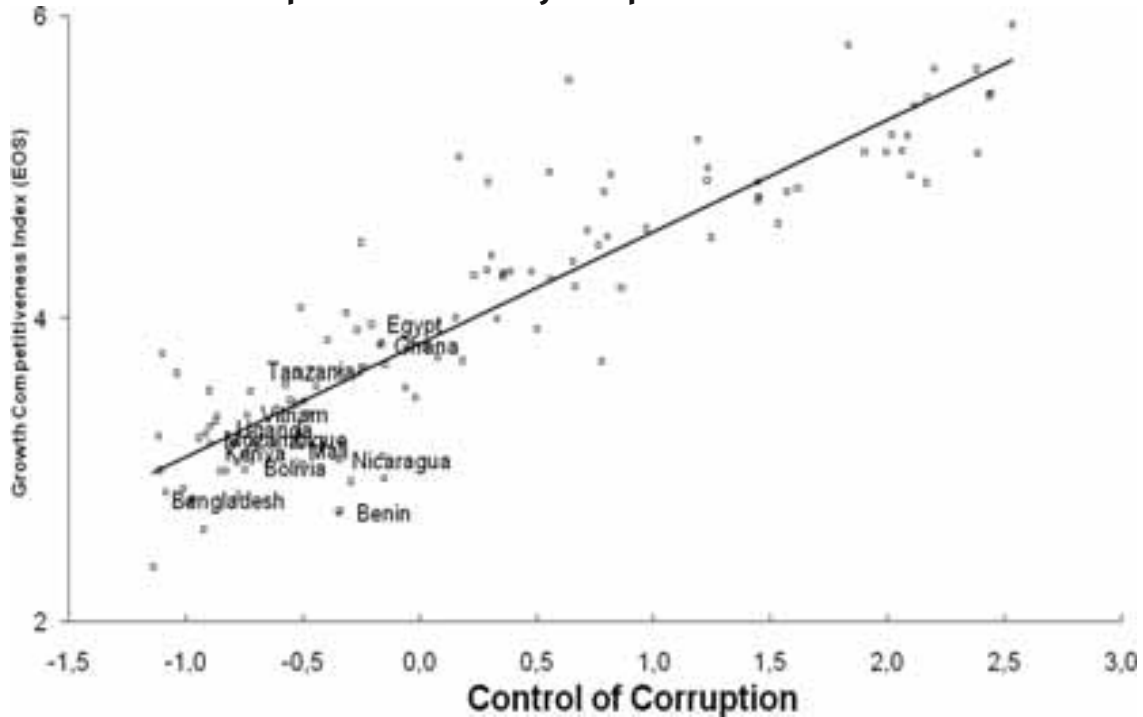
In a nutshell, current governance indicators are highly correlated with measures of development, both in terms of income and social outcomes. The challenge, however, is to identify the exact direction of causality between various types of institutional arrangements for the public sector and the development outcomes. The conclusions of analytical work in this field have been sensitive to variations in the underlying econometric models⁶. Nevertheless, sudden wealth does not necessarily lead to better governance, as the disappointing performance of many natural-resource-endowed countries has shown. Of course, these are not iron laws, just as the public sector's performance is not the only aspect that matters for development. Nevertheless, a rich body of evidence now points to a central role of the public sector in the development process.

The development dividend of strong public-sector integrity

The evidence suggests that the integrity of the public sector is important to sustain economic growth and reduce poverty. Examining two different sets of indicators, corruption and competitiveness, as well as corruption and income level per capita, may bear out this point.

⁶ see e.g. Arndt & Oman, 2006: Chapter 5

Figure 2: Control of corruption and country competitiveness



Sources: GCI drawn from Executive Opinion firm survey, World Economic Forum 2005; Control of Corruption from Kaufmann, Kraay and Mastruzzi, 'Governance Matters IV: Governance Indicators for 1996-2004'. No data available for the following programme countries in EOS: Bhutan, Nepal, Zambia & Burkino Faso. Regression based on 117 countries

Competitiveness is important to thrive in the global economy. Thus, it is indicative that the ability to control corruption is strongly correlated with a high score on the Growth Competitiveness Index published by World Economic Forum, which is in turn associated with high and sustained economic growth rates.

In sum, the assumption that a strong public sector performance is a prerequisite for pro-poor growth and development seems to be justified. Against this backdrop, the next section will present some practical examples of how public sector performance has been strengthened through increased transparency and accountability.

Improving public sector performance through transparency and accountability

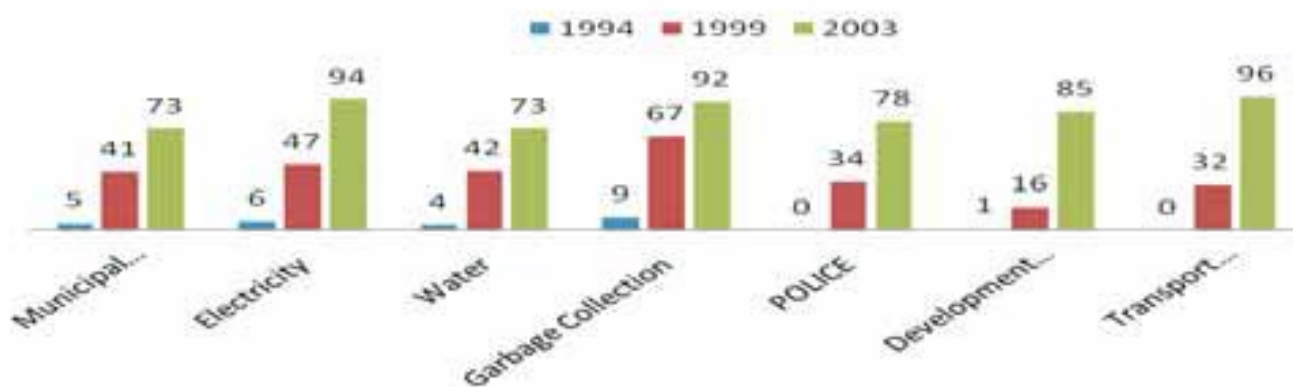
The above section examined cross-country evidence of correlation between public sector performance and development outcomes. The following section will explore actual scope for stepping in to strengthen public sector performance. Accountability and transparency stand out as two key variables in the equation.

Shedding light on the quality of services: The Bangalore Citizens' Report Card

In the early 1990s, public services in Bangalore in India were poor, and corruption was rampant, affecting all income groups. To monitor the government's failure to address these problems, and to motivate change, a civil society group, the Public Affairs Centre, introduced report cards in 1994, rating user experiences of public services. The results – revealing low quality, lack of access for poor people, and petty corruption – were widely publicised by an active press, thus increasing the transparency of public service standards (the transparency factor). The report cards gradually established a dialogue between service providers and user groups, and eventually achieved a positive response from the managers of public agencies. The state's chief minister set up a task force to identify specific institutional reforms to improve service delivery (the accountability factor). The initiative was so successful that the Public Affairs Centre was requested to work with local partners to prepare similar studies in other Indian cities. And other countries (the Philippines, Ukraine, Uganda and Vietnam) have since adopted the approach.

In general terms, the report card uses transparency to foster accountability. The demand-side impetus of the initiative triggered supply-side changes through institutional reform (reorganisation, performance management etc.) among service providers. The developmental impact of the initiative is documented in figure 3, which shows a substantial increase in user satisfaction of services across the board from 1994 to 2003.

Figure 3: Transparency and accountability matter: The Bangalore Citizens' Report



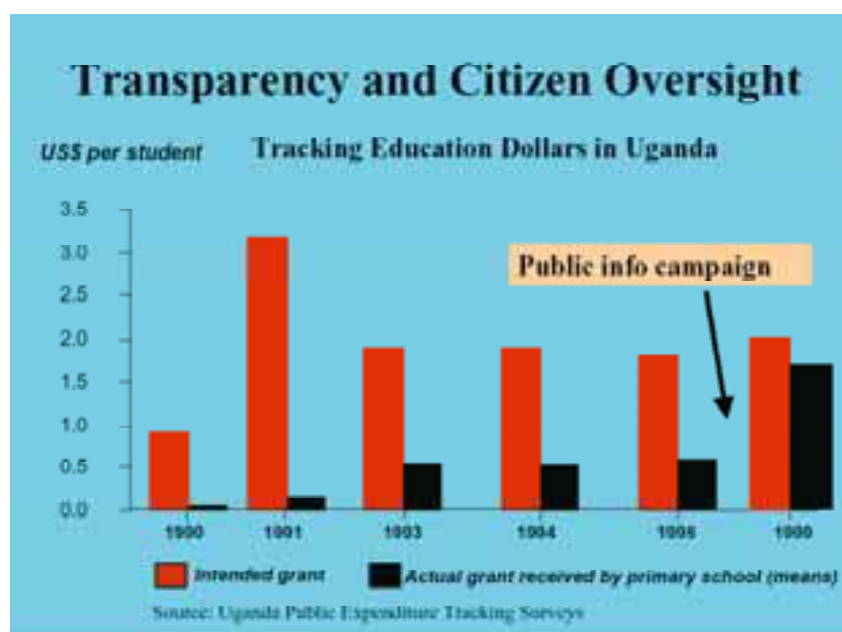
Source: www.pac.org

Shedding light on public expenditure to improve service delivery: public expenditure tracking surveys

In judging the operational impact – i.e. the quality and quantity of service delivery, and where, how, and to what effect public resources are spent effectively – public expenditure tracking surveys can track the flow of funds through tiers of government to determine whether the funds actually reach the social service facilities for which they are intended. Tracking surveys not only highlight the uses and abuses of public funds, but also give insights into capture, cost efficiency, decentralisation, transparency and accountability. Made public, this information can empower customers in relation to purveyors.

In the early 1990s, the Ugandan government substantially raised expenditure on primary education. However, school enrolment did not increase. To address this puzzle, a public expenditure tracking survey started gathering data in 1996 on government transfers to schools. It found that 87 percent of non-wage resources intended for the schools was diverted to other uses. This information was made public and provoked a vigorous response from the central government, categorised as a public information campaign in figure 4. This response, along with parents, put pressure on school principals to stop the leaks. The development dividend in terms of funding reaching intended beneficiaries, thus generating better educational outcomes, proved to be tremendous, as indicated in figure 4.

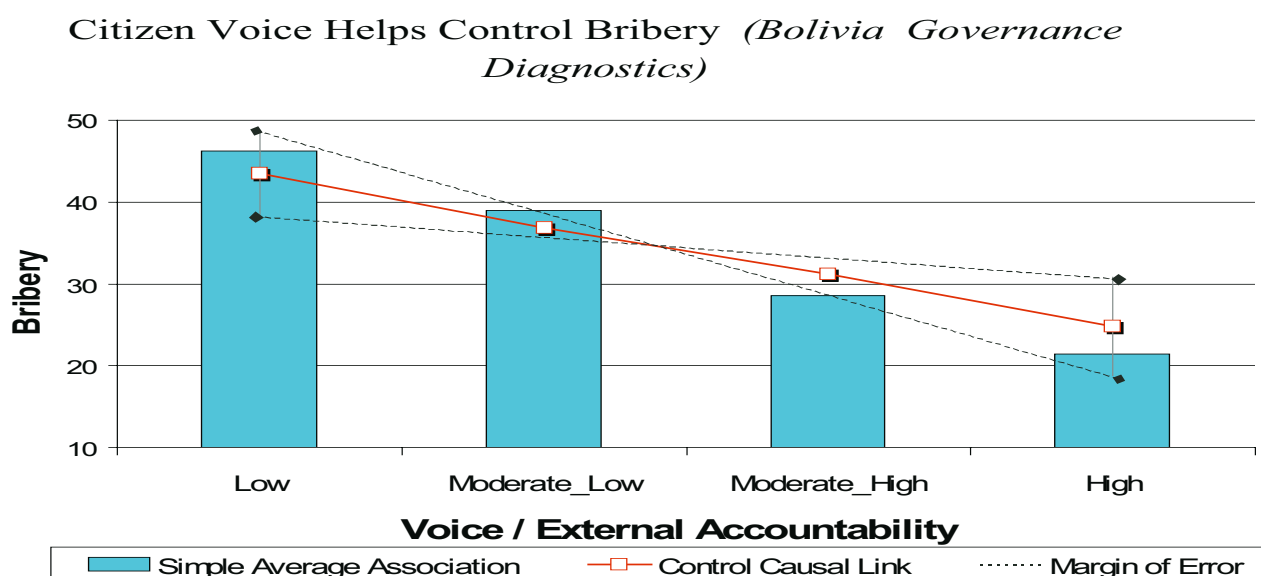
Figure 4: Transparency and citizen oversight: tracking education dollars in Uganda



This and other tracking surveys in Peru, Chad, Ghana, Honduras, Mozambique, Papua New Guinea, Rwanda, Senegal, Tanzania, and Zambia suggest that poor resource management is often a result of too much discretionary spending in the face of limited information, weak controls, and strong vested interests.⁷

These examples illustrate how conventional public sector reforms, such as public finance reforms, pay & grading reforms, procurement reforms etc., need to be supplemented by stronger external transparency and accountability initiatives. Indeed, recent evidence suggests that accountability to external actors is essential in explaining improved public sector performance, such as a lower degree of bribery. An example of this is provided in figure 5, a case study from Bolivia, which shows that the degree of voice and external accountability are the most important variables to explain the extent of bribery.

Figure 5: Citizens' voice helps control bribery



Source: Based on 90 national, departmental, and municipal agencies covered in the Bolivia Public Officials Survey. Kaufman, Daniel et al (2002): "Voice or Public Sector Management".

To summarise, there are massive development dividends to be reaped from a strong performance of the public sector, in particular if there is the right mix of supply-side, technocratic reforms and changes in demand-side structures. This will be further analysed in the following chapters.

⁷ See the World Development Report 2004

3. SOME CONCEPTS AND DEFINITIONS

3.1. Introduction

Before delving further into the issues and challenges of governance and public sector management, it is appropriate to define and discuss some key concepts, namely those of governance, accountability, and transparency. In the process, working definitions of such concepts as ‘government’, ‘authority’, ‘legitimacy’, and ‘civil society’ will also be given. Finally, a fundamental ingredient in all governance improvement, namely capacity development, will be discussed.

3.2. Defining governance

As stated by Pierre and Peters (2000, p.7), governance is “a notoriously slippery concept”. It has been defined in myriad ways, emphasising different elements for different purposes. However, most definitions see governance as the relationship between a number of actors in society, not just as what the government does, and how. This is an obvious point, but an important one in view of how donors have generally supported efforts towards better governance – see below about the ‘supply’ and ‘demand’ sides of accountability.

Court (2002, p.5) defines governance as the “formation and stewardship of the formal and informal rules that regulate the public realm, the arena in which state as well as economic and societal actors interact to make decisions”. In the same vein, the Commission of Global Governance (1995, p.2) defines governance as “the sum of the many ways individuals and institutions, public and private, manage their common affairs”,⁸ also stating that: “It is the continuing process through which conflicting or diverse interests may be accommodated and co-operative action may be taken.”

These definitions highlight two additional features of governance, one stressing that both formal and informal rules underlie governance, the other that the ‘public’ realm is an arena, a battleground for diverse and often conflicting interests.

⁸ DFID, in its White Paper from 2006 on “Eliminating World Poverty – Making Governance Working for the Poor”, uses a similar definition: “Good governance is not just about government. It is also about political parties, parliament, the judiciary, the media, and civil society. It is about how citizens, leaders and public institutions relate to each other in order to make things happen.” (DFID 2006: p.20)

Both features have tended to be omitted in discourse relating to donor support for governance in partner countries. In particular, the donors have been inclined to portray certain types of governance reform as purely administrative, devoid of political interests and actors, which has led to disappointment and outcomes different from those expected. This applies, for instance, to the types of reform covered by the present document, i.e. regarding anti-corruption, decentralisation, and public financial management.

The failure of donors, including Danida, to realise and take account of the political or political-economy dimension of improving governance has often given rise to over-ambitious and unfeasible reform agendas being agreed with partner governments.

For some years, however, donors have increasingly acknowledged the importance of the political economy for governance, as expressed in a World Bank definition (quoted by OECD/DAC⁹), in accordance with which governance denotes “the use of political authority and exercise of control in a society in relation to the management of its resources for social and economic development”.¹⁰

Building on similar considerations, but transforming them into a normative definition, the EU-ACP Cotonou Partnership Agreement defines the aspects of good governance addressed in the present document as follows:

“The transparent and accountable management of human, natural, economic and financial resources for the purposes of equitable and sustainable development, in the context of a political and institutional environment that upholds human rights, democratic principles and the rule of law.”¹¹

9 In: OECD/DAC, 1995

10 ‘Authority’ is another concept that has been defined in several ways. We borrow Hague’s and Harrop’s version, which describes authority as “the right to rule”, not to be confounded with “the power to rule”. In other words, ‘authority’ is legitimate use of power, ‘legitimacy’ being yet another important concept in governance. “A legitimate system of government is one based on authority: that is, those subject to its rule recognise its right to make decisions.” Hague and Harrop 2004, p.14-15.

11 Cotonou Partnership Agreement, Art.9.3, as quoted in: European Commission, undated.

Focusing, as it does, on the management of resources for development, while reminding us of the political nature of governance and how good governance is founded on democracy and human rights, this is a useful working definition of what Danida is aiming for through its support for public sector management with the overall goal of poverty reduction (and taking into account the cross-cutting and priority themes, of which gender is the most obvious central dimension of equitable and sustainable development and the upholding of human rights and democratic principles).

The two key concepts included in the definition, i.e. accountability and transparency, are dealt with below.

3.3. Assessing and monitoring governance

First, however, some observations will be set out on how to assess governance and measure its quality.

It was emphasised above, and it will be mentioned several times in the following chapters, that it is essential to understand the political forces and interests which underlie the governance agenda in each partner country, thus shaping the opportunities for change and for successful support for governance improvement.

This has gradually been realised by all donor organisations in recent years, some of which have started to develop methodologies and formats aimed at studying and understanding these aspects of governance. The “Drivers of Change” analyses of British DFID, the “Power Studies” of Swedish Sida, and the “Institutional and Governance Reviews” (IGR) of the World Bank are already operational formats. Other concepts are underway, such as the “Country Governance Analysis” of DFID, the “Power and Change Analysis” of the Dutch DGIS, the “Governance Profile” of the EC, the tool of the same name used by Canadian CIDA, etc. In addition, most, if not all donors have various kinds of internal reporting, whether formal or informal, on aspects of the governance situation in their partner countries. All these assessments target different, but to a large extent overlapping, parts of the governance landscape, and they are used for somewhat varying purposes, from substantiating the choice of aid modalities or preparation of country strategies to (in at least one case) determining the size of aid allocations.

In times of donor harmonisation, this proliferation of seemingly similar models is not going unnoticed, and in 2007, DAC has involved itself in promoting a process of

gradual harmonisation in this field, primarily by ensuring coordination and cooperation among donors at the country level. As an active partner, Denmark will be able to benefit greatly from this, and should involve itself actively in the country processes of planning and implementing governance assessments that can help guide the selection and design of Danish-sponsored governance interventions.

In so doing, Denmark will also be able to participate in the discussions of some outstanding issues regarding governance assessments. One of these is the degree of disclosure of the assessment results, which often touch on delicate issues related to politics and corruption. The present practice of donors carrying out such studies varies widely, not only from one donor to another, but also between aid-recipient countries. Some keep their studies internal and confidential, while others allow fellow donors and occasionally partner governments to read them, or even publish them at websites for all to see. Preferences in this regard may also differ between a donor organisation's headquarters and its country offices. Apart from reflecting different donors' approach to the aid partnership, this probably stems from the fact that such studies vary considerably in their potential effects on the donor/government partnership. Therefore, there may not be one right answer to the question of openness, but it would clearly be in the spirit of Danish aid policy to seek as much openness as possible in these matters in order for the assessments to be used as much as possible as inputs into the continuous policy dialogue.

Another lesson that has already been learnt¹² is that the practical work of the involved donors usually fails to benefit from the studies. This is sometimes due to tension between corporate objectives (of reaching disbursement targets, etc.) and study conclusions pointing to the importance of leaving room and time for local political processes, and to accept incremental change as opposed to faster and more far-reaching transformation. Another reason is that high-level conclusions drawn from the analyses can appear distant from the operational level, where it may be difficult to see how general findings should be applied. Accordingly, such analyses have tended to feed mainly into the level of general strategic considerations and of general understanding of governance issues among the involved donor staff.

Although these latter outcomes are important per se, to make optimal use of governance assessments, Danida will have to find solutions to the problem of practical applicability and other outstanding issues.

¹² See: COWI/IDS 2005.

A related topic is regular monitoring of the quality of governance by means of governance indicators. In this field, the availability of tools developed over the past 10 to 20 years is even more impressive¹³. At present, there are literally hundreds of datasets on the quality of governance, based on as many indicators. They have arisen in response to an ever increasing demand for regular updates on the development in governance-related parameters all over the world in a form that is operational and directly applicable to decision-making. The demand does not primarily come from aid donors, but from private companies and capital market operators, as well as international financial institutions and development analysts.

The slippery nature of the governance concept is in evidence in the field of governance indicators, determining what to measure, how to measure it, and how to get hold of the required data. Not to speak of questions such as how to compare governance (or even a subset of governance aspects) over time and across countries. Fundamentally, governance and most of its elements are difficult to measure and quantify objectively. To get around this, developers of governance indicators have largely concentrated on indicators of the perceptions of various categories of people, such as company executives, financial advisers, researchers, donor representatives, etc. In addition, in order to arrive at less subjective and qualitative data, they have developed composite data sets for each indicator, combining several types of data that measure the same or similar aspects of governance. This is the case of Transparency International's Corruption Perceptions Index and of the World Bank Institute's governance indicators developed by Kaufmann and others, two of the most widely used indexes in the area of governance monitoring.

As a result of these and other difficulties of measuring governance, it is often hard to grasp what a given indicator or indicator set is in fact measuring. On the face of it, an indicator can seem reasonable and relevant, yet it may be essentially unrelated to any consistent (theoretical) understanding of governance. Furthermore, vast amounts of data, which are not necessarily compatible or comparable, are often lumped together in composite indices, using complicated mathematical methods in order to arrive at simple and 'operational' values.

The users of the data frequently fail to appreciate these problems sufficiently, often disregarding the supplier's warnings against particular uses, applying the data in ways that amount to abuse.

¹³ See: Arndt and Oman 2006, on which this section is largely based. The publication is recommended reading in the context of governance monitoring.

Basing, for instance, investment decisions on flawed use of governance data is obviously risky. But even less critical uses of such data, in particular cross-country and cross-year comparisons, require better understanding of the characteristics of the data than what is usually published, which calls for caution. This also applies to the purposes of development aid.

3.4. Accountability

Notwithstanding the definitional diversity, accountability is acknowledged to be one of the central concepts of governance. The quality of governance largely hinges on the quality of accountability.

Like governance in general, accountability is about relationships, obviously between a large number of stakeholders, even when limited to relationships involving public institutions and office holders. They may be divided into those between different actors within the public sphere and those between public and private actors. Another important division is between domestic accountability and accountability in relation to donors.

Still looking only at relationships involving public actors, accountability has been defined as “a proactive process by which public officials inform about and justify their plans of action, their behaviour and results, and are sanctioned accordingly”.¹⁴ This definition emphasises the difference between accountability and (passive) responsiveness, the fact that accountability is a process, not a state of affairs, and that accountability is not only an ex-post relationship (i.e. only regarding the results), but also concerns the plans, the decisions, and the approach to implementation. Furthermore, both internal and external accountability relationships are included in this definition, and by omitting references to relationships of authority, the scope of the definition even encompasses horizontal accountability. This last feature, however, does not preclude the element of sanction as an essential aspect of accountability. But the forms that sanctions may take are obviously as diverse as the character of the relationships encompassed by the definition.

14 Ackerman 2005.

In (public) governance, the fundamental accountability is that of the rulers to the ruled, or of the government¹⁵ as a whole (sometimes called the supply side of the accountability relation) to the rest of society (the demand side, broadly consisting of the private sector and civil society¹⁶). These are often referred to as the two parties to the ‘social contract’ on which political leadership (including, by implication, the administration working on its orders) is supposed to be based, or as the supply and demand side, respectively, of the ‘political market’¹⁷.

All other accountability relationships involving the government are parts hereof, such as the chain comprising the accountability of the administration to the executive, of the executive to the legislative branch, and of the legislature to the electorate, as well as the whole web of accountability relationships that form part of these.

While many of these are legitimate and mostly formalised relationships, they are not necessarily all compatible with each other. The accountability of a parliamentarian to his constituency may well give rise to other priorities than the general accountability of the legislature to the population at large. And the accountability of politicians to their parties may be at odds with the priority they accord their accountability to the voters.

Even more challenging in a governance context is the multitude of informal accountability relationships, such as the accountability owed by a public servant to the person who got him or her recruited/appointed/promoted, by a politician to the sponsors of his/her election campaign, by a public servant or politician to a private company which

15 ‘Government’ is to be understood in its broad sense as consisting of “all organisations charged with reaching and implementing decision for the community”, or providing “the landscape of institutions within which we experience public authority”, i.e. both the political appointees and the public servants. (After: Hague and Harrop 2004). ‘Government’ and ‘public sector’ are therefore used as more or less synonymous terms in the present document. Being mainly concerned with the public sector, in this document we have mostly refrained from using the terminology of the ‘state’. It should be remembered, however, that the presence of a government presupposes the presence of a state, in which the government is one among other elements, such as the population and the territory. The population is citizens of a state, not of a government, and it is with the state that the concepts of sovereignty and the “monopoly of the legitimate use of physical force within (the state’s) territory” (Weber, quoted in: Hague and Harrop 2004) is associated. ‘State-building’, ‘fragile state’, ‘developmental state’, etc. are expressions reflecting this, but in concrete terms, the effectiveness and legitimacy of the government is to a large extent what makes the difference between the well-functioning and the weak state, between the developmental and the predatory state.

16 ‘Civil society’ is to be understood as comprising the non-government and non-business organisations. See also the presentation of social accountability below.

17 See Bellver and Kaufmann 2005. On the concept on the ‘social contract’, see below.

bribed him/her, by a public servant or politician to his/her family and clan or tribe, or by the President to the army leadership.

Some of these are obviously illegitimate and even illegal in most societies, others are regarded as irrelevant to public governance, albeit legitimate within other socio-economic systems, such as family or tribal relationships. Some are secret, others openly admitted. And although informal from the point of view of the rules of public governance, some of them may be quite formalised and rule-bound. Many of them may certainly be as influential as the officially acceptable ones, meaning that political and administrative decisions cannot be understood without appreciating their importance.

Many such informal and partly illegal accountability relations share the characteristics of so-called patron-client relationships or patrimonial relationships. Patron-client relationships are certainly present in all of Denmark's partner countries to some extent, as they are in many other countries as well as organisations, where personal relationships play important roles. They therefore, to some extent, juxtapose themselves on the formally adopted political and administrative system based on 'rational-legal' principles. Such "hybrid political systems in which customs and patterns of patrimonialism co-exist with, and suffuse, rational-legal institutions"¹⁸ are generally called neopatrimonial. It is, however, disputed to which extent the patrimonial element actually 'suffuses' and dominates the rational-legal element, and thus determines the overall mode of functioning of the system – apart from the obvious fact that countries, as well as sub-systems within countries, differ strongly in this respect.¹⁹

In addition to the complicated web of domestic accountability mechanisms, there are the relationships involving foreigners, such as the accountability owed by the President or government to supportive foreign powers, by a party to its generous sister parties abroad, by the government at large, as well as its constituent parts, to the donor community, to individual donors, etc. These external relationships may at times weaken or even overrule the domestic ones to the detriment of the domestic governance process.

From the perspective of accountability, then, the challenge of improving formal public governance requires acknowledgement and understanding of the totality of accountability relationships involving the government, finding ways and means to support the desirable at the expense of the undesirable ones, and assisting in improving the quality of the former to meet the demands of accountability, as described above.

18 Definition by: Bratton and van de Walle 1997, quoted from Therkildsen 2005.

19 See Therkildsen 2005 for a brief summary of the discussion and some new evidence.

For many years, the work to improve governance focused almost exclusively on the supply side, i.e. on the government, both the executive branch and the administration. How is it possible to get the various actors on this side to offer accountability to each other, according to the organisational rules and regulations laid down for the public sector, and to the population on whose behalf and for whose benefit they are supposed to work? Three elements of this work may be distinguished.

The traditional elements have been civil service reform, including pay reform, strengthening of internal controls, such as internal auditing, and other initiatives aimed at strengthening the internal functioning of the government apparatus.

A second element has been the establishment and strengthening of more or less autonomous accountability institutions (or IPAs: independent pro-accountability agencies), and the enacting of associated legislation, such as national audit offices, human rights commissions, ombudsmen, corruption control institutions, etc. The experience of such institutions' performance has been mixed. It has even been claimed that "there are as many cases of IPAs that serve to help governments avoid accountability as there are IPAs that successfully strengthen government accountability".²⁰

Thirdly, there is a complex of public governance reforms commonly associated with the concept of 'New Public Management' (NPM), comprising elements such as privatisation of publicly owned companies, and introduction into the public sector of management methods known from the private sector. See the following chapter for more information on NPM.

What is gradually being realised, however, is that these various approaches suffer from an incomplete understanding of the incentive structure determining the quality of governance. The demand side of the accountability equation has largely been missing.

As a reaction to this, the concept of 'social accountability' is coming to the fore in governance reform. Social accountability is, according to the World Bank, "an approach towards building accountability that relies on civic engagement, i.e. in which it is ordinary citizens and/or civil society organisations who participate directly or indirectly in exacting accountability"²¹.

20 Ackerman 2005, p.11.

21 Quoted after: Ackermann 2005.

In areas such as decentralisation and anti-corruption work, efforts to improve the human rights situation, etc., this approach has already been applied for some years through support for the engagement of civil society organisations, their involvement as whistle-blowers, etc. The press, too, has been supported in playing its role as a governance watchdog. Direct participation by citizens has been facilitated by improving the access to information, e.g. regarding budgetary allocations and entitlements, the establishment or strengthening of parent-teacher associations, etc. This has produced mixed, but to some extent promising, results.

Obviously, to make the mechanism of social accountability work, it is essential to understand the characteristics of civil society generally, and in each country specifically. 'Civil society' is a very broad and to some extent diffuse concept, covering such types of organisations as NGOs, interest groups (such as trade unions), religious and church-based organisations, community-based organisations, traditional organisations, and cultural groups, clubs, etc. The roles that can be played by civil society organisations are equally diverse, covering all levels from the national to the local level, and ranging from lobbying and seeking influence on policies to acting as watchdogs vis-à-vis the government, organising self-help work, carrying out research, etc.

Therefore, it requires thorough analysis to find out what can be reasonably expected from, and what are the needs of, civil society and its constituent parts as actors in the effort to improve accountability in a particular country or a particular area of activity (such as decentralisation reform, public financial management, or the fight against corruption). This applies both to civil society as a whole – its roles in society, its legal and regulatory environment, its relationship to the government, etc. – and to individual organisations along such dimensions as their rationale and objectives; their organisational structure; their capacity in terms of organisational management, financial management, mobilisation of members, etc.; the degree to which they are representative; their legitimacy in the eyes of their membership and others; their internal governance (are they governed democratically and accountably?), their relationship to the government, etc.

Such characteristics determine their actual and potential role in exacting and facilitating accountability, and a nuanced understanding of these is as important for supporting social accountability as the understanding of the political relationships underlying the behaviour of the government and the public sector.

Finally, an important assumption behind the social accountability approach altogether is the actual existence of the ‘social contract’. The social contract denotes a fundamental relationship between the rulers and the ruled, consisting of obligations and expected benefits for each of the two parties. The concept originates in Western society, where it revolves around the provision of peace, prosperity, respect of human rights, equality before the law, etc. by the rulers, in return for loyalty and support, if necessary risking their lives, by the ruled. The social contract is often assumed to have much the same features in developing countries, and indeed tend to underlie the donors’ approaches to public sector management and development in general. In actual fact, the presence and the strength of this particular version of the social contract obviously differs between countries, as well as between segments of the population in each country, but in general it may be assumed to be considerably weaker (and in certain cases perhaps even non-existent) than in the much older states of the West.

Some important questions are then: does the (fairly recent) introduction of regular elections suffice to maintain the contract? How important is the quality and quantity of the services provided by government? What are the implications for the contract of low or non-existent taxation of huge parts of the population? And what about the deep dependence on donor funds in many countries, which in certain respects tends to undermine the domestic accountability relationships between the service provider and the service client?

The degree of success of social accountability approaches will offer part of the answer to these questions, and they may well themselves help to strengthen the contract. By the same token, they offer a promising tool to overcome part of the political resistance to governance reform.

3.5. Transparency

In economics, transparency – or ‘perfect information’ – has long been acknowledged to be one of the constituent features of the ‘perfect market’. Similarly, transparency is generally seen as one of the essentials of good governance and, by implication, of accountability. However, once again, there is no generally accepted definition.

Kaufmann²² defines transparency as the “increased flow of timely and reliable economic, social and political information, which is accessible to all relevant stakeholders”, and adds that the information provided should also be relevant and of good quality, but does not specify who should be the sender and who the recipient. OECD²³ includes this aspect by considering transparency to be the result of a two-way communication between governments and other interested parties. This places responsibility on all actors, while other definitions emphasise the particular responsibility of the government side, relating the concept of transparency very closely to the idea of disclosure. Thus, one sees transparency as “the release of information by institutions that is relevant to evaluating those institutions”²⁴, while another²⁵ is even more explicit about the function of transparency in the governance and accountability context, regarding transparency “as the openness of institutions, that is, the degree to which outsiders (such as citizens or stockholders) can monitor and evaluate the actions of insiders (such as government officials or corporate managers)”.

Thus, the concept of access to information, which is at the heart of all freedom of information legislation, is narrowly linked to that of transparency.

One interesting example of improved and more accessible information leading to better governance is the disclosure of data on school grant disbursements in Uganda. The empowerment of schoolteachers and parents resulting from this measure reduced the diversion of these funds for other purposes from more than 85% to less than 20% over a 5- to 6-year period (see chapter 2).

Although the idea behind this particular pro-transparency measure did not originate at school level, it is obvious that better transparency and access to information may well be among the central demands arising from social accountability approaches.

Bellver and Kaufmann²⁶ even suggest that pro-transparency measures (or “transparency reforms”, as they call them) could prove to be useful entry points for more general governance reform.

22 Quoted in: Bellver and Kaufmann 2005.

23 Quoted in: Bellver and Kaufmann 2005 from Kaufmann 2002.

24 Quoted in: Bellver and Kaufmann 2005 from Florini 1999.

25 Quoted in Bellver and Kaufmann 2005 from the Transparency Task Force of the Brookings University (unspecified)

26 Bellver and Kaufmann 2005, p.33 ff.

They believe that this type of measure is better suited than others to help overcome political resistance to reform and to catalyse further changes, and that they could assist in generating social support for reform, and thereby in facilitating social accountability mechanisms. In addition, they are generally cheap. However, the two authors also acknowledge that the political economy of transparency reforms has been poorly studied. This shortcoming could be remedied as part of future governance support.

3.6. Capacity development

A generally agreed definition of capacity and capacity development does not exist, and the valuable point has been made that capacity development is meaningful only when described²⁷. Recent contributions from OECD/DAC, the World Bank, and DFID²⁸, however, have suggested that it is useful to distinguish between three analytical levels, when considering capacity: 1) individuals, 2) organisations, and 3) institutions, understood as ‘the rules of the game’ or ‘the wider enabling framework’ for the operations of organisations and individuals²⁹.

Drawing on this distinction, OECD/DAC defines capacity as “the ability of people, organisations and society as a whole to manage their affairs successfully”, while capacity development is “the process whereby people, organisations and society as a whole unleash, strengthen, create, adapt and maintain capacity over time”³⁰.

This and similar broad definitions³¹ have been criticised for being so general that they are difficult to distinguish from the general notion of development. This may be true, but the definition has the virtue of drawing attention to three distinct analytical levels, at which the operational meaning of capacity development need to be fleshed out separately.

An attempt to specify the definition of capacity when focusing at the second level – the organisation – has been made first by Danida and recently by the EC. Based on

27 Graham Teskey, 2005, p. 3.

28 OECD/DAC 2006, p. 9; World Bank 2005, p. 14; DFID October 2005 p. 3. Oxford Policy Management 2006, p. 7.

29 This is summarised in the statement by the World Bank that “capacity is about skills, performance and governance” (in World Bank, September 2005 p.14).

30 OECD/DAC 2006a, p. 8-9.

31 The definition by OECD/DAC is drawing on the one proposed by UNDP in 2002: “Capacity is the ability of people, institutions and societies to perform functions, solve problems and set and achieve objectives” (Fukuda-Parr et al., 2002, p.8, quoted in: Boesen & Therkildsen 2004, p. 10).

Danida's initial definition of organisational capacity as "the ability of an organisation to produce appropriate outputs"³², EC has suggested that it is "the ability to perform tasks and produce outputs, to define and solve problems, and make informed choices", while capacity development is "the process by which people and organisations create and strengthen their capacity over time"³³. The shared analytical point of departure is reflected in the similarities between a guidance note on capacity development support prepared by Danida and a checklist published by EC, both of which provide practical advice on how to assess the need for capacity development support for a specific organisation³⁴.

When trying to understand 'state capacity' (or the capacity of the public sector), it is important to apply all three perspectives and avoid the pitfall of equating state capacity only with the skills and competencies of its staff, only with the capacity of the organisations of which it is composed, or only with the character of the formal and informal rules and regulations that condition the operation of its organisations.

Historically, donors have tended to do exactly this, when, in the 1960s and 1970s, early attempts at capacity development focused on the individual, by providing training, skills, tools and equipment to individuals in key positions. Realising that this had little impact on organisational capacity, the focus shifted in the 1980s to the role of the organisation. Inspired by the New Public Management, the approach was predominantly technically oriented, and capacity development became synonymous with restructuring and sometimes redesigning organisations based on organisational audits, job evaluation, grading studies, and the provision of advisers. By the early 1990s, it had to be acknowledged that little had been achieved in terms of reforming organisations, and that even when some capacity had been built at the organisational level, this was insufficient to build a capable and responsive state. Since then, attention to the institutional environment (the incentive regimes, the legal system, property rights, norms and values, etc.) has been growing, resulting in an emerging consensus about the three levels of capacity as mutually conditioning: turning individual competence into organisational capacity requires institutional change, while organisational capacity is a necessary, but not sufficient component of building state capacity³⁵.

Broadening the analytical perspective on capacity development during the recent decade has enhanced the understanding of the 'non-technical' or 'political' dimension of capacity, and of the importance of considering both formal and informal rules

32 Boesen and Therkildsen 2004, p. 10.

33 European Commission 2005.

34 Danida 2006 and EC 2006.

35 Teskey 2005, p. 4 and p. 10-11; World Bank 2005, p. 22-27.

and norms, when analysing the factors that condition capacity development³⁶. It has, furthermore, resulted in the shared understanding that “capacity development is necessarily an endogenous process of change”³⁷, which donors can support, but may also risk undermining by choosing aid modalities such as fragmented projects, off-budget mechanisms to channel aid resources, and reliance on project implementation units³⁸. This insight is reflected in the Paris Declaration, where donors commit to “align their analytical and financial support with partners’ capacity development objectives and strategies, make effective use of existing capacities and harmonise support for capacity development accordingly”³⁹. Finally, it is a general lesson that no single blueprint for capacity development will work in all contexts. While the public sector in many countries, e.g. in Africa, face a host of similar challenges, the particularities of each situation have to be carefully assessed before capacity development support can be provided. Working towards good practice in capacity development support is important, but specific solutions should always be tailored to the circumstances at hand⁴⁰.

36 This is a key point in: Boesen and Therkildsen 2004 (see particularly p. 13-16) and is also highlighted in OECD/DAC, 2006 (p.17-19) and Teskey 2005 (p. 13-14).

37 OECD/DAC 2006a, p. 14.

38 World Bank 2006 p. 34-35; Boesen & Therkildsen 2004, p. 31-32.

39 “Paris Declaration on Aid Effectiveness” (OECD/DAC 2005) p. 5.

40 OECD/DAC 2006a, p. 3; World Bank 2006, p. 14.

4. PUBLIC SECTOR MANAGEMENT: SELECTED ISSUES

4.1. Public sector administration and public sector management

Within the broader concept of governance discussed in Chapter 3, this document is concerned with a limited number of issues, all of which fit the heading of ‘public sector management’. This is also the aspect of good governance that is targeted by the working definition of governance in Chapter 3.

Public sector management is about transforming inputs into outputs in accordance with political priorities. It includes tasks such as human resource management, financial management, operations management, etc. at all levels in the public sector, i.e. both at the organisational level (within each public entity) and at the institutional level (the vertical and horizontal relations between organisations). In varying proportions and degrees, all the reforms targeting the public sector – i.e. civil service reform, pay reform, tax reform, decentralisation reform, public financial management reform, anti-corruption measures, etc. – are concerned with improving these basic aspects of management in the public sector, whether it be in developing countries or OECD countries. This also applies to the subset of reforms on which Denmark has chosen to focus its development cooperation.

‘Public sector management’ (often just ‘public management’) is a relatively novel concept, which is closely associated with the modernisation programmes in the public sector emerging in the OECD countries during the 1980s. It refers to a process of ‘managerialising’ the public sector, i.e. introducing elements of private sector management into public sector management. The managerial terminology distinguishes between this new concept and the traditional ‘public (sector) administration’, as the former signals greater emphasis on management rather than rule-based administration. While public administration was primarily concerned with carrying out the tasks of the public sector in compliance with laws and administrative regulations, adhering to ‘public sector values’, such as democracy, accountability, equity, and probity⁴¹, and focusing its controls on inputs and execution, the public management approach is characterised by concentrating on results, impact and unit costs, and by controls focusing on inputs and outputs.

⁴¹ Formulation after: Pollitt and Bouckaert 2006, Chapter 1

Reform initiatives in the direction of public management have included the creation of decentralised agencies⁴², outsourcing and privatisation of public sector operations, as well as the adoption of management principles from the private sector, e.g. results-based contracts with targets and goals, greater management discretion, and change from cash-based to accrual-based accounting. The modernisation of public sector administration was initiated in many OECD countries as a reaction to growing public sectors, which were seen as costly and underperforming in service delivery. Therefore, the approaches taken in the initial stages of the modernisation programmes aimed primarily at reducing costs and improving service delivery at the same time. Many of the elements of the modernisation drive have also been introduced in Denmark over the past 10 years, such as privatisation of public enterprises and utilities, establishment of semi-autonomous bodies, public-private partnerships, performance-related pay, greater discretionary powers to public managers, accrual-based budgeting, etc.

The Western modernisation reforms are, in turn, closely related with the approach of 'New Public Management' (NPM), from whose toolbox most of the OECD-promoted reform measures are borrowed. To a large extent, the NPM arose from a shift in political priorities in the UK and the USA in the 1980s, and its most radical implementation was undertaken by the governments of the USA, the UK and New Zealand in the 80s and 90s. As referred to above, varying combinations of the measures associated with NPM have since then been introduced in more or less all Western countries, and after 1990 even in Eastern Europe, promoted by the OECD.

Under the influence of Western donor agencies, the same trend has reached the developing world, though also to widely differing degrees and over a variety of time spans.

⁴² Decentralised agencies comprise such organisations as executive agencies, publicly owned limited companies, semi-autonomous departments, etc.

NPM as an approach to public management has been summarised in numerous ways. Owen (in Owen 2005) gives the following run-down of important elements of NPM:

1. A major shift away from traditional public administration to public management with far greater attention to the achievement of results and the personal responsibility of managers.
2. A move away from classic bureaucracy towards making organisations, personnel, and employment terms and conditions more flexible.
3. Clear organisational and personal objectives, which are measurable through performance indicators and more systematic evaluation to find out whether or not government programmes are achieving their goals.
4. Senior staff are more likely to be politically committed to the government of the day rather than being non-partisan or neutral.
5. Government functions are more likely to face market tests and separation of purchaser of government services from the provider.
6. A trend towards reducing government functions through privatisation and contracting.

However, the list of NPM elements continues to develop in terms of introducing new initiatives, correcting and fine-tuning old ones, and generally adapting to changing circumstances in each country and on the global scene. Moreover, most OECD countries have recently begun to apply an approach called ‘whole-of-government’ or ‘connected government’ in response to the challenges of policy coordination and the narrow focus on financial incentives represented by the NPM reforms.⁴³ Furthermore, in the context of developing countries and emerging economies, NPM reforms have worked only when the basic institutional building blocks have been in place.

It is also important to note that the managerial approach cannot be completely separated from the issue of defining and redefining the responsibilities and tasks of the public sector: privatisation, creating publicly-owned limited-liability companies, establishing

43 See for instance OECD (2005): “Modernizing Government: The Way Forward” and Gambhir Bhatta (2003): “Post-NPM Themes in Public Sector Governance”, Working Paper 17. State Services Commission, September 2003.

private-public partnerships, etc. are measures with direct implications for the management and scope of the public sector.

Unsurprisingly, the present approaches to public sector management reform in developing countries are largely based on NPM-related ideas, inspired by domestic modernisation reforms in the donor countries. However, the modernisation reforms of OECD countries cannot be mechanically applied in developing countries. Many NPM-type reforms have faced considerable obstacles in developing countries, where such reforms amount to ‘leapfrogging’, i.e. skipping intermediate stages that developed countries have been through, yet without basic building blocks being in place. Specifically, the institutional environment in most partner countries is characterised by a lack of predictability and due process, weak systems of control and accountability, extended or unclear hierarchies, institutional fragmentation, policies that are not implemented, lack of resources for support and service functions (inputs spread too thin), incomplete market institutions, imperfect state regulation of the market, and low levels of public trust in state entities.

Against this backdrop, current international evidence advise a balanced approach through a pragmatic mix of NPM reform and traditional public administration, in particular by taking the precaution of laying the groundwork, thus doing “first things first” (Manning 2001; Sutch 1999; Allen 1999; Schick 1998) This view sets store on building a meritocratic civil service before introducing performance-based pay and wage decompression, strengthening internal controls over management before deciding to de-regulate, building trust in ‘due process’ before encouraging greater flexibility, maintaining control by means of inputs (e.g. money, staff numbers, procurement) in the process of moving towards control by checking outputs or ‘end-product’, and enforcing formal contracts in the market before using them in the public sector. As such, the challenge is to apply a constructive mix and sequence of reforms from the NPM toolbox and the traditional elements of public administration.

4.2. The roles of the public sector

The role of the public sector in the development process and in society altogether raises numerous questions. Should the government provide social services? Or should it just regulate for others to provide them? Should it pay for them? Should it pay for them partly – with the clients (or employers or somebody else) paying the rest? Should it own railways? Only the rails, or the trains, too? To what extent should it redistribute incomes between segments of the population? Etc.

Of course, discussions on what government should and should not do will never end, and they tend to differ from one country to another. Nevertheless, over the past 30 years, there have been some clear global trends, which form an important part of the background to present and future public sector management thinking and reform designs. They are thus worth summarising here.

Most developing countries, upon achieving independence, chose to let the public sector play a highly predominant role in society. Apart from defence, law and order, social services, etc., they let the public sector become the main industrial and commercial actor by means of state-owned industry, transport, trade and other types of enterprise. At the same time, developed countries ran mixed economies and built public sectors that consumed ever-larger shares of national income, although not to the extreme seen in socialist countries. This reflected a considerable increase in transfers and subsidies, i.e. in the importance of the redistributive role of government.

The first oil crisis in the first half of the 1970s sparked a new way of looking at the role of the state in the Western countries. By the 1980s, the pendulum had swung from the interventionist and welfare-oriented state to the minimalist state, leaving as much as possible to market forces. With high oil prices adding to the economic difficulties of maintaining bloated public sectors, developing countries started indebting themselves to levels that proved unsustainable in the 1980s. This provided justification for the international financial institutions to insist on introducing the minimalist approach to public sector development even there.

In the process, the new approach was associated with the label of ‘New Public Management’ (NPM) presented earlier, although NPM is not primarily about the size of the public sector, but about how it should be managed.

However, against the background of lessons learned from the above-mentioned policies and their implementation, the mid-1990s saw the beginnings of a revised approach to the public sector, as far as the developing countries were concerned. There is presently a renewed recognition that development and poverty reduction is impossible without an active and effective public sector. This is not an outright reversal of the previous preference for a minimalist state (although it does imply a more pragmatic position than before), but rather a realisation that the public sector had become too neglected and weak, given the fact that “the state is central to economic and social development, not as a direct provider of growth but as a partner, catalyst and facilitator”, as stated by the World Bank in its 1997 World Development Report.

In the same report, the World Bank listed five fundamental tasks that “lie at the core of every government’s mission”:

1. Establishing a foundation of law.
2. Maintaining a non-distortionary policy environment, including macroeconomic stability.
3. Investing in basic social services and infrastructure.
4. Protecting the vulnerable.
5. Protecting the environment.

Compared with earlier policies, however, it is important to note the report’s argument that, with regard to the provision of services, the government’s “choice of provision, financing, and regulation is built on the relative strengths of the market, civil society and state agencies”. This flexible stance marks a departure from former a priori views on how the government should or should not go about ensuring the provision.

The new importance attributed to the public sector has since been further underlined by the PRSP approach, with its emphasis on the role of government and public sector responsibility (whether directly through provision or indirectly through regulation and contracting-out) for basic service provision and for poverty reduction generally.⁴⁴

Thus, in addition to the NPM principles, the design of present public sector management reforms in developing countries are influenced by this more recent rehabilitation of the public sector and its role in development.

One lesson arising from this historical presentation, albeit overly brief and simplified, is that the last word is unlikely to have been said about the role and size of the public sector. International trends change, circumstances vary from country to country, and the political preferences of governments will continue to differ.

⁴⁴ At the same time, the PRSP approach is a clear expression of NPM in terms of its focus on results and results monitoring, as well as the weight on clear and explicit links between the chosen priorities and the budget – links that are only possible using output-based budgeting, another ingredient of NPM thinking.

Consequently, the development partners supporting public sector management reform should not base their support on any single dogmatic approach to these questions. Instead, they should take advantage of the policy dialogue associated with development cooperation to discuss the feasibility of the political choices made by the partner government. This discussion would be about the lessons to be learnt from history, the match between the tasks given to the public sector and the capacity available or realistically achievable, the match between the cost of the public sector and the resources available, the relative attention paid to various segments of the population, etc.

It is on the basis of common understanding of the political choices, taken in view of these and other issues, that development partners can support the development of public sector management with a view to making it more efficient, effective and accountable.

4.3. Public sector management reform

The concept of public sector management reform covers a broad spectrum of initiatives of various scopes and depths, and with different purposes. As already noted in the Introduction, Pollitt and Bouckaert⁴⁵ seek to capture this by defining public management reform broadly as “...consist[ing] of deliberate changes to the structures and processes of public sector organisations with the objective of getting them (in some sense) to run better”.

In other (still very general) words, public sector management reforms are means of improving the ability of the public sector to live up to its responsibilities and carry out the functions that have been assigned to it. In so doing, the reforms more specifically target the following main ends:

Fiscal stability, focusing on the budget, accounts, audits, and tax reform. In many cases, efforts to (down-)size the public sector are closely associated with the objective of fiscal stability.

Public sector efficiency is targeted through organisational (re-)structuring and changes in human resource management. Focus may be on (de-)centralisation, specialisation and the creation of executive agencies. Concerning the human resources, civil service reform features prominently, including measures targeting recruitment, remuneration (pay and incentive reforms), posting (performance measurement), and employment

45 Pollitt and Bouckaert 2004

conditions. An NPM-inspired trend in pursuit of public sector efficiency is the outsourcing of services to the private sector and the introduction of market principles in the delivery of public services.

Public accountability may be bolstered by strengthening top-down oversight and mechanisms for enhancing social accountability through civic engagement. Other elements are the creation of Ombudsman institutions, decentralisation reforms with devolution of power to lower authorities, and elements of civil service reforms.

The Danish partner countries, as indeed developing countries in general, have varying degrees of ambition and focus on various areas and initiatives within the broad field outlined above, depending heavily on what is feasible under the given political, financial, social and cultural conditions. The importance of analysing these contextual factors as a background to supporting the reform efforts has already been emphasised.

Lastly, a brief note on the concepts of effectiveness and efficiency, two issues that are central to the justification of public sector management reform, but which are often confused with each other.

Effectiveness is about the outcomes, and ultimately the impact, of the activities of the public sector. Consequently, it may be monitored in view of the objectives laid down for the public sector: macro-economic stability, economic growth, poverty reduction, etc.

Efficiency is about the production processes involved in the activities, and must be monitored in terms of the input/output ratio, i.e. by asking: how rationally are resources (financial, human, natural) spent? Could the same outputs be produced more cheaply?

Reforms of public sector management seek effectiveness as well as efficiency gains. But as indicated in the governance definition of Chapter 3, these cannot and should not be seen separately from the issues of democracy and human rights. Even if both effectiveness and efficiency might be achievable in the absence of democracy and human rights, they could not be expected to be sustainable without the accountability mechanism provided by a democracy founded on the respect for human rights. Conversely, the functioning of the public sector significantly influences the development and effectiveness of democratic institutions and the observance of human rights.

Therefore, any attempt to assess the quality of the public sector must encompass the concepts of democracy and human rights alongside those of effectiveness and efficiency, even if the latter are usually much more explicit in the reform design.

Clearly, the effectiveness and efficiency of the public sector are strongly interrelated. Therefore, although both governments and their development partners focus on results, and thus on effectiveness rather than efficiency, there is no escape from dealing thoroughly with both.

If the degree of efficiency is one important determinant of the level of effectiveness that a country's public sector can achieve, accountability is certainly another. Mechanisms making the public sector effectively accountable to the citizens (just to mention a few: democratic elections, a functioning parliament, independent media, etc. at the national level; local elections, users' access to information on particular entitlements and services, etc. at local level) create incentives without which sustained effectiveness is highly unlikely. Hence the emphasis on accountability and transparency as essential preconditions for effectiveness.

The actual contents of the effectiveness desired are, however, dictated by the policies and priorities pursued by politicians, though in many countries, the development partners act as influential outsiders.

5. ANTICORRUPTION

5.1. Background

Over the past 15 to 20 years, the fight against corruption has come increasingly to the fore in the pursuit of good governance. Numerous studies have investigated the relationship between corruption and aspects of development, such as economic growth, foreign investment, budgetary allocations, the cost of public investments, social equity, etc. In most cases, the direction of causality cannot be proved, but the correlation between the extent of corruption and unsatisfactory development outcomes is obvious. Generally, there is now agreement that corruption is detrimental to development, and more so for the poor than for the better-off. The notion that corruption is ‘oiling the wheels’ of the bureaucracy, thus improving its effectiveness and speeding up development, now belongs to the past.

The donors’ interest also spring partly from the fact that corruption is one of the main risks associated with development assistance, including the risk of upsetting the donors’ domestic constituencies, i.e. the taxpayers of rich countries. For the same reason, corruption in partner countries is a particularly difficult obstacle to efforts to implement the agenda of aligning development assistance with national administrative systems, as recently prescribed by the Paris Declaration.

Consequently, anti-corruption should be considered an important aspect of governance improvement, requiring explicit attention in any good governance agenda.

5.2. Concepts and definitions

Corruption is closely linked to accountability. It springs from a particular kind of accountability relationships, which are created or renewed in each case, yet are also based on deep-seated networks and mutual obligations existing alongside those acceptable parts of public governance that contribute to democratic development. In this sense, corruption is one of several effects of the malfunctioning of important desirable accountability mechanisms.

Internationally, corruption is usually defined as “the abuse of public office for private gain”, thus covering a very wide field of phenomena, ranging from bribery to state capture, from embezzlement and theft to nepotism and favouritism, from petty administrative dishonesty to grand political deviation of funds. As such, it is not necessarily

a very helpful definition. In fact, some phenomena encompassed by it seem to belong to widely differing logics and systems of accountability, their only common denominator being a violation of formal rules of public governance. The definition has therefore been criticised as being legalistic. Since the rules implied by the definition clearly refer to a particular Western style of government and administration, developed fairly recently and described by Weber as the rational-legal bureaucracy model, the definition is also criticised as lacking the universality that it claims. These are further reasons why anticorruption efforts may not find much guidance in this definition.

However, since a better and more generally accepted definition has yet to emerge, the above definition will be applied in this background analysis.

The vast variety of corrupt behaviour encompassed by the definition, based on a multiplicity of relationships which belong to various accountability systems other than the officially accepted one, has recently prompted an understanding of corruption as an outcome or symptom of unresolved problems in the governance system of a country, which must be addressed in the context of the wider political economy. This is more than a semantic issue. In the worst cases, head-on attacks on the symptoms of poor governance have involved the creation of institutions, such as anticorruption commissions, which have not only failed to address the root causes of corruption, but have also reproduced the underlying corrupt patterns of behaviour. Anticorruption efforts must achieve an effective balance between overcoming weaknesses in the overall governance system and seeking strategic changes of a more urgent nature. This balance will vary from one country to another.

It is useful to distinguish between certain major forms of corruption. A fundamental distinction is between 'systemic' and 'non-systemic' corruption. The former has become so ingrained within the workings of a system (e.g. a country's public sector) that it can only be dealt with as part of fundamental reform of that system. This is undoubtedly the case in many of Denmark's programme countries, and crucially informs how corruption and anti-corruption should be understood and approached in these countries. Another important distinction is between 'administrative' and 'political' corruption, depending on whether those benefiting from it are civil or other public servants (or their organisations) or politicians (or their parties). The traditional distinction between 'petty' and 'grand' corruption is partly analogous to this. Another basic distinction, more recently realised to be essential, is between corruption taking the existing legislation and regulations for granted (and operating in breach of them) and corruption aimed at influencing the regulatory and legislative environment for

the benefit of the corruptor in order to obtain a more permanent privilege or preferential position that is legally backed. This latter form of corruption has been termed ‘(state) capture’, and partly overlaps with the category of ‘political corruption’. There is no doubt that, especially in periods of fundamental change, also within the field of institutional reforms (such as privatisation and economic deregulation), capture is a potentially very harmful form of corruption.

Capture may also be mentioned as just one example of the difficulty of defining the boundary between corruption and legal activities, in this case between capture, on the one hand, and lobbying and financing of political parties, election campaigns, even networking arrangements between business leaders and administrative and political leaders, on the other.

The inclusion of such phenomena as favouritism and nepotism in the definition of corruption also gives rise to considerations referring to local conditions. In many societies, these phenomena are perfectly legitimate within accountability relationships that are very much alive, and may even dominate the perception of society in huge segments of the population. They can hardly be understood, let alone fought, without acknowledging this. It may be less relevant to see them as merely illegal rather than as symptoms of the co-existence of two (or more) systems of accountability relationships (which does not amount to condoning corrupt behaviour).

Accordingly, for the purposes of Danish support for anticorruption, Denmark will continue to apply the generally accepted definition of corruption, but should approach corruption and the opportunities for fighting it in partner countries in the light of the above understanding of corruption as a symptom of much broader governance problems, including the co-existence of competing accountability and value systems.

5.3. International trends and experiences

In the particular field of anticorruption, we see some of the same trends as those mentioned in Chapter 3 regarding governance and accountability in general: work has traditionally focused on internal mechanisms in the government apparatus, targeting corruption as a phenomenon that could be addressed more or less separately from other aspects of governance. Elements in this strategy have been the promotion of specific anti-corruption strategies and action plans, as well as the establishment of anti-corruption agencies of various kinds. There has also been some experience of creating ‘islands of integrity’ within the government, singling out institutions such as revenue

authorities as specialised agencies, offering them better working conditions than the rest of the civil service. Civil society organisations, as well as the media, have also been supported to serve as corruption watchdogs and whistleblowers, but the weakness of civil society (including its organisational governance) in many countries has imposed natural limits on the scope for this.

In line with the gradual shift in the understanding of corruption, there is now less emphasis on the establishment of anticorruption institutions than previously. In fact, some of these specialised agencies have been good examples of governments avoiding more radical steps towards good governance.

In recent years, anticorruption work has also come to concentrate more on political corruption than earlier. Often, the amounts of resources disappearing are larger in the political than in the administrative sphere, and the scope of political corruption has increased considerably with the advent of multi-party politics and the need to finance expensive election campaigns. Furthermore, the implications of corruption at this level, in the form of state or policy capture, can be huge. Decentralisation has also been suspected of leading to an increase in opportunities for corrupt behaviour at the political (as well as at the administrative) level, and to a spread of the damage caused by corruption to wider segments of society.

The growing focus on political corruption is part of a more general trend towards less fear in the donor community of being frank about governance problems in their dialogue with partner governments. This has to be seen in the context of increasing concerns about aid effectiveness and the need for more thorough alignment of foreign aid with national procedures and systems. Budget support being the most aligned aid modality, the trend towards frankness in matters of governance is illustrated in the design of general budget support. Here, the move away from traditional imposition of conditions towards the definition of agreed performance indicators, serving as a basis for joint performance monitoring, is being accompanied by a trend towards more explicit ways of stating the 'underlying principles' of the support. These mostly refer to various aspects of political and administrative governance.

It should also be mentioned that, for some years, 'coalition-building' has been a catchword in anticorruption parlance. As neither supply-side nor demand-side action alone has been sufficient to achieve durable improvements, attempts at building coalitions between civil society organisations, the press, progressive politicians, and pro-reform segments of the administration have increasingly served to spearhead and sustain anti-

corruption efforts. It is probably too early to claim that this approach is certain to yield sustainable results, but it merits continued attention as an extension of, or supplement to, the approach of social accountability mentioned earlier.

The international aspect is another element of growing importance in the fight against corruption. In 2003, a UN Convention against Corruption (UNCAC) came to provide a global framework and supplement to a number of regional and other international instruments to fight transnational corruption, such as the OECD Convention on Combating Bribery from 1999. Partly as a follow-up to the latter at the micro-level (and in conjunction with the general move in the West towards attributing greater importance to ethical considerations in business), companies, business associations, and anticorruption organisations have made considerable efforts to introduce codes of conduct, ethical charters, etc. seeking to limit corruption in business transactions. This reflects growing realisation of the importance of the overseas supply side of corruption, alongside the national and local conditions favouring corruption.

Increased attention has also been paid to the ways in which corruption proceeds are being transferred to foreign banks, stored away or laundered. Reducing the opportunities in this area (e.g. by abolishing or modifying the rules of bank secrecy) would by itself encumber the conditions for corruption, though work in this area has barely started.

The most recent expression of the lessons learnt and remaining challenges is the DAC GOVNET “Policy Paper on Anti-Corruption. Setting an Agenda for Collective Action” from September 2006.

Here, the understanding outlined above is confirmed, i.e. that “corruption is a result, at least in part, of a dysfunctional governance system” (p.3). Therefore, the anti-corruption work has to be centred on more comprehensive initiatives of a systemic nature at the country level, based on an understanding of the wider political economy of public-sector governance in each country.

The paper emphasises the important role of national leadership and political commitment in the fight against corruption, a general lesson learnt from the anti-corruption work done so far, but goes further to call on donors to “face the challenge of how to respond when government capacity may not be the only constraint to reform” (p.3), i.e. when political commitment is lacking, and frank dialogue or even sanctions are needed.

In line with the Paris Declaration, the paper calls for concerted action, both to promote a common understanding of the corruption challenge and to ensure that the donors' interventions complement each other in a sustained manner, covering all important entry points for anti-corruption action. According to experience, this has not been the case thus far, to the detriment of the effectiveness of the efforts.

The Policy Paper also stresses the need to continue coalition-building in order to widen constituencies and alliances for change.

In addition, the paper includes reference to the transnational character of corruption and urges donors to take up the challenges posed by the supply side of corruption, including companies in donor countries.

5.4. Danish anticorruption efforts

Since 2004, Denmark has implemented an "Action Plan to Fight Corruption". The plan has three areas of intervention: a) the Danish aid delivery system itself, b) the partner organisations directly responsible for administering Danish aid, and c) the partner country governance system as a whole. Within each of these areas, the Plan pursues three general outputs, namely a) prevention/reduction of corruption, b) increasing anti-corruption capacity, and c) sanctioning corruption.

Considerable work has been put into the first two of these areas of intervention, which has clearly increased the awareness of corruption among Danida and Danida-related staff. The revised procedures and tools resulting from these efforts may be assumed to have reduced the risks associated with corruption in Danish aid. The endeavour has been guided by the principle of 'zero tolerance'.

Regarding the third area of intervention, i.e. the partner society as a whole, the basic principle changes from zero tolerance (which would make development aid impossible) to that of political will documented through tangible initiatives towards reducing the level of corruption. In this area, the Plan emphasises that anticorruption work funded through Danish aid must be regarded as a contribution to the general fight against corruption in each country. The Plan, therefore, is not prescriptive in this area, but outlines a series of important issues and activities, forming a checklist from which – or, if appropriate, outside which – each Danish embassy may choose when defining its portfolio of anticorruption activities. By definition, there cannot be specific targets in this third area of intervention of the Plan, as the particular situation and opportunities

in each country will determine what can be done. But there is indeed a general intention to increase Danish funding of anticorruption activities in partner countries, and the embassies are reporting growing levels of activity in this field. Among the interventions supported are ethics training and pro-transparency measures among civil servants, national corruption surveys and inclusion of corruption in other studies, parliamentary anticorruption activities, national audit institutions, anticorruption legislation, anticorruption measures included in judiciary reform, and national anticorruption agencies of various kinds. A considerable number of activities outside the public sector are also supported, such as NGO watchdogs and other anticorruption efforts, measures to promote press freedom and support for improving the capacity of the media. In addition, Danish representations are promoting the adoption by partner countries of international and regional anticorruption conventions and similar initiatives. Finally, Danish representations take an active part in coordinating and mainstreaming anticorruption in the development aid to partner countries.

On the multilateral front, Denmark actively monitors and promotes the anticorruption efforts carried out by the international organisations supported by Denmark.

As a further element in its anticorruption efforts, Danida has recently established a website aimed at guiding Danish companies doing business abroad in the area of corruption. This is in line with both the increasing focus on the supply side of corruption and the growing role of business sector development in Danish development assistance. The initiative has attracted international attention, and may become replicated by fellow donor organisations.

5.5. Strategic considerations

As explained earlier, there are good reasons for Denmark to continue to consider anticorruption an important aspect of the governance agenda in partner countries, ensuring that the fight against corruption, in all its aspects and phases, is understood and carried out in its broader context of governance and accountability, as an integral part of overall governance improvement.

As part hereof, Denmark should continue to insist on discussing corruption-related topics when conducting its policy dialogue with partner governments, including further emphasis on the importance of civil society organisations' space and opportunity to act as governance watchdogs, and of engaging the population at large in national efforts towards improved governance.

Denmark should also continue to offer its support for anticorruption initiatives both at overall and sector level within the public sector. In addition, it is important that Denmark continue to make a point of ensuring that parliaments and their relevant committees are supported in addressing corruption-related aspects of their overall oversight and control roles vis-à-vis the administration and the executive. The same pertains to support for civil society organisations working or intending to work as governance watchdogs, aimed at improving their capabilities in the field of anticorruption. Furthermore, Denmark should look for opportunities to support the creation of anticorruption coalitions between elements of the administration, the political establishment, and civil society. Increased attention should also be paid to possibilities of cooperating with the private sector in partner countries with a view to activating its interest in the integrity and transparency of the public sector.

In terms of the Danish aid portfolio in general, Denmark should ensure that anticorruption is further mainstreamed into all its development assistance, both in terms of administrative procedures and programme contents. As part of this, Denmark should strive to reduce the use of parallel management mechanisms and rules in the Danish aid portfolio in order to improve transparency. Finally, obviously the zero-tolerance policy against corruption involving Danish aid funds should continue.

This outline of future anticorruption work in Danish development cooperation is compatible with continued implementation of the Danida Action Plan to Fight Corruption, which was presented above. As mentioned, this Plan provides a framework for the activities to be carried out in order to strengthen anticorruption work at various levels. It is prescriptive regarding the Danida systems and procedures as well as their nearest surroundings, but merely suggestive when it comes to what should be done at partner-country level, including wide latitude in the approaches and methods to be applied, leaving Danish representations, the main drivers of Danish anticorruption work, free to adapt to the country settings in which they are operating, as well as to increasing harmonisation of anticorruption support, which will hopefully materialise over the coming years. Flexibility is a major precondition for taking part in, and furthering, such a development.

In order to bear fruit, however, flexibility must be combined with knowledge of existing experiences of anticorruption work internationally and of emerging good practices. Part of this is provided by the e-learning course offered to all staff members of Danida. In addition, continuous follow-up should continue to take place, including the presentation of new knowledge, international developments, etc. to the embassy-based anticorruption focal points. In addition, as harmonisation develops, the embassies will turn increasingly to their peers in other donor representations as an additional source

of updates and further information. The assessment tools being developed by the DAC and the Nordic+ Group (see below) should provide further opportunities for such sharing of information and understanding.

Just as importantly, most staff need to improve their basic knowledge of governance generally, including how to analyse and understand the governance situation in partner countries. Increased use of political analyses, preferably in cooperation with other donors, may be a step in this direction.

Among the international instruments, to whose implementation Denmark should contribute, both at Copenhagen headquarters and embassy level, the Agenda for Collective Action adopted by the DAC in September 2006 is the most recent. The DAC agenda is not intended to be comprehensive, neither at country nor at international level, but to cover the issues considered to be the most essential for aspects of consistency and harmonisation among donors that have thus far been missing. This makes the DAC agenda an important complement to existing agendas of anticorruption and governance, and a useful operationalisation of the Paris Declaration in its field of intervention.

The DAC Agenda for Collective Action has four main points:

1. The systematic application of a joint instrument for corruption assessments, based on tools already available or being designed.
2. The establishment of a system of benchmarks and targets aimed at facilitating the assessment of progress against corruption, much like the PEFA framework in the field of PFM.
3. The adoption of an explicit division of labour among donors in each partner country in order to ensure systematic coverage of critical points of intervention in the governance and anticorruption agenda.
4. The agreement on common response principles among donors in cases of particularly serious governance and corruption situations and developments.⁴⁶

⁴⁶ The Anti-Corruption Task Team (ACTT) of the DAC recently agreed to examine the opportunities and constraints regarding the improvement of joint donor responses to various corruption situations in partner countries. Based on field tests, common response principles will be developed. The principles are intended for use in the context of a deteriorating or stagnating

While points 1, 2, and 4 of this agenda will have to be pursued primarily by the Copenhagen headquarters, albeit with systematic consultation of the embassies, the embassies will be heading efforts towards harmonisation and complementarity between anticorruption initiatives at the country level, as well as the drive to promote and support a systematic division of labour among donors in the field of anticorruption.

The DAC agenda comes as a supplement to anticorruption work already being considered in the Nordic+ Group of donors, namely the design and application of risk assessments at sector and programme level, as well as the promotion of joint responses at country level.

At the international level, Denmark should actively support the work underway to ensure the implementation of the UNCAC, and continue to cooperate with multilateral organisations on their anticorruption policies and practices.

Finally, it is important that the focus on the supply side of corruption, i.e. the role played by international (including Danish) companies, be continued and extended. This can take place at the international level (e.g. on the occasion of the OECD Convention) as well as in a Danish and inter-donor context, making use of the recently established internet portal.

In summary, the future should see Denmark intensify its participation in the international effort to combat corruption, both at a bilateral and multilateral level, as well as in the interaction with the private sector. In this endeavour, Denmark should contribute to and take maximum advantage of the ongoing development of reliable tools for assessing and monitoring the development of governance and corruption. Combining concrete anticorruption support with regular assessment and monitoring should accelerate the development of good practice and effective contributions to the fight against corruption.

fight against corruption, though also in cases of positive trends in governance, where donors merely wish to plan for future scenarios. Broadly speaking, a corruption situation is deteriorating when the incidence of corruption is worsening, the quality of governance is slipping, and economic and social development is threatened.

6. LOCAL SERVICE DELIVERY AND GOVERNANCE

6.1. Introduction

Denmark has a long history of transferring public functions to locally elected governments, thus gaining experience of striking a proper balance in the division of labour between the various levels of public authority both politically and administratively. Combined with Denmark's long-standing development cooperation with decentralisation programmes in partner countries, this domestic experience provides a particular vantage point for Danish support in this area, as well as for the dialogue with partner countries and other development partners.

Reforms aimed at improving local service delivery and governance are currently being implemented in the majority of developing countries. At present, decentralisation and local governance reform programmes, or public sector reform programmes with major elements of local service delivery and governance, are undertaken in most of the Danish-supported countries. The nature of reforms varies greatly, ranging from mere technical adjustments of the public administration, mainly in the form of deconcentration, to radical devolution of political power to relatively autonomous local governments.

Reforms aimed at improving local service delivery and governance can hold many promises, including local democratisation and, possibly, poverty alleviation. However, effective implementation depends on a range of preconditions and the country-specific context. In several countries, reforms are pursued in an uneven manner. Some elements of government may wish to reform substantially; others will intentionally or unintentionally obstruct such steps. Several types of reform, such as devolution, delegation and deconcentration, may be undertaken simultaneously, sometimes even in a contradictory manner.

Decentralisation in Danish bilateral development assistance mainly takes the form of sector programme support (primarily within education, health, environment, agriculture, roads and water), but Denmark also supports specific 'decentralisation/local governance reform programmes' in a number of countries. While the sector programmes and specific decentralisation programmes ought to reinforce each other, in reality, it has often proved difficult to achieve such synergies.

6.2. Concepts and definitions

In general terms, decentralisation can be defined as “*the transfer of authority and responsibility for public functions from the central government to intermediate and local governments or quasi-independent government organizations*”⁴⁷. Various types of decentralisation should be distinguished, because they have different characteristics, policy implications, and conditions for success. A common typology is the following⁴⁸:

Deconcentration redistributes decision-making authority as well as financial and management responsibilities between various levels of central government. It may merely shift responsibilities from government officials in the capital to employees of the central government working in regions, provinces or districts, or it may create strong field administration or local administrative capacity under the supervision of central government ministries.

Delegation is the mechanism by which central governments transfer responsibility for decision-making and administration of public functions to semi-autonomous organisations not wholly controlled by the central government, but ultimately accountable to it.

Devolution usually transfers responsibilities for services to municipalities that elect their own mayors and councils, raise their own revenues and have independent authority to take investment decisions. In a devolved system, local governments have clear and legally recognised geographical boundaries over which they exercise authority, and within which they perform public functions.

However, in addition to this typology, both OECD (2004)⁴⁹ and UNDP (2004) have introduced other definitions related to decentralisation. OECD, for instance, distinguishes between ‘integrated decentralisation’, which means the transfer of tasks and authority to multi-purpose institutions, and ‘sectoral decentralisation’, where responsibilities for a particular sector are transferred to a local institution with this task as its single domain.

UNDP has a wide definition of ‘local governance’ as comprising a set of institutions, mechanisms and processes, through which citizens and their groups can articulate their

47 World Bank Decentralisation Briefing Notes (www.worldbank.org/html/fpd/urban/decent/decent.htm)

48 World Bank Decentralisation Briefing Notes

49 OECD/DAC 2004.

interests and needs, mediate their differences and exercise their rights and obligations at the local level.

In practice, the reforms and programmes in partner countries often include a mix of the above types of decentralisation and local governance, but for analytical purposes and when designing the support, it is important to operate with clear definitions and make proper distinctions.

While there is consensus on the fact that reforms aimed at improving local service delivery and governance – in particular devolution – have a significant potential for enhancing accountability and local participation in public sector service delivery, it is less evident to which degree it will per se contribute to poverty reduction. However, the reforms may be conducive to poverty reduction if some basic elements are included. These are discussed in the following.

6.3. Important issues in reforms aimed at improving local service delivery and governance

Basic elements

Although there is no universal consensus, five basic elements of reforms aimed at improving local service delivery and governance may be identified⁵⁰.

1. **A legal framework** that clearly stipulates the division of roles and responsibilities between different tiers of government. Only if significant responsibilities are assigned to local governments can they play a role in poverty alleviation. The assignment of responsibilities should be in accordance with local capacities. However, without accepting some temporary capacity gaps, it will be impossible to transfer functions in most poor countries.
2. **Financial resources** adequate to undertake the functions assigned to each tier. Finances may be provided by local revenue sources, fiscal transfers (more or less conditional) or borrowing. Fiscal decentralisation lies at the heart of reforms of the division of labour between the central and local levels, and a certain level of fiscal autonomy is required to ensure that the potential benefits of this transfer can materialise. Experience shows that local government taxation may help reduce poverty.

⁵⁰ These five elements were used as the analytical framework for a comparative study on “Decentralisation in East Africa”, the World Bank (Steffensen and Tidemand, 2004).

3. **Human resources** (staff numbers, qualifications, motivation, etc.) adequate to undertake the functions. Some degree of local control of staff is required to ensure local-level autonomy, reaping the benefits of decentralisation.
4. **Effective mechanisms** for local level accountability. Local election of local government councillors is the most basic precondition for local accountability. However, in several countries, this element is only partially fulfilled. Effective local accountability will require citizens' and politicians' access to information, institutional arrangements for politicians' and civil society's oversight of planning, finances and staff. Furthermore, it will be influenced by political structures, such as civil society organisations.
5. Finally, all of the above needs to be politically backed by the highest authorities (parliament, president, prime minister) and supported by relevant **central institutional arrangements**, for instance a reform secretariat and a strong Ministry of Local Government. Effective decentralisation of public services will require significant coordination across sectors, as well as a substantial overhaul of most line ministries and other central institutions. This part of reform is often the most challenging, especially when compared to the changes required at the local level.

Legal framework and assignment of responsibilities

It is a precondition for effective local service delivery that the division of roles and responsibilities between different tiers of governments is well defined in legislation and regulations. In several countries, however, this is not the case, as the assignment of responsibilities among the various tiers of government and institutions is unclear, and their functions overlap.

There is no general agreement on what functions can most advantageously be devolved to local governments and other decentralised bodies. Analysis could start from the principle of subsidiarity, which holds that a function should always be assigned to the lowest level capable of performing it. The analysis of local governments' capability must in light of this principle always include the financial and human resources available to them.

Beyond the principle, however, such capability must always include the financial and human resources available for the local governments to undertake its assignments and responsibilities. In other words, effectiveness and accountability concerns must also prevail when assigning functions.

Fiscal decentralisation

Fiscal decentralisation lies at the core of the restructuring of the division of labour between the central and the local levels. Three elements are generally emphasised with regard to fiscal decentralisation: a) expenditure assignments, b) assignment of own revenue sources, and c) fiscal transfers from central government to local governments.

Expenditure assignments

One approach to cost the decentralisation of services is to establish some form of national minimum standard for a certain service, e.g. the number of pupils per teacher and the consequent costs. Another approach is to define a share of the national revenue, allocating it on the basis of a few parameters, such as the population and a poverty index. However, neither of the approaches escape the fact that, in most countries, service delivery simply cannot be fully financed, and additional development of formula-based allocations of existing budgets is often needed. In any case, the decentralisation of services tends to be controversial, and experience shows that central government institutions are likely to try to hold on to their budgets, resisting the transfer of resources.

Assignment of local government revenues

Generally, taxes involving complex administration and inter-jurisdictional aspects are retained by the central government, whereas taxes relatively easy to collect tend to be left to local governments. Typical local-level revenue sources are property taxes, retail sales taxes, vehicle taxes, and user charges.

Fiscal transfers from central government to local governments

Most poor countries rely on taxes that are most advantageously collected through central institutions, e.g. VAT, customs and duties. Local taxes are often low-yielding compared to these. This calls for a system of intergovernmental fiscal transfers to close the gap between the actual costs of the services and functions assigned to local governments and their typically low tax revenues.

Below is a brief discussion of the distinction between conditional and unconditional grants, as well as between recurrent and development grants, as these distinctions touch upon very fundamental design questions where donor positions often prove crucial.

Conditional vs. unconditional grants

The unconditional grant is a financing modality that takes advantage of all the assumed benefits of decentralised planning and budgeting. It is often considered the

ideal form of fiscal transfer from central government to local governments, as it promotes participation and ownership.

In many countries, however, fiscal transfers are dominated by conditional grants. This may serve to ensure financing of key areas of local government service delivery, coherence and integration between central and local priorities, thus countering capture by local actors and groups, whose privileges may have been reduced by the new division of labour between central and local levels.

In reality, it tends to be a mix between the two types of grants, where the key challenge is to find the right balance, which allows flexibility and responsiveness to unforeseen circumstances, (i.e. discretion) on the one hand, and ensures the necessary funds for key services and functions, on the other.

Recurrent vs. investment/capital costs

Another relevant distinction is between grants financing recurrent and capital expenses. In aid-dependent developing countries, these tend to be clearly separate categories of spending in the budget for several reasons, including the fact that the investment budget is often donor-funded.

It is primarily through planning and budgeting for development projects that local governments can exercise their local autonomy. Therefore, the decentralisation of the investment/capital budget is of particular importance. In order to introduce such autonomy to frequently weak local governments within a decentralised framework, it will be necessary to improve a range of planning, budget and implementation arrangements at the local government level

The decentralisation of recurrent budgets (often largely composed of staff salaries) is particularly linked to the degree of local control over personnel, which is discussed in the next section. If local governments are left without substantial autonomy to decide on staff numbers, remuneration, recruitment, dismissal etc., then staff management becomes merely a delegated function, as all major budget decisions remain centrally controlled.

In order to avoid the risk of recurrent expenditure absorbing most or all resources, there are examples of legally fixed percentages allocated to recurrent and investment costs, and within the latter, fixed proportions for new investments and for

maintenance, as (local) politicians often find it more attractive to finance new projects at the expense of maintaining existing works.

Human resources

Delivery of quality services requires a critical mass of efficient and professional local government staff. Furthermore, experience shows that local control of staff is conducive to local accountability of staff, and consequently to more autonomous and responsive local government, which is in turn assumed to lead to more effective services. However, experience also shows that local control of staff entails some risks, including:

- Bias in the selection of staff according to local criteria, e.g. ethnicity or relationship with specific politicians, rather than professional ability.
- Stronger local political pressure on local government staff, including pressure to make illegal payments to counsellors or other financial mismanagement.
- Limited career prospects for senior officials due to few possibilities for promotion within a specific local government.

On the other hand, the same weaknesses can arguably be found in systems managed by the central government as well. Moreover, the shortcomings of local government administration of personnel may stem from other factors, e.g. the low level of financial resources available, insufficient capacities for HR management, inappropriate regulations, or lack of incentives for proper local government management of personnel, all of which are likely to be better solved by boosting support for local governments rather than centralising responsibilities.

Local accountability

Decentralisation is supposed to bring government closer to the people, and to enhance popular participation and democracy. However, decentralisation alone does not automatically facilitate accountability of government and increased participation of civil society. Decentralisation is only successful when accompanied by proactive efforts to involve citizens and civil society organisations, and to foster accountability processes.

The effective accountability of local government to its citizens is increasingly acknowledged to require more than just regular elections. It also calls for more direct pro-accountability measures, such as direct reporting by local governments to citizens on local budgets, accounts and audits, as well as consultation processes on local government plans and investments⁵¹.

51 Ackerman 2005.

For donors supporting decentralisation, a thorough analysis of the country's history, culture, and politics should inspire ways of ensuring effective pro-accountability mechanisms at the local level. The analysis should look into the relevance of supporting government programmes and institutions as well as civil society organisations. The fact that there might be conflicting interests does not rule out cooperation with both 'sides'. A clear division of labour, especially at the local level, between development agencies and national and international (including Danish) NGOs should be pursued.

Central institutions for reform coordination and implementation

A major reform of the division of labour between central and local levels requires substantial coordination among all parts of the central government, including most line ministries, the Ministry of Public Service, the Ministry of Finance, and the Ministry of Local Government. The coordination of reform requires:

- Clear political guidance. Successful reforms have been driven by domestic political forces and received clear guidance in the form of presidential statements, detailed constitutional provisions, and/or effective inter-ministerial/cabinet oversight committees.
- Competent technical analysis and debate, as well as technical coordination of various sectors, supporting donors, etc. In this regard, development partners may play a significant role in providing qualified TA for policy development.

The politics of reform

Obviously, there are major pitfalls in supporting reforms aimed at improved service delivery and governance without a proper understanding of the political dimension of these reforms. In addition to the five basic elements presented earlier, which constitute the point of departure for an analysis, appropriate guiding questions could be:

- Why are reforms undertaken?
- Who are the key supporters and key opponents of reform?
- Who are likely to benefit and to lose from reforms?

As a basic principle, such political analysis should be undertaken jointly with other development partners. This, however, has not always been the case when designing, appraising and reviewing Danish support. Thus, the analysis of the politics of reform calls for further attention.

6.4. International trends

International and bilateral donor agencies have increasingly recognised the importance of working on the division of labour between the central and local levels, whether it be through direct support for decentralisation reforms, as part of support for wider public sector reforms or good governance programmes, or as part of sector programmes. In many countries, however, this area is still assisted mainly by means of individual projects funded by a variety of donors, while few efforts have been made to pursue better-harmonised and better-aligned programme-based support in line with the statements of the Paris Declaration on Aid Effectiveness.

In response to this situation, a Donor Working Group on Local Governance and Decentralisation was established in April 2006. The Working Group's first major activity was to conduct a survey on donors' rationale, strategies, practice, and lessons learned in the support for decentralisation in order to facilitate harmonisation and alignment of their development cooperation in partner countries. The results of this desk survey were presented to the group in November 2006, and will inform an in-depth analysis of donors' practices in four selected countries. The next couple of years may produce closer links between the Working Group and OECD-DAC GOVNET.

6.4.1. International and Danish experience and lessons learned

Danida programmes in support of local service delivery and governance Reform programmes aimed at improving service delivery and governance – or public sector reform programmes with major elements of decentralisation – are undertaken in most of the Danida-supported countries, both in the form of sector programme support (education, health, environment, agriculture, roads and water) and through specific 'decentralisation/local governance reform programmes'.

Some generally recognised lessons of the Danish support for this area are:

- The importance of supporting local service delivery and governance within the broader context of a public sector management agenda.
- The need for improving the analytical work prior to the design of the support.
- The importance of addressing all five elements for effective reform listed earlier in this paper.
- The importance of involving a wide array of partner institutions. Several of the decentralisation and local governance programmes have supported a broad range of partners simultaneously, including ministries of local government, local government associations, national audit offices, selected local governments, etc.
- In line with the above point, the importance of combining local-level reform-related interventions with investments, such as feeder roads, water and sanitation, irrigation schemes, etc., as well as with national-level policy formulation and systems development. Such elements have generally proved to be mutually reinforcing.
- The need to strike the right balance between the supply side (government programmes and organisations) and the demand side (civil society organisations) in the design of the programmes. Effective pro-accountability measures must be analysed thoroughly, considering specific support for these.
- Specific Danish earmarking of funds should be analysed carefully. Such support should allow for as much flexibility as possible, which will obviously depend on the stage and nature of reforms.
- There is a need for Danish support for local service delivery and governance to be channelled through existing institutions and set-ups. Only in programme countries where the legal and institutional framework is not in place, or is even contradictory, should other modalities and mechanisms be considered. Whichever mechanism is used, the objective should always be to improve the current framework, eliminating structural inconsistencies and constraints.
- The need for joint programming and harmonisation among development partners, under the leadership of the partner government. Development partners often establish separate support modalities in different districts/provinces as well as within different sectors. Therefore, Danish assistance to local service delivery and governance should increasingly consist of contributions to joint basket-funded programmes.
- The understanding that reforms need to be locally owned – not pushed by donors.

Some key lessons from work on decentralisation issues within sector programmes are:

- There is a need for proactive donor engagement in local service delivery and governance reforms within sector programmes, since line ministries will often resist decentralisation. If development partners fail to actively support stated government decentralisation policies through the way in which they fund and support the sectors, the sector support is likely to constrain rather than bolster reform intentions.
- There is a need for ‘decentralisation experts’ to apply a balanced approach and seriously consider sector-specific concerns. Sector representatives often complain that advocates of decentralisation reforms only understand the sectors superficially, religiously pursuing decentralisation policies without taking account of the characteristics of the sector and its service delivery.
- The need to ensure that sector programme support (health, education, environment, etc.) is in line with the overall Danish approach to local service delivery and governance within the programme country.

Other experience and lessons learned

Macroeconomics and public financial management

Previously, decentralisation was often considered a potential threat to macroeconomic stability. However, it is now broadly agreed that this depends entirely on the design of the reforms and institutional arrangements.

Furthermore, macro-economic policy has generally shifted from earlier preoccupation with stability towards looking more at how increased public sector spending (in the wake of debt relief, etc.) can effectively be translated into economic growth and improved services. In particular, the HIPC-related budget emphasis on social sectors in many countries has led to significant increases in the spending of local governments, as these are typically responsible for service delivery. Local government fiscal reforms are then often required for more transparent and poverty-oriented public expenditure, increasingly engaging international financial institutions, such as the IMF. In several ways, macro-economic policy must now reflect on decentralisation and local government systems.

Some emerging key lessons for this work are:

- As mentioned earlier, fiscal decentralisation lies at the core of decentralisation reforms and programmes. In many cases, however, the design of the reforms and

the assignment of responsibilities and allocation of funds to decentralised levels fail to take the extent of existing capacity into consideration. This applies to the capacity of human resources and administrative systems, as well as to the procedures for public financial management. Thus, in the design of programmes, there is a need to pay specific attention to the requirements of reform in terms of implementing and improving PFM systems at the decentralised levels.

- After decentralisation, work such as Public Expenditure Reviews, PFM assessments, etc. increasingly need to involve an explicit local government perspective, which in turn requires the inclusion of local government expertise and the participation of various institutions (e.g. local government finance commissions, etc.). The newly defined PEFA indicators related to local government are an important step in that direction.
- Work on tax reforms needs to be coordinated with local government fiscal reforms; this is often not the case today.

Administrative and civil service reforms

Administrative and civil service reforms (e.g. organisational or personnel reforms) need to be linked to decentralisation. However, this is rarely done effectively, either because civil service reforms have traditionally been too rigidly managed by a central ministry, as in Napoleonic systems, or conversely, because the relevant central ministry has had insufficient powers to deal with local government staff. In most reforming countries, local rather than central governments employ the majority of public servants.

Anticorruption

The jury is still out with regard to the impact of decentralisation on corruption. Some research shows that countries with a high degree of fiscal decentralisation have generally less corruption (according to various corruption indexes⁵²). Fisman et al. argue that this is mainly due to the social control being stronger where the distance between the population and the administration is shorter, thus making it easier for citizens to hold local government accountable. However, Treisman finds that federal (and thus fiscally decentralised) systems tend to be more corrupt⁵³.

52 Fisman & Gatti 2002

53 Treisman 2000.

6.4.2 Strategic priorities

The support for decentralisation must be seen within the context of the much broader agenda of reforming the management of the public sector (through civil service reforms, including pay reforms and performance management schemes, tax reforms, PFM reforms, etc.), since decentralisation forms an integral part of this agenda.

Reforms aimed at improving local service and governance are undertaken in most of the Danish programme countries, and support for this area is expected to feature prominently in Danish development aid in coming years, either as part of comprehensive public sector reform programmes or as part of sector programmes.

Based on the lessons learned, and in conformity with the framework of increasing harmonisation and alignment, Denmark should employ the following principles in its support.

Overall objective

For Denmark, it is imperative that the public sector be structured to address the objective of poverty reduction. The division of labour between the central and local levels is key in this regard. While the transfer of authority and responsibility for public functions from the central government to local governments is neither a panacea for the challenges of development nor an end in itself, it may contribute to effective and accountable delivery of services and local democratisation.

Strategic choices and areas of Danish support

The entry point, the choice of institutional partners, and the specific focus of Danish support for local service delivery and governance will depend on the country characteristics. In principle, the support can cover all tiers of the political and administrative structure of a country (there are usually three or four), and may include both capacity-building, such as participatory planning, public financial management, taxation and other areas, funding of recurrent costs and of investment projects, such as water and sanitation, feeder roads, construction and/or maintenance of social infrastructure, or other works, depending on the devolved or delegated responsibilities. The balance between local-level interventions and national-level policy formulation and systems development is another key issue to be considered.

Adherence to existing policies, institutions and structures

Reforms aimed at improving local service delivery and governance are integral parts of comprehensive public sector reforms, such as public financial management, procurement, and civil service reforms. The Danish support must always be seen in this perspective.

A basic principle of Danish support for local service delivery and governance is that, whenever possible, it should be channelled through existing institutions and structures, considering other mechanisms only in programme countries where the legal and institutional framework is not yet in place, or is even contradictory. Whichever mechanism is used, the objective must always be to improve the current framework, eliminating structural inconsistencies and constraints.

Accountability

Decentralisation and local governance brings government closer to the people. However, if carried out uncritically, there is a risk that it will reinforce social and cultural inequalities at the local level. Decentralisation and local governance can only become successful when accompanied by proactive efforts to involve citizens and civil society organisations, fostering pro-accountability processes. However, no single recipe can be applied at all times and places, and the actual design should be determined by the context. Denmark should specifically look at how to make existing structures work and, whenever possible, be an active partner in the development and improvement of relevant mechanisms. When designing support for local service delivery and governance, the possibility of supporting both the supply side (government programmes and institutions) and the demand side (civil society organisations) should be taken into account.

Methodological approach and modalities

The approach and design of Danish support should be based on thorough analysis of the policy implications and conditions for success of the reform concerned, combined with an analysis of power structures and identification of change agents.

Whenever possible and relevant, support at the local government level should be given through the existing systems without specific Danish earmarking, although this will obviously depend on the stage and nature of reforms.

Denmark should continue to participate actively in joint programming with other development partners, and preferably contribute through joint funding arrangements.

Figure 6: Danish support for decentralisation in Bolivia

Country Context: In 1994, the Bolivian parliament approved a new constitution, overturning previous political and economic centralisation and official cultural uniformity. The new constitution created locally elected governments with powers to plan, spend and manage public funds. At the same time, Article 1 stated that Bolivian society is composed of multiple cultures and ethnicities.

Two important laws related to decentralisation followed the constitutional changes. Devolution was advanced by the Popular Participation Act, creating 311 municipalities covering the whole country, with a locally elected mayor and counsellors. Another law in pursuit of deconcentration, the Administrative Decentralisation Act, changed the organisation and functions of the nine regional administrations, so-called prefectures, headed by a Prefect appointed by the President.

In general, the approach to decentralisation in Bolivia was very comprehensive, including political, fiscal, and administrative aspects with substantial delegation of powers and responsibilities to municipalities.

In terms of domestic financing, 20% of the national tax revenue was to be allocated to the municipalities based on their population in the form of unconditional grants within the framework of a Municipal Development Plan. However, 85% was to be spent on capital and 15% on recurrent costs.

One of the special features of the Popular Participation Act was the creation of a citizens' oversight committee (*Comité de Vigilancia*) in each of the municipalities. The members were representatives of local community organisations, and their main tasks were to ensure that the Municipal Development Plan would benefit the intended target groups, and to supervise actual expenditure on the plan. Although the committees did not always work in accordance with the intentions, their inclusion in the law is considered one of the most interesting and far-reaching pro-accountability measures of decentralisation reforms in the past 10-15 years. It reflects an acknowledgement and awareness of the need for measures to counter local elite capture and corruption, and to engage more people in community control of the new local authorities.

Lessons learned

Several lessons have been learned from the Danish support. The aid modality could be characterised as a traditional project approach with substantial elements of alignment. It was designed with a parallel structure in terms of PIUs with international and national advisers deployed mainly in the Departments of Potosí and Chuquisaca, but considerable efforts were put into alignment to the new administrative and financial systems, including procurement emanating from the reform package, and disbursements were transferred to the municipalities through the Ministry of Finance.

The support for the Departments of Potosí and Chuquisaca reflected a certain degree of geographical division of labour between the donors. However, harmonisation in terms of a common strategic approach to the reforms was at best incipient, which strained the relatively scarce resources of staff in central institutions to the utmost.

The lines of action included capacity development at all three levels of government, and investment projects in the municipalities, earmarked for feeder roads as well as water and sanitation (80% of the budget). The combination of support for both operational costs (including staff) and investment projects was appropriate. The strong focus on pro-poor projects and delivery of basic services responded directly to the needs of the rural and marginalised population in the two departments, and gave the support legitimacy. At the same time, the investment projects sprang directly from the new participatory planning and budgeting processes, thus contributing to enhancing the capacity of the municipalities' professional staff and politicians as well as the members of the citizens' oversight committees.

The demand side was included in the Danish support, both through the official system, where capacity-building material for training of the members of the citizens' oversight committees was developed and utilised, and through specific support for Bolivian NGOs, which mainly worked with the indigenous peoples and their specific needs regarding the new reform.

This principle should also be advocated in relevant international forums, where Denmark should work towards harmonising donors' strategies and practices.

Synchronised approach of sector programmes

Denmark should take the characteristics of the sector and its service delivery into account when designing support for decentralisation, while ensuring that aid to the lower tiers of sectors assisted through sector programme support (education, health, environment, etc.) is in line with the overall Danish approach to decentralisation in the programme country concerned.

A large part of actual service delivery takes place at decentralised levels, and a convergence of the three focus areas is likely to occur. Consequently, any support for decentralisation should take account of the two other focus areas – public sector management and anti-corruption – in order to create as much synergy between the three areas as possible.

7. PUBLIC FINANCIAL MANAGEMENT

7.1. Background

The growing public pressure on managers in the public sector to perform better, which has been in force over the past 20 years or so, has led to major changes in the approach to public management in many countries, including reforms aimed at enabling public sector managers to enhance results and value for money. As mentioned earlier, the 1980s saw a change in the perception of the government's role and of management in the public sector. This new trend, often presented under the *brand name* of 'New Public Management (NPM)', includes a managerial approach to the public sector, where elements from private sector management are introduced into public sector administration. Most OECD countries have implemented reforms of this type, embracing NPM elements to varying degrees. In Europe, the UK is seen as a leader in public sector management reforms⁵⁴. Since the 1990s, NPM elements have also been introduced into public sector management in developing countries, advocated by the World Bank and other development partners.

In most developing countries, PFM is based on the former colonial power's traditional systems, inherited at the time of independence. These are not well designed to support a modern managerial approach to public sector administration, among other reasons because they have been based on manual systems with line-item-based classification, cash-based accounting, with reporting and controlling focusing on item costs rather than on output costs. Furthermore, the improvements carried out during the 1980s and 1990s have often been donor-driven and centred on introducing 'stand-alone' IT systems in various key areas. In addition to the challenges arising from a combination of manual accounting systems and fragmented IT systems, many developing countries also face a shortage of capacity and skilled staff, weak coherence between planning and execution, and non-compliance with procedures.

The above-mentioned shift in the thinking and style of public sector management represents a move from rule-based administration to results-based management (sometimes also described as a change from public administration to public management), with more focus on accountability centred on results and value for money. Management involves taking decisions concerning budget planning, execution, and control at various levels of the administrative system, concerning capital investment (e.g. selection of new investments/procurement and managing existing assets), financing (how to

54 Danish Ministry of Finance, 2006.

finance the budget – tax vs. debt), and the level of service provision. The more managerial approach to public sector administration, the increased focus on results, and the introduction of output-based management systems are major factors in producing better management information, not least financial. This poses new challenges to the financial management information systems in most developing countries. An effective PFM system – well suited to support results-based management with comprehensive budgets, including programme budgeting where relevant, with coherence between the outlay of the budget and the outlay of the accounts, and accrual-based accounting (or at least commitment-based accounting) – is required to enable managers to deliver results and value for money. In most Danish partner countries, the PFM systems are seen as insufficient and ill-suited to support modern results-oriented management. In addition, most developing countries have experienced serious problems regarding transparency and accountability in budget execution, e.g. in procurement. International research lists reasons for this, such as insufficient capacity (human as well as technical), an inappropriate budget system, and lack of political commitment.

In many developing countries, public procurement was not previously viewed as having a strategic impact on the management of public resources. It was treated largely as a process-oriented ‘back-office’ support function, often implemented by non-professional staff of the buying agencies. Consequently, little effort was expended to uphold policies and rules, as well as to maintain the institutional framework governing the procurement system, as required to ensure efficient and rational use of public funds with the best value for money.

Recently, however, this has been changing. In the face of shrinking budgets and the need to fight corruption, governments are realising that significant savings can be attained by means of a well-organised procurement system. Many developing countries have also realised that an ordered procurement system contributes to good governance by increasing confidence in the proper spending of public funds. Consequently, many developing countries have initiated reforms aimed at making their procurement systems more transparent and efficient, and at strengthening the accountability of government officials. Managerial accountability is as important as political and social accountability, and an improved management system is an important measure towards reducing corruption. Only with reliable managerial reporting, comprising reporting on indicators and performance, including financial performance, is it possible for the citizens to hold the government accountable.

PFM in all its aspects, including financial reporting, procurement, and internal control, is an important issue in the wider discussion of aid effectiveness, because better use of all available resources is essential for sustainable economic growth and the achievement of the MDGs. Donors have historically tried to safeguard aid funds through earmarking, use of parallel administrative systems, and other 'ring-fencing' mechanisms. However, since money is fungible, aid funds transferred to a project can free government funds, which can then be used to finance other activities. Consequently, proper use of aid money is meaningless without proper use of government money, and only concerted efforts between donors and partner governments towards improved value for money will achieve results.

7.2. Concepts and definitions

The broad objective of a PFM system is overall financial discipline, allocation of resources to priority areas, and efficient and effective use of public resources for the achievement of results in accordance with political priorities. The role of PFM is to assist in the planning and budgeting process, recording of financial information, and controlling of budget execution. Another function of PFM is to facilitate accountability by providing financial information on budget execution to the public.

The pressure on public managers to deliver results in accordance with set policies and priorities of the state includes a demand for value for money (VFM)⁵⁵. This is achieved when resources of appropriate quality and quantity are acquired at the least cost (economy), the maximum output is produced from the resources (efficiency), and the output from the given activity is achieving the desired result (effectiveness).

Financial management is not merely the provision of financial information; it is proactive by nature, being the active use of financial and other information to manage the public resources in the pursuit of results in accordance with the policy objectives of the government. Managers need to be provided with financial information that is relevant, reliable, comprehensive, timely and consistent. Furthermore, those responsible for the budget who receive such information must be able to interpret and make use of it in decision-making.

A generally accepted definition of financial management is: "The legal and administrative systems and procedures put in place to permit government ministries and agencies to conduct their activities so as to ensure correct use of public funds that meets defined standards of probity and regularity. Financial management includes the raising of

55 Based on: Combs & Jenkins 2002

revenue, the management and control of public expenditure, financial accounting and reporting, and, in some cases, asset management.”⁵⁶

As seen from the definition, PFM includes all phases of the budget cycle, including the preparation of the budget, internal control and audit, procurement, monitoring and reporting arrangements, and external audit. PFM is normally divided into three broad stages according to the budget process, as presented in the table below.

Figure 7: The budget process and its PFM challenges⁵⁷:

Budget stages	Main actors	Challenges
Planning and formulation	The legislature and the executive	<ul style="list-style-type: none"> • Planning and controlling overall resource allocation, and formulating and implementing sound policies and procedures. • Greater comprehensiveness and coverage using targeted performance data.
Execution and accounting	The executive and the administration (Treasury, spending and control departments and Audit)	<ul style="list-style-type: none"> • Effective resource management and service delivery with improvements in the control of areas such as payroll and procurement. • Reporting on outputs and use of funds that is timely and relevant to management. • Timely, consistent and correct accounting with improved classifications and reconciliations. • Management control with a risk management plan.
Control and accountability	The executive and the legislature	<ul style="list-style-type: none"> • Effective control procedures with regular review of transactions and procurement. • More effective external audits with timely submission of audit reports and effective follow-up on audit recommendations.

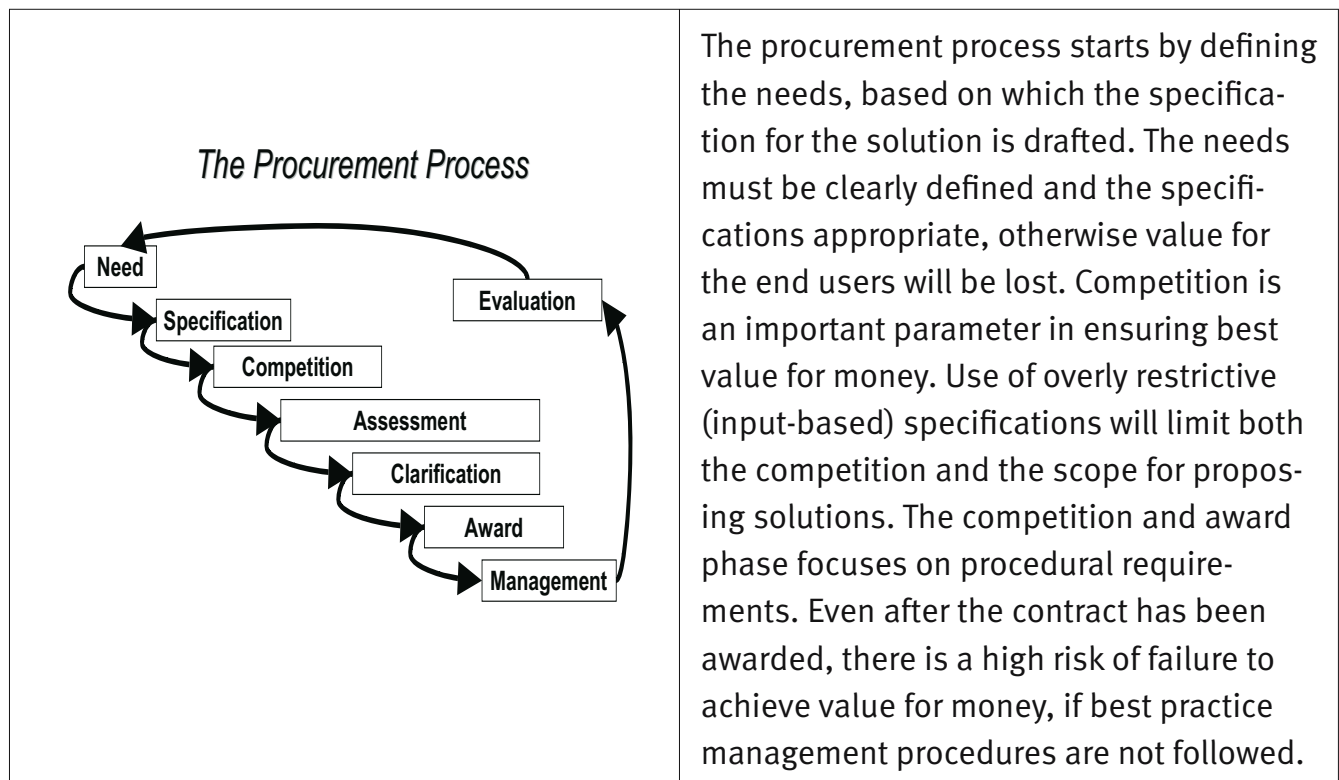
Transforming inputs into outputs in accordance with agreed policies and goals is a process guided by the public administration’s procedures and systems regarding the organisation of work, the administrative and accounting tools, as well as control systems designed to ensure that funds are used for the intended purpose in an efficient and effective manner. The PFM system, as the framework for the transformation process, includes legislation, administrative and accounting procedures, the budget process, the accounting system including the IT systems, as well as the controlling and auditing system.

⁵⁶ Schiavo-Campo & Tommasi 1999

⁵⁷ Based on: World Bank 2004

Importantly, the term ‘procurement’ does not merely refer to the simple purchase of goods, services, and works, but to the whole process, from conception to completion, of acquiring goods, services or works. This is referred to as the procurement process. It is important that the procurement process be acknowledged during the entire budget process from planning through execution to control.

Figure 8: The procurement process



Notwithstanding the overall requirement that the budget should reflect the government’s political priorities, the realism of addressing, for instance, gender issues at a higher budgetary level, has been subject to discussion for more than 10 years. In the light of the numerous challenges facing the governments of developing countries in relation to modernising their PFM systems, arguably, discussion on budgeting for cross-cutting and/or specific priority policy issues, such as gender and HIV/AIDS, should be promoted at an institutional level and not at the overall budget level, by actively pursuing activity-based planning and budgeting. For example, when identifying a procurement need and writing the specifications, due consideration should be given to such crosscutting and priority issues (gender, environment, HIV/AIDS, etc.). According to this argument, it is important to ensure that the accounting, with its classification system, is flexible and suitable for reporting on these activities at the institutional level.

The change from public administration to public management necessitates changes in the accounting systems. In a public management system, the focus is on controlling inputs and outputs rather than on adherence to administrative rules, whereas in a public administrative system, the underlying assumption is that, if rules are followed, results will be produced by definition. Thus, the public administrative system focuses on budget compliance as per line items and compliance with administrative rules, whereas the public management system focuses on output costs, overall budget compliance, and outputs in keeping with policies. This entails a change from financial accounting to financial management accounting, as the 'old-fashioned' cash-based and line-item accounting system is seen as inadequate for a managerial approach to public budget execution.

7.3. International trends

PFM reforms have been on the international development agenda since the early 1980s, initially focusing mainly on budget preparations, but, since the mid-1990s, paying increasing attention to budget execution as well, particularly by introducing integrated financial management systems and improvements in public procurement. Developing countries' PFM systems are still very weak, and there is a need to continue to improve national partners' capacity to undertake basic administrative functions. PFM reforms are politically sensitive, and there have been significant delays in implementation due to the ambitious and complicated designs of many components, poor links between key reforms at the central level and reforms at sector/line ministry/decentralised level, and lack of national top-level commitment.

One important element of PFM reforms in most partner countries has been the introduction of the Medium-Term Expenditure Framework (MTEF) as a budgeting tool, with its integration of policy, planning and budgeting from a multi-year perspective. The introduction of the MTEF into the budget process has significantly improved planning in most of Denmark's partner countries. The inclusion of donor assistance in the budget still poses a challenge in many countries, although steady headway has been made following the Paris Declaration. It appears that the PEFA PFM assessment tool, with its three indicators of donor performance, contributes significantly to improving the information flow from donors to national partners regarding budget and disbursement figures for programme and project funds. However, the incorporation of such information into budgeting, and especially into national accounts, remains a challenge, not least because programme/project budget classifications may well be incompatible with the national classification system.

Procurement is a function of public financial management, but has largely been singled out for separate treatment in the PFM reforms. This is because procurement involves vast sums of money and is an area that is vulnerable to mismanagement and corruption. It is widely acknowledged that even small improvements in the procurement system will lead to significant budget savings. As general improvement in a developing country's procurement system contributes significantly to enhancing that country's overall PFM, this special attention is well-founded.

A strong and effective procurement system is governed by a clear legal framework, establishing the rules for transparency, efficiency and mechanisms of enforcement, coupled with an institutional arrangement that ensures consistency in overall policy formulation and implementation. Professional staff is also required to implement and manage the procurement function.

As the donors move away from individual projects, with own bank accounts and administrative systems, towards direct budget support and programme funding administered by national partners using their own procedures for management and accounting, there is growing pressure for accountability in public administration and for efficient and effective service delivery.

7.4. International and Danish experiences

International support for partner countries' PFM reform strategies has increased in all of Denmark's partner countries over the last decade, primarily support for reforms at the central government level, though increasingly, in the context of decentralisation of public administration, also for PFM reforms and capacity-building at local government levels.

PFM reforms are making headway in most of the Danish-supported developing countries. In most programme countries, Denmark has supported PFM alongside other donors, both as earmarked funding through sector programmes and as general support through joint funding arrangements with other donors. External assistance to PFM reforms has too often been inefficient due to a combination of fragmented financial aid and lack of effective donor harmonisation, in particular vis-à-vis the WB and IMF, as well as inappropriate (or lack of) reform sequencing.

No comprehensive cross-country reviews of PFM reforms have been conducted yet, but a large number of country-specific assessments of different public expenditure

reforms are available, focusing on issues such as the budget preparation process, the MTEF, and budget execution. This has drawn particular attention to Integrated Financial Management Systems (IFMIS)⁵⁸. The common trend is that, while the budget preparation process and the MTEF are working relatively well, improvements from the introduction of IFMIS have generally been fewer than expected, the systems have been expensive, and their implementation has suffered delays. Some factors slowing down the implementation of IFMIS include complicated systems design, lack of staff and capacity, lack of political will, and new technologies requiring new ways of working, all of which takes time to institutionalise.

Denmark has provided support for PFM reforms in a number of Danish partner countries, including Tanzania, Mozambique, Zambia, Uganda, and Kenya. The support for these countries' PFM reforms has been provided to different activities, including the budget preparation process, MTEF preparations, capacity-building and budget execution, in which assistance to integrated financial management systems has been prominent. Different financing modalities have been used, such as budget support, joint funding arrangements, TA, and direct payments for TA and earmarked activities. The trend in the financing modality is that a joint funding approach is preferred. Increasingly, the joint funding modalities make use of the partner's national system for management of the support, albeit often supplemented by additional donor requirements, especially in relation to procurement of equipment and TA.

In all countries, inefficient and unfair procurement practices are fiercely defended by the entrenched and powerful interests that they benefit. In the face of determined opposition, effective adoption of necessary changes to procurement practices can only be secured through an international partnership, involving active support from top leaders in the public and private sectors.

58 IFMIS is the generic term used to refer to a computerised governmental financial management system. The system can be common for all levels of government, but is normally introduced first at the central level. The idea behind IFMIS is that it has one database into which all information is entered, one chart of accounts (i.e. a uniform coding system used for recording transactions, which allows for analysis of information and for making comparisons across the organisation), and a common set of basic financial reports. The system ensures coherence between budget and financial accounts. It normally includes core modules such as: budgeting, cash management, accounting, and reporting. Many countries have procured a standardised IT system developed for the private sector, and then tailored it to suit the need of the public administration, but some, e.g. Mozambique, have procured a system designed specifically for their PFM.

Since efforts to bring about fundamental change in a flawed procurement system may provoke head-on opposition if implemented by means of a self-standing programme, one way to increase the chances of success is to implement such reform within the context of an existing PFM reform package aimed at increasing overall efficiency of the public sector.

It is not an overstatement to affirm that the success of future efforts to strengthen procurement systems hinges as much upon the *approach* taken to improving procurement outcomes as it does upon the *substantive contents* of the changes introduced.

Figure 9: Danish support for PFM in Mozambique

Country Context: The Government of Mozambique is implementing a PFM reform (known as SISTAFE) as part of its public sector management reforms. The first phase of the public sector management reform (2001 – 2005) focused, among other areas, on the establishment of a legal framework, including budgeting rules; measures to build capacity in the public sector; and guidelines for delivery of public services, measuring the outputs and monitoring the performance of entities. The objective of the second phase of the programme (2006–2011), currently under implementation, is to intensify the work on governance and capacity building. The overall objective of the PFM Action Plan is to “establish an efficient and transparent Public Financial Management system that facilitates and underpins the qualitative improvements”. While the first phases focused, in relation to PFM, on the establishment of the framework and the system (design, planning and piloting), the second phase will concentrate on the implementation of the system throughout the entire public administration. The objectives of SISTAFE and the action plan concur with the objective of Mozambique’s National Development Framework (PARPA II).

The Danish Support. Denmark was a key partner in the support for PFM during the first phase, and will continue assisting the second phase of the programme. In the first phase, Danish aid for PFM went to one of four components in the Public Sector Reform Programme, amounting to DKK 26.9 million. The Danish contribution to the second phase is planned to reach DKK 95 million. Danish development cooperation is channelled through a joint donor fund, established during the first phase, as non-earmarked support for the Government of Mozambique’s Plan of Action and Budget for SISTAFE. As a member of the Joint Steering Committee, Denmark participates in approving annual work plans and budgets, as well as in monitoring the progress of implementation. A Quality Assurance group, with Danish membership, has been set up to assist the Joint Steering Committee. In Mozambique, the donors’ dialogue with the government is structured around the ‘Programme Aid Partners’ providing budget support towards the fulfilment of PARPA II (to which Denmark contributes as well). Denmark takes part in the sub-group on Public Financial Management and in the technical working group on computerisation of budgeting and financial management (an undertaking known as E-SISTAFE).

Lessons learned. The progress made during the first phase of the programme was less than anticipated, with impact being achieved mostly in the Ministry of Finance, and to a lesser degree in other central government ministries. In relation to PFM specifically, the delays were mainly incurred in the beginning of the programme due to indecision regarding the conceptual framework and the IT solution. Another important factor was slow progress in the implementation of SISTAFE at the sector level. Despite these initial stumbling blocks,

significant progress has been achieved more recently, especially towards improving E-SISTAFE. Other advances, such as better linkage between budget formulation and plan formulation, as well as improvements in the systems of accounting and reporting, have also been observed. The Quality Assurance Group has been a valuable instrument for the Steering Committee in monitoring the implementation.

7.5. Strategic priorities

Denmark should continue to assist development partners' PFM reforms by providing financial support for a comprehensive, partner-led approach to PFM. Key guiding criteria should be: national ownership and commitment to reform, appropriate sequencing of reform, alignment of all donors' support behind the national partner's strategy, and a multi-year approach.

Financial support should, as far as possible, be provided as non-earmarked funds through joint financing arrangements, including support for technical assistance & capacity development, under national management using national administrative systems. Where PFM reforms are well advanced, funds can be provided as budget support.

Apparently, donors generally continue to focus their interest on the upstream elements of PFM, i.e. budget preparations and the introduction and design of MTEF/MTFF, as well as downstream elements, such as external audits and – increasingly – the role of parliamentary oversight. Denmark should therefore focus its involvement on the equally important budget execution stage, and should, in the dialogue with partners, concentrate on three areas:

Accounting and financial reporting. As partner countries modernise their public administration by introducing policy budgeting (output/results-based budgeting) and results-based management, and by decentralising fiscal responsibility to lower levels of government and to autonomous agencies, the demand for reliable and timely management information increases at central as well as decentralised levels of public administration. Reliable and timely documentation of achievements and progress, measured against the use of resources, is also important in the fight against corruption. In the strategic dialogue, Denmark should work for enhanced accountability by encouraging a design of the accounting and reporting system that underpins efficient and effective management in line with the country's management philosophy.

Procurement. Most of Denmark's partner countries are aligning their procurement legislation and regulatory framework to international best practices, while management regulatory bodies and mechanisms for formal control, audit and appeals are being established. Most procurement practitioners in Denmark's partner countries possess only technical procurement skills, and lack knowledge of the wider policy and other issues necessary to plan, manage and implement wide-ranging procurement reforms. At this point of procurement reform, bringing professionalism to those who carry out and manage the procurement function is an absolute prerequisite for success. Raising the strategic profile of procurement, by describing it as essential to good service delivery, requires the formation of professional government officials to implement this function. Instituting ongoing training programmes and a scheme within the civil service that enables procurement professionals to gain seniority commensurate with their expertise is a cornerstone of reform in this area.

Denmark should continue to participate in the ongoing OECD/WB-led initiative to strengthen procurement capacity in developing countries, and should work for adequate resources to be allocated to this area, followed by determined and innovative efforts to build capacity at the procurement entity level.

The Danish combination of a still largely centralised and untied procurement function (executing its procurement strictly in accordance with the legislative framework, i.e. the EU Procurement Directive), an exceptionally low level of corruption, leadership on procurement in the Nordic+ Group, as well as active participation in the OECD/WB-led initiative to strengthen procurement capacity in developing countries, gives Denmark a capacity that is unique among the bilateral donors to support procurement reform and capacity development in partner countries.

Management control and internal audit. Management control systems (the set of policies and procedures that an entity's management put in place to ensure efficiency & effectiveness, adherence to external rules, safeguarding of assets, prevention of fraud, and quality of accounting records) must be aligned with the overall management philosophy. Most of Denmark's development partner countries have introduced elements of NPM into their public administration. This entails enhanced discretionary powers to line managers, hard budget constraints rather than detailed control of line items, and a control focus on inputs/outputs (ensuring that results are achieved as planned within the given budget constraints). Through strategic dialogues, Denmark should work for cost-effective (modernised) management control systems in line with the partner's overall management system, both at central and decentralised levels. Denmark should

advocate independent, continued assessments of the effectiveness of management controls by means of internal audit units.

Finally, it is appropriate to note the important link between PFM reform, accountability, and anti-corruption. High quality in budget execution, in procurement as well as in other parts of the public financial system, combined with appropriate accountability, contributes to improved service delivery. Accountability is often the weakest aspect of governance in the Danish partner countries, partly because it is not 'supplied' sufficiently, if at all, but also because demand for accountability is often low. As noted earlier, accountability encompasses several elements, including: a) answerability, meaning the obligation to provide an answer and the right to get a response, and b) the capacity to ensure that action is taken and the existence of mechanisms for redress when accountability fails⁵⁹. The concept of accountability also comprises both managerial accountability inside the public sector and accountability towards the rest of society, and these two are closely related. Reliable and timely information on performance, on outputs/results as well as on financial data, is not only important for managers and decision-makers in the public sector itself, but is also an essential element in enabling citizens to hold the government accountable. Not least in the fight against corruption, civil society needs to monitor public financial management, i.e. the execution of the budget in view of the government's delivery of social services.

For civil society to become better able to take on this task, there is need to strengthen its capacity, including that of watchdog organisations. However, it is equally important to put in place a public financial management system, which is able to provide timely, consistent, and relevant reporting to the public.

59 Reference: www.drc-citizenship.org

Figure 10: Danish support for accountability and transparency in Zambia

Country Context. Zambia's Fifth National Development Plan (2006-2011) has a vision of total adherence to principles of good governance by 2030. Accountability has been highlighted through the operation of parliamentary committees and the Office of the Auditor-General, while Zambia's political leadership has publicly denounced corruption. The Anti-Corruption Commission (ACC) has launched a National Corruption Prevention Strategy (2004 – 2008). Zambia has ratified the UN Convention against Corruption as well as the African Union's Convention on the Prevention and Combating of Corruption (2006). Transparency International-Zambia is an important civil society organisation in the fight against corruption. Its strategic plan encompasses activities, which will contribute to enhancing civil society's advocacy role in the promotion of accountability and transparency in the management of public finance in Zambia as prescribed by the ACC's strategic plan.

The Danish Support. The support for accountable and transparent management of public resources is a component of the Thematic Programme for Good Governance and Democratisation, formulated in 2005. The aim of the sub-component is to support corruption prevention activities, thus fostering transparency and accountability within public sector management. The component has two sub-components: a) support for the Government's Public Expenditure Management and Financial Accountability (PEMFA) programme and b) support for anti-corruption organisation, including funds for the ACC, based on its strategic plan 2004-2008, and for Transparency International-Zambia (TIZ) based on its strategic plan 2004-2007. The Danish support is channelled through a basket fund arrangement for each organisation.

Lessons Learned. The implementation of the programme is still at an early stage, and concrete lessons have yet to be learned. Some delays have been incurred in the PEMFA programme, but some momentum has begun to occur with the Integrated Financial Management Information System in place, alongside improvements in fiscal policy and planning. The ACC's main achievement has been the launch of the National Corruption Prevention Strategy. Other important activities have been the establishment of Integrity Focal Point Committees in public institutions, as well as TV programmes aimed at disseminating the national strategy. TIZ has been successful in gathering information related to monitoring of public financial management as well as in research on corruption, but has been less convincing in disseminating the information, save for information posted on its website. However, a recent popular booklet called "Show me the money" may mark a new departure.

8. STRATEGIC CONSIDERATIONS SUMMARISED

Strategic considerations have been presented in each of the three sections of the preceding chapter, recommending that these serve to inform future Danish support for public sector management in partner countries. This chapter sums up the reflections with a view to facilitating their operationalisation to be specified in the Danish strategy for support for governance.

Common to all three areas of public sector management covered in this document are the following points:

1. When supporting public sector management, Denmark should always seek to promote the goal of poverty reduction, i.e. to contribute, through policy dialogue and otherwise, to making changes and reforms as pro-poor as possible. Improvements of governance should be seen as means to this end.
2. It is essential to approach any issue within the field of public sector management, whether seemingly ‘technical’ or clearly ‘political’, against the background of an understanding of its relationship and interdependence with the governance situation as a whole. An essential aspect of this at the level of each country is to be well acquainted with the totality of the reform agenda or agendas in the public sector, and to relate the issue in question to the overall context.

Equally important is it to understand even ‘technical’ and ‘administrative’ issues in their political context in order to grasp properly the opportunities and constraints associated with including them in a reform agenda, i.e. in order to understand the real potential for change, as well as the full range of consequences and effects of the change.

To facilitate this level of understanding as part of programme preparation and implementation, Denmark should make increased use of analyses of the political economy of partner countries (and in some cases, e.g. regarding transnational corruption, of the global actors). Where such studies do not already exist, when needed, Denmark should seek collaboration with fellow development partners in order to have them carried out.

Staff training in the nature of governance and in practical governance-related work should also be intensified.

3. Capacity constraints are at the core of many public sector management problems, with which the partner countries are confronted. Consequently, Denmark should base all support on thorough capacity assessments in order to tailor the provision of resources for capacity development to each situation. In this endeavour, Denmark should take the contributions of other development partners into account, and the support should preferably be provided jointly with others.
4. Denmark is unlikely to have capacity to support all three priority areas of public sector management in any single country. Initiatives in the three areas are usually organised under different programmes, and Denmark should choose among them. Obviously, the preference of the partner government should be the most important selection criterion (not least in the increasingly frequent context of a JAS), but there are others, such as the government's commitment to real change in each of the areas, its track record in each of them, the probability of success, the funding situation and number of development partners in each area, previous Danish presence and support, etc.
5. Regarding the bilateral support for public sector management, Denmark should take further steps towards harmonisation and alignment in line with the Paris Declaration. However, support for civil society organisations and other non-governmental entities should not normally be provided through government systems.

As an important consequence of the harmonisation agenda, within any area of public sector management at the country level, Denmark should not expect to be able to choose freely what it wishes to support, as this must be negotiated in each case with the partner government and other development partners. In addition, support will increasingly be provided through joint financing arrangements, which do not allow earmarking by individual development partners. Instead, each of these 'basket funds' will co-finance an entire (sub-)programme or reform. Denmark should adapt flexibly to the situation at hand.

6. Denmark should seek to facilitate the inclusion of the 'demand side' of governance in change and reform initiatives at the country level, thus helping to establish and sustain social accountability mechanisms, civil society watchdog functions and whistle-blowing activities, as well as accountability towards the private sector. The

involvement of parts of civil society in alliances and coalitions with interested government institutions and reform-minded leaders is another approach towards the same end. Where relevant, Denmark should seek to combine these initiatives with capacity development aimed at boosting such cooperation and generally strengthening the organisations concerned.

7. A part of Danish bilateral assistance towards improving public sector management will support specialised programmes, targeting one or more areas of public sector management, preferably in the form of contributions to joint initiatives with other development partners⁶⁰. Just as importantly, the considerations and approaches presented in this document should also be applied to other Danish assistance to the partner countries, not least to the sector programme support. As public sector management cuts across all sectors, it is essential that all sector support be provided with due regard to the national legislation, institutional set-up, reform programmes, etc. in the field of public sector management. Furthermore, it should be delivered in a manner that helps enforce and adhere to such national laws and structures. In addition, it is often relevant to spur and/or support the sectors' stakeholders to participate actively in cross-sector reform work and to follow up national initiatives at the sector level. The embassies need to ensure that Danish sector support is provided in full knowledge of the Danish approach and assistance to cross-sector concerns and reforms.
8. At the international level, all three areas call for intensified Danish participation in relevant international forums, for the purpose of exchanging experiences and drawing lessons, developing new joint tools, approaches, principles and other means of promoting harmonisation.

The following considerations concern each of the three priority areas of public sector management.

⁶⁰ Such support could, in some cases, even include areas other than the three presented in this document, if these are combined with one or more of these three in the programme design in a particular country. However, the support for other areas would be financial only, whereas support for the three areas of decentralisation, PFM and anti-corruption could also comprise technical contributions.

Decentralisation

- In the area of decentralisation, which tends to be critical for service delivery, market access and other essential amenities, it is particularly important to keep the perspective of poverty reduction in mind. Accordingly, in its involvement in decentralisation reforms, Denmark should attach particular importance to poverty-related aspects of the political commitment to reform, reform design, and implementation capacity.
- In each case, Denmark should seek to strike a balance between its support for interventions at the local level(s) and at the national level.
- Denmark should be willing to fund capacity development – in the form of systems development, planning, management, etc. – as well as investments and operating costs pertaining to service delivery that has been delegated or devolved to local authorities.
- In order to promote the intended degree of operational autonomy and flexibility for local authorities in each country, Denmark should refrain from earmarking its own contributions channelled to local authorities as grants.

Public financial management

- In its support for PFM reform, Denmark should emphasise the need for a comprehensive, multi-year approach to PFM improvement, led by the partner government and sequenced appropriately.
- Denmark should preferably support PFM reform through non-earmarked joint financing arrangements. To the extent possible, these should also provide funding for capacity development, including technical assistance.
- Denmark could emphasise the importance of strengthening the execution phase of the budget process, which often receives less attention than the phases of planning and ex-post scrutiny. The key aspects of budget execution are accounting, financial reporting, procurement, internal audit and management control. Where relevant, Denmark should make a particular effort to support capacity development within one or several of these activities.

Anticorruption

- Denmark should continue to implement the Danida Action Plan to Fight Corruption. This encompasses efforts to improve internal administrative procedures aimed at minimising the risk of corruption (with the principle of ‘zero tolerance’ continuing to apply in terms of appropriate sanctions in cases of corruption involving Danish development assistance), as well as participation in the fight against corruption in the partner countries at large, in close coordination and harmonisation with other donors.
- When contributing to the anticorruption effort in partner countries, Denmark should emphasise the importance of supporting and strengthening relevant civil society organisations in holding authorities to account.
- To promote social accountability mechanisms, Denmark should continue, in each partner country, to publish information on aid agreements and on disbursements of Danish funds.
- Denmark should actively promote the new international anticorruption agenda adopted by the DAC, including the development of common assessment tools and benchmarking systems, the establishment of a systematic and comprehensive division of labour between donors at the country level, and the development of common response principles in situations of lacking government commitment to the fight against corruption.

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Refugee camp for refugees from Angola, Nangwesi, Zambia.

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