

# **International Public Administration Reform: Implications for the Russian Federation**

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## ABBREVIATIONS AND ACRONYMS

CCMD	Canadian Center for Management Development
EBRD	European Bank of Reconstruction and Development
ERC	Expenditure Review Committee of Cabinet
EU	European Union
GDP	Gross domestic product
GIA	Gallup International Association
GPRA	Government Performance and Results Act
IMF	International Monetary Fund
NGOs	Non-government organizations
NPM	New Public Management
MARE	Ministry of Federal Administration and State Reform, Brazil
PALG	Public administration and local government
PPP	Current international \$

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**INTERNATIONAL PUBLIC ADMINISTRATION REFORM:  
IMPLICATIONS FOR THE RUSSIAN FEDERATION**

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Comments are very welcome and should be forwarded to Nick Manning ([Nmanning@worldbank.org](mailto:Nmanning@worldbank.org)) or Neil Parison ([Nparison@worldbank.org](mailto:Nparison@worldbank.org)).

This paper does not necessarily reflect the views of the World Bank or its Executive Directors. In addition, contributions provided for the case study Country Reform Summaries by serving civil servants and officials represent only their personal opinions and do not necessarily reflect the views of the Government of the country in question.

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# INTERNATIONAL PUBLIC ADMINISTRATION REFORM : IMPLICATIONS FOR THE RUSSIAN FEDERATIONA

## EXECUTIVE SUMMARY

1.1 This paper has four objectives:

- to offer an analysis of public administration reform experiences in a set of countries chosen to illustrate the range and depth of recent administrative change;
- to pick out from this analysis those variables that seem particularly relevant to the current condition in the Russian Federation;
- to suggest a way of organizing thinking about a very complex and contested field;
- to provide some pointers towards a reform strategy for policy makers in this area in the Russian Federation.

1.2 Identifying the key country comparators and the relevant variables, and offering a way of thinking about their significance, seems particularly important for the Russian Federation authorities as they prepare for implementation of the Program for the Reform of the Civil Service System in the Russian Federation. As reforms intensify, there will be a flood of international advisers and management experts with both serious experience but also 'snake-oil' to sell. Reformers need some lenses through which they can critically examine reform proposals and evaluate advice from experts.

1.3 The paper draws its conclusions from an analysis of fourteen countries selected by representatives of the Russian Federation Government: Australia, Brazil, Canada, Chile, China, Finland, Germany, Hungary, Netherlands, New Zealand, Poland, South Korea, the UK, and the USA. The request was that the World Bank should look at a number of countries that faced similar challenges to those facing Russia in this area, while looking also at some countries that faced different problems but achieved interesting results.

1.4 The analysis of these fourteen countries also served to demonstrate that there is at present little international convergence of ideas on administrative reform. The paper focuses, roughly, on the reform concerns and activities of governments in these fourteen countries over the last ten to fifteen years. However, it is in the nature of administrative reforms that their beginning and end is difficult to discern exactly. So this period has been interpreted relatively freely. The paper has also deliberately focused on central or federal government, although noting some of the major developments are at lower levels of government (i.e., state/province/region or local governments).

1.5 The analysis of these fourteen country experiences starts with the question "what was broken?" It sets out the broad reform concerns that to different degrees were publicly stated by those fourteen governments:

1. To reduce public expenditure
2. To improve policy responsiveness and implementation
3. To improve government as employer
4. To improve service delivery and build public and private sector confidence.

1.6 The paper demonstrates that the set of countries identified as comparators can be placed along a very rough scale – ranging from the comprehensive reform concerns of China, to the specific and focused concerns of the Netherlands on pay and incentive issues.

1.7 The paper next asks what they did. It is common knowledge that the period from the mid 1980's to the end of the 1990's saw a huge volume of major and complex public administration reform programs. The paper offers a framework for viewing the four areas of public sector institutional arrangements and public policy that are amenable to relatively short-term change:



1. Public expenditure arrangements;
2. Personnel management and civil service;
3. Organizational structure of the executive;
4. Role and policy load carried by government.

1.8 The paper maps the depth of reform activity in these fourteen countries and provides an overview of the impact of reforms in terms of reductions in public expenditure, efficiency improvements, and other gains such as political satisfaction with the policy flexibility and responsiveness that the new arrangements have provided. It also seeks to identify some of the unintended consequences of reform programs.

1.9 Given that many governments were driven by very similar sets of concerns, why then did they often pursue different reform activities? Generally the paper finds that they did different things because:

1. They were constrained by the basic architecture of public administration - some reformers found themselves able to gain more traction on people and structures than others
2. Some reformers were concentrating on some basic "must-do" reforms, while others that had sound basics in place were selecting from a more optional menu of "could-do" reforms
3. Those reformers grappling with the basic reforms had to be distinctly opportunistic - taking advantage of idiosyncratic developments as they emerged.

1.10 Circumstances dictated action, but the leverage available to reformers -- the points of entry to comprehensive reform programs -- and the malleability of basic public sector institutions varied significantly between countries. Overall, the paper concludes that the level of reform activity is significantly determined by the resulting traction that was available to reformers.

1.11 The framework recognizes that many reforms rest on a discipline that is ingrained in the behavior of civil servants and in the organizational culture of public sector agencies. Discipline means, in essence, formality – that actual behavior follows the written rules, and that the budget on paper that parliament agreed bears a close relationship to the budget that is executed. It identifies two stages in public sector reform: basic reforms intended to achieve or strengthen public sector discipline and 'advanced' reforms. It then distinguishes between different paths followed by the advanced reformers. While for example, contractualism has become an important technique, it is certainly not the only way to go. Beyond the basics, there is more of a choice.

1.12 The paper then notes that the underlying problem facing the reformers with little traction and with some non-optional basics that simply have to be done, is how to find a point of entry. It reviews some of the opportunistic strategies seized by reformers in this situation.

1.13 Finally, in reviewing the possible entry points to public administration reform for the Russian Federation, the paper draws conclusions from these observations and suggests that it could be appropriate for the reform team in Russia to seek to:

1. Keep firmly in mind the need for realism and managed expectations;
2. Start with the basics –and focus on fundamental civil service reforms;
3. Create more traction - particularly through developing central agency capacity;
4. Seize opportunities through forging partnerships with regional administrations, cities, municipalities and districts, and encouraging pilot reform schemes and experiments at agency or subnational level;

5. Create opportunities through the judicious use of "functional reviews" and stimulate external pressure on the executive (including the cautious introduction of some Freedom of Information legislation and the development of an office of Ombudsman); and
6. Look particularly at the experiences of other low traction countries that also have broad reform concerns and some need to focus on the basics: Brazil, Hungary, Poland and South Korea.

## 2. THE COUNTRIES SELECTED

2.1 This paper presents a summary assessment of recent experiences in public administration reform. The paper draws its conclusions from fourteen countries that were selected by representatives of the Russian Federation Government: Australia, Brazil, Canada, Chile, China, Finland, Germany, Hungary, Netherlands, New Zealand, Poland, South Korea, the UK, and the USA. The request was that the World Bank should look at a number of countries that faced similar challenges to those facing Russia in this area, while looking also at some countries that faced different problems but achieved interesting results.

2.2 The analysis of these fourteen countries also served to demonstrate that there is little international convergence of ideas on administrative reform. Some commentators believe that the international debate has been overly influenced by the experiences of the USA, the UK, Australia and New Zealand. This somewhat skewed debate has masked what are perhaps the more idiosyncratic country realities.<sup>1</sup> Many countries have clearly been much less enthusiastic about “New Public Management” than these.

2.3 The fourteen countries are a very mixed bag. Table 1 shows that only one (Brazil) is within 10 percent of the Russian Federation in relation to population, size of labor force, and per capita GDP.

**Table 1: Size of the country and the economy relative to the Russian Federation**

Russian Federation = 100

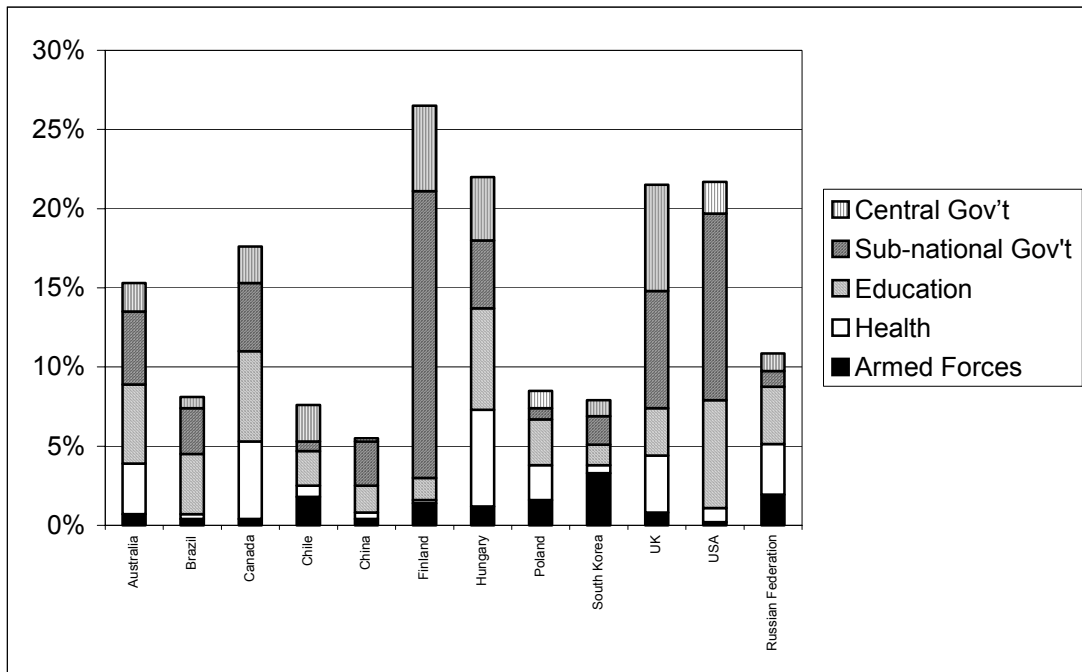
	Australia	Brazil	Canada	Chile	China	Finland	Germany	Hungary	Netherlands	New Zealand	Poland	Korea, Rep.	United Kingdom	United States
Population, total	13	115	21	10	857	4	56	7	11	3	26	32	41	190
GDP per capita, PPP (current international \$)	329	94	351	116	48	309	318	153	324	256	113	210	296	426
Labor force, total	12	101	21	8	967	3	53	6	9	2	25	31	38	184

*Source:* World Development Indicators, all data for 1999.

*Notes:* See glossary for further details of GDP per capita, PPP (current international \$) and for definition of the labor force

2.4 The scale and structure of General Government employment is clearly very different between these countries. Figure 1 suggests that Australia, Canada, Finland, the United Kingdom and the USA have a considerably larger core public sector (excluding state owned enterprises) in terms of employment than the Russian Federation. However, cross-country comparisons of data on public sector employment and wages must be treated with great caution. Numerical comparisons are complicated by the variation in functions undertaken by governments, as well as by varying approaches to categorizing data. As a result, these data should be considered as a broadly indicative overview only. The data for the Russian Federation may significantly understate actual total employment as a result of classification difficulties.

**Figure 1: General Government employment as percent of total employment**



**Sources:** Government employment data are from the World Bank's updated database for *An International Statistical survey of Government Employment and Wages* and refer to the mid to late 1990s. Individual data for a given country may not refer to the same year. Total employment data are from the IMF International Financial Statistics (February 2001 edition) and refer to the late 1990s. Slight discrepancies may arise due to the use of multiple sources. Police employment is excluded. Data for the Russian Federation has been updated reflecting 1998 Goskomstat figures and WB staff estimates.

**Notes:** Central and subnational government totals exclude health and education professionals, and the distinction between levels of government is budgetary and not geographic. See glossary for further details.

2.5 The fourteen governments are structured very differently, not the least according to the degree to which they are decentralized. Table 2 highlights that New Zealand, South Korea, the United Kingdom, Poland, China, Netherlands and Hungary are, in fiscal terms, much more centralized than the Russian Federation.

**Table 2: Fiscal decentralization**

	Australia	Brazil	Canada	Chile	China	Finland	Germany	Hungary	Netherlands	New Zealand	Poland	Russian Federation	Korea, Rep.	United Kingdom	United States
Sub-national Expenditures as percent Share of GDP	19.83	18.34	30.00	2.21	10.68	18.37	19.36	13.34	13.31	4.32	9.91	15.68	8.16	10.45	18.98
Sub-national Revenues as percent Share of GDP	12.59	12.51	23.36	2.02	6.56	14.24	14.29	6.48	4.84	4.87	6.42	13.28	3.05	3.07	14.96

**Source:** IMF Government Financial Statistics, various years<sup>2</sup>

2.6 The countries also differ along some dimensions of governance. The measure of "Contract Intensive Money" (see Note to Table 3) suggests that the public in Russia is relatively more reluctant to save money in the banking system. Measures of perceptions of corruption in government and of confidence that the government is seeking to protect them from crime are worse in the Russian Federation than in most of the other fourteen countries for which data are available.

**Table 3: Some measures of governance**

	Australia	Brazil	Canada	Chile	China	Finland	Germany	Hungary	Netherlands	New Zealand	Poland	Russian Federation	Korea, Rep.	United Kingdom	United States
% of Contract Intensive Money	94	91	93	93	89			84		98	86	73	94		90
% of Public with Perceptions of Corruption in the Government			20	23		11		36	7		44	69	72	14	30
% of Population Considering that the Government is Responding Well to Crime			44	13		25	28	16	23		16	3	29	46	46

**Sources:** Contract Intensive Money is calculated from the IMF Government Financial Statistics for 1999. Survey data on perceptions of corruption in the civil service and protection from crime are provided courtesy of Gallup International Association (GIA) from the Gallup International Millennium Survey 2000.

**Notes:** Contract Intensive Money refers to the percent of the money supply held in bank accounts and as other financial assets. See glossary for details.

2.7 The paper focuses, roughly, on the reform concerns and activities of governments in these fourteen countries over the last ten to fifteen years. However, it is in the nature of administrative reforms that their beginning and end is difficult to discern exactly. So this period has been interpreted relatively freely. The paper has also deliberately focused on central or federal government, although noting some of the major developments are at lower levels of government (i.e., state/province/region or local governments).

### 3. REFORMERS' CONCERNS – WHAT WAS BROKEN?

#### 3.1 What did they want to do?

3.1.1 Reform of public administration is not a self-evident priority. Given the enormous difficulties entailed in shifting vested interests, there is no intrinsic reason why administrative reform should rank alongside structural reforms or social reforms as a priority for action. There is of course a growing recognition that institutions are important for development, but it is not at all clear which institutions are the most crucial and there is very little evidence that the specific details of government structure and accountability arrangements affect growth. There is also only modest evidence that administrative reform is an 'independent variable'. A reasonable argument can be made that it is the consequence rather than the cause of other aspects of liberalization.

3.1.2 There are four broad reform concerns that to different degrees were publicly stated by governments in the fourteen countries studied for this report:

1. **To reduce public expenditure:** maintaining the attractiveness of the investment climate and the competitiveness of national firms;
2. **To improve policy responsiveness and implementation:** overcoming resistance from vested interests to the implementation of legitimate policies or to the reduction of some programs;
3. **To improve government as employer:** making government a responsible employer – attracting sufficient numbers of appropriately skilled employees while restraining aggregate employment costs;
4. **To improve service delivery and build public and private sector confidence:** enhancing the degree of respect and trust accorded to government by the private sector and by the public.

#### 3.2 Reducing public expenditure

3.2.1 To a significant degree, fiscal pressures lie behind all four areas of concern, and reform rhetoric generally highlights the anticipated savings that will result from the reform program. However, the extent to which the search for savings in public expenditure has contributed to reforms in public administration is not clear.

3.2.2 This uncertainty arises because in middle and high income countries it is socio-demographic changes that, more than any other single force, have driven increases in public expenditures. The rising proportion of elderly in the population and the dramatic increase in transfer payments for pensions, unemployment and other benefits are fundamentally questions of policy rather than public management. Reducing the fiscal pressures that arise from these changes in demography and social expectations require that benefits increases are constrained and that user charges be introduced as a device for cost-sharing. These policy changes can, in principle, be introduced independently of administrative reform.

3.2.3 As Section 5 points out, there is only modest evidence that in fact savings have been made as the result of reform programs.

**Box 1: Australian reform concerns**

The first phase of the reforms was triggered by the 1983 Labor Government's desire to introduce an expensive social reform agenda without putting additional pressure on the budget deficit. This meant cutting programs inherited from the previous government in order to make room for the new spending measures. However the new Government had little confidence in the capacity or the willingness of the federal public service of that time to advise on or implement the restructuring of public spending. Even before winning government it had announced a reform strategy for the public service.

The first phase was intended to shift the focus of the bureaucracy from the routine renewal and disbursement of budget appropriations, which were largely unchanged from year to year, to the results being achieved from these 'entrenched' expenditures and ways of spending budget funds better. The second phase of the public sector reforms, undertaken in the 1990's, was intended to increase the efficiency of the delivery of government goods and services by the introduction of commercial principles.

**3.3 Improving policy responsiveness and implementation**

3.3.1 Many reformers emphasize the need to improve the capability of government to implement legitimate policy changes. They seek to remove obstacles facing governments as they try to change the direction of social and sectoral policy.<sup>3</sup> Typically, these reformers emphasize that such obstacles arise either from resistance within the civil service or from limited capability. They note less often that some civil service resistance stems from cynicism following a large number of hollow or unimplemented reform directives. Reform ambitions focus on improving the merit basis of public sector employment, and on changing the incentives that individual civil servants face, aligning them with the overall policy goals of government.

3.3.2 Improving merit and reducing patronage is claimed to improve competence while simultaneously reducing the risks that political opposition will find expression through the civil service.<sup>4</sup> Such reforms are often aimed only at the central ministries. Access to civil service positions, and responsibilities of civil servants, is often legally redefined within a unified and career-protected civil service, with statutory definitions of the scope of the civil service, and subsidiary regulations describing procedures. Codes of conduct and equivalent frameworks that govern the behavior of civil servants are also frequently revised.

3.3.3 In many cases the stated target of reform has been the nature of the employment contract between the civil servant and the state – but the direction of reform sought has been distinctly varied. On the one hand, for countries without a well-entrenched tradition of merit-based civil service employment, the ambition has been to define legally how access to civil service positions, (and the responsibilities of civil servants), is to be obtained. The intention is to place checks and balances around the employment contract of civil servants so that they form a distinct and unified corps, with security of tenure and objective bases for promotion used as protections against capricious political action.

3.3.4 However, for some other countries that already have a secure, legal, and customary regime for civil service employment, the intention has been to move in the opposite direction. For these, primarily Anglophone OECD countries, the stated direction of reform has been to reduce (although not abandon) security of tenure and the significance of seniority in decisions concerning promotion and career advancement. Individual performance contracts have become more important, with civil servants more easily rewarded for results.<sup>5</sup> In effect, some reforms are associated with the introduction of "career systems" in which initial entry to the civil service is determined by independent testing, a relevant university degree or academic credentials. Some other reforms in systems that are "position-based", where the emphasis is placed on selecting the best-suited candidate for each position to be filled, have encouraged more open access, with lateral entry becoming more common.

### **3.4 Improving government as employer**

3.4.1 Reformers can seek to achieve a better balance between the fiscal burden of public employment and the need to provide incentives that attract competent staff. The mantra has been that of reducing the aggregate wage bill while improving pay.

3.4.2 Although comparisons with GDP and population are useful only as very rough guides to judgment concerning aggregate employment and affordability of the wage bill, there is an understandable tendency to compare numbers of civil and public servants and the fiscal weight -- public-sector wage bill as a percentage of gross domestic product (GDP) -- against international practice.<sup>6</sup>

3.4.3 In checking that monetary incentives are effective at the level of individual civil servants, reformers generally note that levels of pay should be sufficiently competitive to recruit, retain, and motivate qualified staff at all levels. They note that often some groups of staff are overpaid by comparison with private sector equivalents, and others underpaid.<sup>7</sup>

3.4.4 Some pay reforms seek to address the reality that there is an absolute shortage of qualified labor in particular professional skills areas in the country.<sup>8</sup> The challenge that they face is in offering pay levels that are sufficient for government to recruit, motivate and retain technical, professional and managerial staff within the country in competition with domestic private sector and foreign employers. Politically this may be challenging, if it implies radical decompression of formal pay scales and an accompanying large increase in pay at senior levels.

### **3.5 Improving service delivery and building public and private sector confidence**

3.5.1 Finally, some reformers seek to improve the confidence of the public and of business that the civil service is both honest and efficient.

3.5.2 Low public respect for the public service is more than the response of disappointed consumers to an inadequate level of service. Government is more than a service provider; and finding the right balance between skepticism and confidence in government will always be difficult. Certainly, though, very low confidence and widespread cynicism about the performance of government can have pernicious consequences, undermining democratic institutions and reducing the attractiveness of the public service as a career to those with talent. Survey evidence in OECD countries has shown some troubling signs that public cynicism about the public service is increasing. Survey data indicate that citizens oftentimes have more confidence in public servants than in politicians. Still, there is only modest comfort in this finding. Citizens tend to rate the ethical standards of both public servants and politicians less highly than other professions.<sup>9</sup>

3.5.3 Public concern about corruption is a significant driver of low public respect. The recent World Bank report "Anticorruption in Transition: Confronting the Challenge of State Capture" (World Bank 2000) has usefully distinguished between state capture and administrative corruption. "State capture" refers to the actions of individuals, groups or firms both in the public and private sectors to influence the *formation* of laws, regulations, decrees and other government policies to their own advantage as a result of the illegal transfer or concentration of private benefits to public officials. By contrast, "administrative corruption" refers to the intentional imposition of distortions in the prescribed *implementation* of existing laws, rules and regulations to provide advantages to either state or non-state actors as a result of the illegal transfer or concentration of private gains to public officials. However, reformers have rarely offered this level of specificity in referring to the corruption that they would like to reduce.



3.5.4 In improving service delivery, many reformers' actions have been geared towards forcing greater responsiveness from the bureaucracy by empowering consumer groups through distributing basic data on performance and implementing methods for client feedback (report cards and other types of client surveys).<sup>10</sup>

### 3.6 Mapping reformers' concerns

3.6.1 In reviewing the breadth and emphasis of the administrative and civil service reform programs of the fourteen countries selected for this study, this report uses the following six headings to summarize reformers' concerns:

**Reducing public expenditure**

1. Reducing government consumption including aggregate wage bills;

**Improving policy responsiveness and implementation:**

2. Reducing patronage;
3. Developing flexibility in employment contracts;

**Improving government as employer:**

4. Improving monetary incentives;

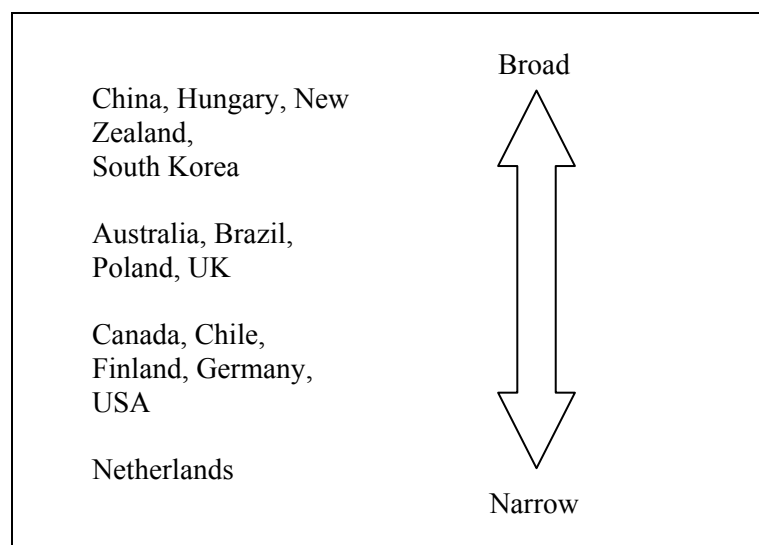
**Improving service delivery and building public and private sector confidence:**

5. Addressing perceived corruption and low public respect;
6. Improving operational inefficiency and poor service delivery.

3.6.2 Table 4 provides a summary overview of the reformers' concerns. The full set of reform summaries prepared for this paper are available at: <http://www1.worldbank.org/publicsector/civilservice/designimplementing.htm> Appendix A provides single page summaries of the country situations. Appendix B provides a methodological note that sets out detailed background on this classification of reform concerns.<sup>11</sup>

3.6.3 Broadly, the set of countries identified as comparators can be placed along a rough scale – ranging from the comprehensive reform concerns of China, to the specific and focused concerns of the Netherlands on pay and incentive issues. Figure 2 provides a rule of thumb count of the number of reform targets explicitly addressed in the administrative reforms.

**Figure 2: Breadth of reformers' concerns<sup>12</sup>**



**Table 4: Reformers' concerns**

	Australia	Brazil	Canada	Chile	China	Finland	Germany	Hungary	Netherlands	New Zealand	Poland	South Korea	UK	USA
Public Expenditure and Aggregate Wage Bill Concerns	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Patronage					✓			✓						
Employment Contracts and Tenure	✓									✓			✓	
Ineffective Monetary Incentives										✓		✓		
Perceived Corruption and Low Public Respect		✓			✓			✓				✓		
Operational Inefficiency & Poor Service Delivery	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓

*Source:* authors' assessments from the country studies

## 4 REFORMERS' ACTIVITIES – WHAT DID THEY DO?

### 4.1 The general picture

4.1.1 The period from the mid 1980s to the end of the 1990s saw a huge volume of major and complex public administration reform programs undertaken. While many of the reform programs were driven by the need on the part of governments to solve similar problems -- notably concerns about inefficiency, poor service delivery, responsiveness and accountability, and fiscal pressures - - it is noteworthy that a common reform paradigm has not emerged. Some of the reform programs can be characterized by extreme radicalism (reinvention, new public management); others more by incrementalism.

4.1.2 The policy debate has been dominated by consideration of New Public Management. This approach has the advantage of being the most internally coherent set of reform measures; but it has only been attempted by a small number of countries with broadly similar characteristics (the UK, New Zealand, Australia). These characteristics include the absence of institutional and constitutional constraints to radical top-down reform program development and implementation; and the presence of relatively simple state structures. The UK and New Zealand are both unitary states without written constitutions; and Australia, though a Federal state, has traditionally had a strong Federal level of government. The reform experiences of other countries which we have examined has been less widely studied and less broadly disseminated.

4.1.3 It appears that most reform programs have been driven primarily by political and civil service elites rather than by pressure for change from the public. Responding to public discontent and dissatisfaction clearly was important to these political elites, but there is a chicken and egg issue here. In many cases public dissatisfaction was encouraged by the reformers in order to justify and accelerate the reform programs.

#### **Box 2: Reform activities in China**

The Chinese government conducted major organizational reforms in 1982, 1988, 1993 and 1998, which heavily involved streamlining government agencies. For example, in 1982, authorities reported that they cut the number of State Council agencies from 100 to 61 and the number of employees from 51,000 to 30,000. In the 1988 restructuring, officials reportedly reduced the number of ministries and commissions from 45 to 41, the number of directly subordinate bureaus from 22 to 19 and the number of State council employees from about 50,000 to 44,000. Many of the cuts in 1993 were made at the local level. Significant cuts were also reported beginning in 1998. The idea was that many of the laid-off staff would enter the growing private sector. However, in spite of sustained effort to cut the number of government employees, the State Bureau of Statistics has reported continuous growth of government employment during these years.

The government implemented a fixed-tenure system for government officials, establishing mandatory retirement ages at 60 for most men, and at 55 for most women. This has secured a younger generation in government; from 1982 to 1987, for example, the average age of ministers and governors fell from 67 to 59, and from 65 to 55, respectively. The 1993 Provisional Regulations on Civil Servants require that civil servants be recruited into the service through open, competitive examinations, rather than through labor allocation. It also indicates that wage markets will be used to determine civil servants' salaries and that training for civil servants will be revamped to meet the needs of a market economy. However, unlike the civil service systems found in OECD countries, China's civil service does not value political neutrality.

## 4.2 The ingredients of public sector reform

4.2.1 Broadly speaking, there are four areas of public sector institutional arrangements and public policy that are amenable to relatively short-term change:

1. Public expenditure arrangements;
2. Personnel management and civil service;
3. Organizational structure of the executive; and
4. Role and policy load carried by government.

4.2.2 The public expenditure arrangements include the mechanisms for limiting aggregate expenditures, prioritization within those, ensuring efficient use of public funds, and the accounting and auditing arrangements that allow public expenditures to be allocated, monitored and evaluated.

4.2.3 Personnel management and civil service arrangements include the mechanisms that determine civil service careers, constrain the action of individual public officials, generate their incentives for action, and determine how and when staff are to be recruited.

4.2.4 Organizational structure of the executive refers to the reporting lines and accountability arrangements for Departments and Ministries and other organizational units, and the determination of their responsibilities. In Anglo-Commonwealth terms this is referred to as the "machinery of government".<sup>13</sup>

4.2.5 The role and policy load carried by central or federal government refers to the way in which responsibility for core governmental tasks is divided between central/federal and subnational governments, and the ability or willingness of government to contract out services or to shed services by reducing the level of service or stopping providing the service altogether.

### **Box 3: Reform activities in Canada**

Between the mid 1960s and the early 1970s, public sector reform was concerned with the creation of the welfare state. During this period, the major social programs were established and government involvement in the economy increased.

By the mid 1980s, pressures to curtail government growth existed, but few concrete actions were taken. The 1985 Nielson Task force, drawn primarily from the private sector, recommended the elimination of over 1,000 government programs costing \$7 billion, but few recommendations were ever implemented. In 1989, "Public Service 2000" was launched to renew the public service, but again the resulting changes were very modest. In contrast to New Zealand, Australia, and the United Kingdom, very little of the international enthusiasm for "new public management" had resonated in Canada.

Real restructuring did not begin until 1994 with the launch of "Program Review." Unlike its predecessors, this reform initiative produced significant changes in the role and size of the public sector. The key was that, in the public's mind, future prosperity was linked to the restoration of fiscal responsibility. Measures included cutting 45,000 civil service jobs, reducing provincial government transfers by \$4.5 billion, eliminating 73 government boards, commercializing or restructuring 47 others, ending agricultural and transportation subsidies, and reducing business subsidies by 60 percent. By using fiscal urgency as a backdrop, public support for the cuts and restructuring was maintained.

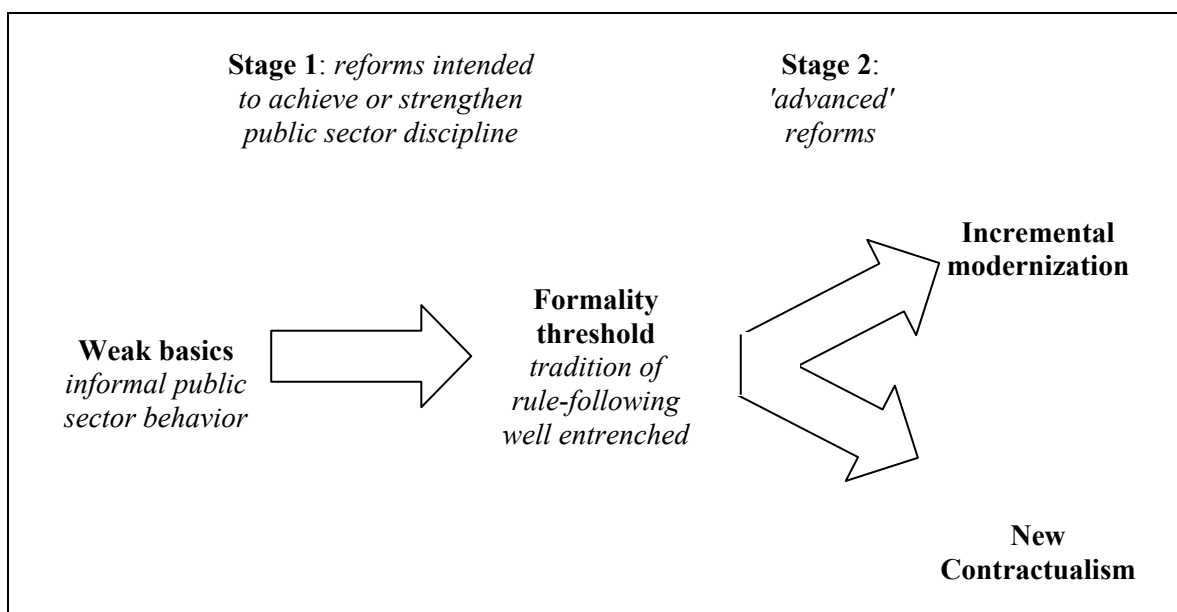
The latest reform effort, *La Releve*, was initiated in 1997 and is dealing with less controversial issues such as attracting and retaining skilled public servants. Increasing emphasis is also placed on e-government.

### 4.3 'Basic' reforms – achieving or strengthening discipline

4.3.1 To the extent that any consensus exists amongst observers of public sector reform, then it is that many reforms rest on an ingrained discipline in the behavior of civil servants and politicians, which has become entrenched in the organizational culture of public sector agencies and in the political culture. Discipline means, in essence, formality – that actual behavior follows the written rules, and that the budget on paper that parliament agreed bears a close relationship to the budget that is executed (Schick 1998).

4.3.2 This formality can be most easily recognized in two areas: personnel management and budget management. In personnel matters, the differences are stark between recruitment, promotion and pay determination based on explicit rules monitored by a central agency, and arrangements in which personal connections determine who gets hired and how much they get paid. In budget management, the differences between a budget process in which policy choices are made by politicians and disciplined by budget realities, and an informal process whereby the budget is made and re-made constantly during execution - and between a formal budget agreed in advance by parliament and an informal process driven by the availability of cash - are also clear. Formality represents a necessary base on which other public management reforms can be built. These 'basic' reforms are undertaken to achieve or strengthen public sector discipline. The cases examined for this study bear out the distinction between the "basic" and "advanced" reforms.

**Figure 3: Two stages in public sector reform**



4.3.3 In **public expenditure management** reforms, the basics include hardening the budget constraint as part of a more top-down approach to budget formulation, and strengthening the discipline with which input oriented line-item budgeting is enforced.<sup>14</sup> Other public expenditure management reforms at this stage include the strengthening of cash accounting capacity through training and improved remuneration to attract competent staff, and strengthening traditional financial and compliance audit. Again, some performance auditing could be undertaken, but at this stage of the reforms, this is unlikely to be a major activity.

4.3.4 In addressing the basics, a general performance orientation has been usefully given to the budget through circulating some information on performance - and this provides a reminder that ultimately it is service delivery rather than simple compliance with the budget that is the goal. However, at this level of reforms, performance information has relatively few direct implications for resource allocation at the center and this performance orientation is generally achieved simply

by the greater dissemination of performance monitoring data. Despite the widespread use of terms such as output-based budgeting or performance-based budgeting, there are few examples of mechanical connections being made between measures of performance and budget allocations. Although not examined in this assessment in any detail, it should perhaps be noted that reforms in the area of public procurement are also noteworthy features of the overall reform programs in a number of the countries examined.

**Box 4: Associating performance information with the budget in the USA**

In 1993, Congress enacted the Government Performance and Results Act (GPRA) to improve the effectiveness, efficiency and accountability of federal programs by having agencies focus their management practices on program results. GPRA seeks to help federal managers improve program performance; it also seeks to make performance information available for congressional policy-making, spending decisions, and program oversight. With regard to spending decisions, GPRA aims for a closer and clearer linkage between resources and results. GPRA can be seen as the most recent event in a now 50-year cycle of federal government efforts to improve public sector performance and to link allocations to performance expectations.

GPRA requires each agency to develop strategic plans covering a period of at least 5 years. Agencies' strategic plans must include the agency's mission statement, identify long-term general goals -- including outcome-related goals and objectives -- and describe how the agency intends to achieve these goals through its activities and through its human, capital information, and other resources. Under GPRA, agency strategic plans are the starting point for agencies to set annual program goals and to measure program performance in achieving those goals. To this end, strategic plans are to include a description of how long-term general goals will be related to annual performance goals, as well as a description of the program evaluations used to establish those goals. Strategic plans must be updated at least every three years.

GPRA also requires that each agency prepare an annual performance plan that includes the performance indicators that will be used to measure "the relevant outputs, service levels and outcomes of each program activity" in an agency's budget. The annual performance plan is to provide the direct link between strategic goals outlined in the agency's strategic plan and what managers do day-to-day.

Past efforts failed to link executive branch performance planning and measurement with congressional resource allocation processes. GPRA requires explicit consultation between the executive and legislative branches on agency strategic plans.

4.3.5 In **civil service personnel management reforms**, basic reforms include enhancing job security and strengthening protection from political interference, and creating a legally defined civil service cadre with common terms and conditions. Reforms that affect individual incentives in the civil service include the standardized application of promotion and reward rules, and the encouragement of long term careers within the civil service, building a relatively 'closed' career system.

4.3.6 Reform approaches in this area show considerable differentiation. In some countries, particularly at the early stages of reform, the priority need has been to create a small senior-level civil service wide cadre such as the Senior Executive Service in the cases of Australia and the USA. The intention has been to reduce fragmentation, provide strengthened civil service management capacity, and to provide a better basis for civil service management development. Senior Executive Services can be one of the leading players in the further development and implementation of reforms.

**Box 5: Senior Executive Services in Australia, Hungary and New Zealand**

In Australia, at the federal level, a group of senior public servants has been identified as a "senior executive service" (SES). This is a mobile cadre of senior executives that have broad management expertise and an overview of public sector values and responsibilities. The purpose of the SES is to prevent the management of individual departments from becoming 'in-grown' and to promote policy coordination between departments.

A similar term is used in Hungary. A bill on the amendment of the civil service act has been submitted to the Parliament. A crucial part of the amendment is to establish a cadre a few hundred senior civil servants. These people could hold this status for 5 or 6 years and could not be removed by the next government. The salary of this group would be 5-10 times higher than that of the average civil servant. There is some concern that the proposal seeks to lock a politically loyal set of civil servants into position.

In New Zealand, provision was made in the State Sector Act 1988 for the creation of a senior executive service. Individuals would be designated members, transferred around ministries and departments and trained for senior management positions. This has not been a success. It has not been supported by chief executives or actively promoted by the State Services Commission. Chief executives expressed dissatisfaction with investing in people they might subsequently lose from the organization. Although this is a narrow and shortsighted view, it is a powerful one.

4.3.7 In some countries experiencing recruitment and retention difficulty, there has been a concerted approach to seek to make civil service pay and conditions more competitive with those prevailing in the private sector.

4.3.8 Some countries have sought to strengthen application of the merit principle through centralized use of a check and balance external to the executive, such as a Civil/State/Public Service Commission. In other settings the decentralization to unit management of greater powers to recruit, transfer, promote and fire unit employees may have led to a weakening of the application of the merit principle, with consequential implications for fairness and equity concerns.

4.3.9 It is also possible to discern some increased emphasis on civil service ethics. This is partly as a response to concerns that have arisen through the weakening of the public sector ethos through extensive external recruitment and through the setting up and exposing to market and competitive pressures of new types of autonomous service delivery bodies and agencies.

4.3.10 In reforming the **organizational structure of the executive**, basic reforms include the simplification and consolidation of ministry structures. There is a very limited use of performance contracts between government and some arms-length agencies. If public agencies are given targets, then they tend to be indicative within annual plans, with no automatic consequences if they are not achieved.

4.3.11 In reducing the **role and policy load carried by government**, basic reforms are likely to include some minor changes of responsibility between levels of government, and some equally minor reductions in service provision. Contracting out will be restricted to the easily specified support tasks.

#### 4.4 'Advanced' reforms

4.4.1 If the first set of reform activities comprise a series of changes that, although politically challenging, can in principle be made by fiat, the second generation build on an entrenched discipline in the behavior of civil servants and a strong organizational culture of following the rules.

**Box 6: Advanced accounting reforms in the Netherlands**

During the 1980s, extensive financial management reforms were instituted in both central and local government. A key element of this consisted of the introduction of 'encumbrance' accounting in central government, to be applied in conjunction with the cash accounting already in use. This approach accounted for *obligations* to assist in controlling spending. Arguably this is not as developed as the full accruals accounting being introduced in Australia, New Zealand and the UK, but it clearly represents a significant reform.

4.4.2 'Advanced' reforms in **public expenditure management** to achieve aggregate cost reductions include "block" or "frame" budgeting, where budgetary resources are provided to line agencies in a single block, with fewer line item constraints on managers concerning how the resources can be applied. This flexibility is coupled with stronger mechanisms for holding managers to account for the performance results that they achieve. In many cases the format of the budget is changed to indicate more clearly to parliament and other actors during budget preparation the likely effectiveness of funds allocated to different purposes. Advanced accounting reforms include double-entry bookkeeping and the introduction of accrual accounting. Advanced auditing reforms include an institutionalization of performance auditing in the supreme audit institution and in internal audit.

**Box 7: Budget reform activities in Finland**

By 1995, all of central government was formally operating through a results-oriented budgeting system in which the line ministries have the authority to allocate resources to their administration within given budget guidelines decided by the Government. The Government adopted the first ceilings in 1990. In this system of budgeting, the Government sets politically binding budgetary ceilings for the ministries in February for the following year and for two years thereafter. The purpose of these budget ceilings and guidelines is to create an absolute expenditure cap. Ministries have full responsibility in allocating the funds for each agency under their control and have full responsibility for steering and controlling the budget process in their sector.

This system allows the Government to integrate the process of multi-year budgetary planning and strategic planning in the ministries into the annual budget process. The top-down expenditure ceilings have enhanced budgetary discipline in the ministries and increased efficiency in the use of existing resources. The budget ceilings have restrained bottom-up expenditure demands.

The system of budget ceilings has been criticized by members of Parliament who argue that they are given no opportunity to participate in the process of setting the budget ceilings. In March 2000, the Government submitted the budgetary appropriation guidelines for the next four years to Parliament for the first time, to encourage Parliamentary participation in the budget process.

Parallel reforms were undertaken in financial control and evaluation. The most important steps were taken in the early 1990s when ex ante budget controls were replaced with ex post reporting, auditing and evaluation. In 1998, the government accounting system was changed to business accounting based on accrual concepts. Full cost attribution has been regarded as an important contribution to effectiveness. In 1991, a pension charge on the wages and salaries paid by agencies was adopted, and a system of charging market-level rent for state-owned office premises was introduced in 1994-1995. Finland adopted accrual accounting systems in all agencies in 1998.

All agencies and ministries are responsible for preparing an annual report. Performance information on the annual reports is included in the Government Report on public finances to Parliament. In the future the system will be developed so that the reports include more information on progress in the effectiveness, quality and economy of the services and production activities of the agencies and the ministries.



4.4.3 Advanced **civil service personnel management reforms** are in many ways the opposite of the basic reforms. In career management, many advanced reformers are decreasing tenure and making terms and conditions more equivalent to those found in the private sector. The unity of the Civil Service is being reduced through fragmented and diversified pay arrangements, determined at agency level. Annual performance targets increasingly inform individual incentives, although the use of performance-related pay remains limited and controversial. This trend has been reinforced in those cases where the government moves to open external recruitment at all levels for posts in particular areas, often managerial, finance and accounting, or IT. In other areas, the impact of opening up a service to competitive tendering, combined with the move away from service-wide pay & benefits and terms & conditions to agency-specific arrangements, has been to worsen the pay position of some employees, particularly but not exclusively in blue-collar areas. Use of fixed-term contracts, particularly for management positions, together with full open external recruitment for such positions, has also been comparatively widespread. Other advanced civil service reforms include strong moves towards "position-based" systems, where the emphasis is placed on selecting the best-suited candidate for each position to be filled, with increased opportunity for "lateral entry".

4.4.4 It is in the Anglophone OECD countries where the direction of reform has been most strikingly to reduce security of tenure and to downplay seniority in promotion and career advancement. In these settings, the unity of the civil service has also been reduced somewhat, as individual agencies become more akin to separate private sector employers with divergent terms and conditions for their staff. In other settings, concerned that they did not already have a well-entrenched tradition of merit-based civil service employment, the focus has been to improve the legal arrangements defining access to civil service positions, and the responsibilities of civil servants.

**Box 8: The civil service in New Zealand - an unusual case**

Nearly all OECD countries have legislation that provides civil servant status for some employees. The recent reforms in New Zealand have made it one of the few exceptions. Public employees in New Zealand are covered by the general labor law. A sample of 34 OECD and EU accession countries showed that 31 had civil service laws that covered some of the public employees.<sup>15</sup> Those laws:

- define job duties and responsibilities in 25 cases;
- delimit tenure and security in 29 cases;
- set out disciplinary arrangements in 25 cases; and
- determine the methods for setting rewards and wage-bargaining in 28 cases.

From the same sample of 34 countries:

- health employees are considered national civil servants in 14 cases;
- education employees (teachers) are national civil servants in 16 cases;
- police are national civil servants in 22 cases;
- and subnational government employees (excluding education, health, and police) are defined as national civil servants in 18 cases.

Meanwhile, in 11 cases there is a separate civil service for subnational government.

The judiciary in the OECD are rarely civil servants. However, they are often subject to civil service-like arrangements that define their employment status. This is generally provided by a "judicial career law," which applies to judges at all levels from traffic court to Supreme Court justices, although rarely to constitutional court judges. Judicial support staff (court administrators, etc.) are often civil servants -- but this is not inevitable and practice varies widely.

4.4.5 Similarly, advanced reforms show diversity in relation to politicization. On the one hand, the increased use of political advisers in increased numbers in the UK has, when together with the now extensively used method of filling senior posts with external applicants on fixed-term contracts, possibly led to an increased politicization of the senior civil service. In other countries, such as Hungary and Poland, the problem was more to disentangle and unbundle political appointees from career civil servants. A number of countries have used the introduction of a State Secretary position as the most senior civil service position in a central Ministry to clarify the exact boundary between career civil servants and political appointees.

4.4.6 The case of performance-related pay is worth separate comment. There appear to have been many negative experiences of applying performance-related pay schemes to individual employees as opposed to individual work teams. Such schemes by their very nature reward a small percentage of employees, with the risk then being that the remaining majority experience some demotivation, a risk greatly increased if the process of selection for recipients of any significant performance-related supplements is not perceived by unit staff as credible and fair. There appear to have been some more positive experiences with the use of performance awards for teams, as opposed to individuals. Even here, in many parts of the public sector it can be problematic to seek to relate outcomes, which also may not be visible except in the medium to long-term, to individual team contributions.

4.4.7 Advanced reforms to the **organizational structure of the executive** are again in many ways moving in the opposite direction to the basic reforms. Specialized, single purpose agencies are created. There is an increasing use made of contract-like mechanisms within the public sector and agencies are given specific binding targets, with real consequences for the tenure of the agency head if these are not met.

**Box 9: Reform activities in Brazil**

The reforms planned by the first Cardoso Administration (1996-99) envisaged that regulation, inspection, public safety, and basic social security functions would be undertaken by “autonomous agencies” that would operate under a management contract. The director of each agency would be given wide-ranging freedom if performance targets were met. Universities, hospitals, and museums would be converted into even more arms-length “social organizations” which would receive specific authorization from the legislature to sign management contracts with the executive branch to receive budgetary allocations. Parallel civil service reforms were to permit public workers to be fired for unsatisfactory performance, or to reduce an excessive salary burden, and pay was to be more tightly controlled. In fact, few autonomous agencies and social organizations have been created, partly because the government was not prepared to provide priority in the flow of budget funds to such agencies. However, these reform efforts did succeed in some public rehabilitation of a public administration that had fallen into disrespect, and they also succeeded in putting further performance-based managerial reform firmly on the agenda.

Under the Second Cardoso Administration, the emphasis has been on budget reforms. Government’s business is organized into programs, which stress the desired output, rather than the logic of production. Programs have simple, self-explanatory titles, objectives, subsidiary actions necessary to obtain these objectives, and output indicators for these actions. This information is publicly available through the Internet. The 2000-2003 Multi-Year Plan system is strongly committed to an evaluation system, but this has not yet been designed.

4.4.8 Finally, advanced reforms that change the **role and policy load carried by government** include major reallocation of responsibilities from central to subnational government, radical service shedding of previously accepted government tasks, and the extensive use of contracts across the public sector, not just in the easily specified areas of maintenance and cleaning. The principle of subsidiarity -- decentralizing the provision of public service to the lowest possible appropriate level of government --has been an important component of these reform programs.

**Box 10: Decentralization in Poland**

Gmina level self-governments were restored in 1990, after a 40-year hiatus. In line with the principles of deconcentration, gminas form the basic and most important level of public administration. It is here that the most important collective needs of local communities are met. Gminas run nurseries, kindergartens, elementary schools, libraries and cultural centers and maintain local roads. They also share responsibility for maintaining public order (using gmina and city guards for this purpose) and environmental protection within their jurisdictions.

There are 2.489 gminas in Poland. Their democratically elected councils establish Management Boards which hold their executive powers. Some rural gminas are headed by voits, other rural gminas with townships and urban gminas by mayors, and large cities are governed by presidents. An average Polish gmina has 10-15 thousand inhabitants: rural gminas averaging 3 thousand inhabitants and the largest urban gminas having populations of several hundred thousand inhabitants.

4.4.9 Many approaches in this area center around privatization. Of the countries assessed, this is a particularly significant part of the reform programs in the UK and New Zealand, and to lesser degrees and to varying extents in Canada, Finland and the Netherlands. Outcomes in this area are extremely clear – shrinking the public sector through one-off disposal of state assets. Opportunities in this area for reforming countries will be determined by how minimalist a view they take of the role the state should play. This view may itself be shaped by affordability concerns and/or desire to achieve one-off revenues for the budget, together with an assessment at the level of the political elite of the political costs and benefits to them of seeking to pursue such initiatives.

4.4.10 This level of change also includes the contracting out of core functions well beyond the usual first generation suspects of janitorial and clerical services to the policy and programs undertaken by government. These more advanced areas for outsourcing include payroll, some aspects of policy formulation, and some areas of audit and inspection.

4.4.11 A further key area here is deregulation, which can both significantly improve the country's business environment while significantly reducing the number (and aggregate cost) of its public sector, while reducing also administrative corruption.

4.4.12 Table 5 summarizes the elements of these two stages of reform.

**4.5 Choices in 'Advanced' reforms**

4.5.1 There are different paths that reformers have followed once well past the threshold of formality. In some settings, most notably New Zealand, but to a lesser extent the UK and Australia, the advanced reforms have enabled the public sector to be driven to a large degree by a set of contractual relationships. In its most developed form, in New Zealand, Ministers 'purchase' outputs from their departments through formal contracts. Chief executives of departments and agencies in turn 'purchase' outputs from other public sector bodies in more or less the same way that they contract with private sector providers. The language of contractualism pervades the entire public sector – and much of the reorganization has been driven by the need to split large departments and ministries into separate purchaser and provider units so that a contract can be established between them. There has been much discussion of the relevance of this 'new contractualism' outside of these particular settings.<sup>16</sup>

**Table 5: The elements of 'basic' and 'advanced' reforms**

		<b>Basic reforms intended to achieve or strengthen public sector discipline</b>	<b>'Advanced' reforms</b>
<b>Public Expenditure Management Reforms</b>	<i>Aggregate Cost Reductions</i>	Hardening budget constraints	Block or frame budgeting
	<i>Efficiency Improvements</i>	Input oriented line-item budgeting – perhaps circulating some performance information	Changing format of the budget to link it to future plans
	<i>Accounting Reforms</i>	Strengthening cash accounting	Introducing double-entry book-keeping and accrual accounting
	<i>Auditing Reforms</i>	Strengthening traditional financial and compliance audit and undertaking some performance auditing	Institutionalizing performance auditing in the supreme audit institution and in internal audit
<b>Civil Service Personnel Management Reforms</b>	<i>Career Management</i>	Enhancing job security and protection from political interference	Decreasing tenure
	<i>Unity of the Civil Service</i>	Creating a legally defined cadre with common terms and conditions	Fragment and diversify pay arrangements
	<i>Individual Incentives</i>	Mechanical application of standard promotion and reward rules	Annual performance targets
	<i>Openness</i>	Encouraging career development within a closed system	Moves towards "position-based" systems – with encouragement of lateral entry
<b>Organizational Structure of the Executive</b>	<i>Agency Size</i>	Simplify and consolidate ministry structures	Specialized, single purpose agencies
	<i>Contractualization</i>	Limited use of performance contracts between government and some arms-length agencies	Extensive use of contracts across the public sector
	<i>Specification of Agency Targets</i>	Indicative targets and annual plans	Specific binding targets
<b>Role and Policy Load Carried by Government</b>	<i>Political Decentralization</i>	Minor changes of responsibility	Major reallocation of responsibilities from central to subnational government
	<i>Service Shedding</i>	Some minor reductions in service provision	Major shedding of previously accepted government tasks
	<i>Contracting Out</i>	Contracting out of the easily-specified support tasks	Contracting out of strategic or hard to specify tasks such as payroll management or policy-making

4.5.2 The basic reforms embodied a general trend to reduce the number of central Ministries; and to focus these remaining Ministries more closely on providing core policy analysis and advice to politicians. Amongst the advanced reformers, New Zealand provided an extreme case of contractualism in introducing formal contracts between organizations within the public sector. In the "new public management" countries (Australia, New Zealand and the UK) in particular, but also in a more targeted and selective fashion in Finland and Germany, reforms have unbundled existing multi-client service providers and restructured them on the basis of specific client orientations. Organizational arrangements have been changed to reflect splits between funding and purchasing; and purchasing and providing. Overall, service delivery organizations have been more exposed to competitive pressure through market testing or outsourcing.

**Box 11: Contractual arrangements within the UK public sector**

The reforms of the current administration are centered around the framework of performance management provided by the Public Service Agreements (PSAs), introduced following a Comprehensive Spending Review in 1997-8. These agreements are struck between Ministers in charge of departments and the Treasury. The second round of 23 PSAs (18 involving just one department and 5 with responsibility shared between more than one department) set out the Government's priorities for delivery and its spending decisions. Each agreement is based on a 3-year resource allocation. It sets out the policy outcomes and objectives the department aims to achieve and the measures against which it will report. The number of objectives in the second round of PSAs has been reduced from 630 to some 160 as an attempt to simplify performance information overall and make it more useful, in part taking a lesson from experience of agency targets. All PSAs are published.

Ministers account to a Ministerial committee, which is advised by the Treasury and Cabinet Office. A new performance information framework and strategy has been developed by these two departments and published during the spring of 2001. PSAs are underpinned by Service Delivery Agreements, setting out in more detail how the department will go about its business. The PSAs provide the framework for business planning within departments and resource allocation to executive agencies and the setting of their performance targets. They are therefore reflected in the personal job plan of individual civil servants, including the head of the department, on which their performance and some element of their remuneration is judged. The Government has recently introduced a series of pilot Local PSAs with local authorities.

4.5.3 It can appear that such changes have led to the setting up of a bewildering array of new autonomous or semi-autonomous public bodies in the place of former integrated ministries. Executive agencies have been established in Australia and the UK, special operating agencies in Canada, crown entities in New Zealand, and self-standing managed organizations in the Netherlands. In all cases, such reforms need to build on pre-existing strong systems of financial input control, and provide for a greater degree of explicitness in performance management and accountability arrangements.

4.5.4 Contractualization has not always been successful, as in the case of the Netherlands where central agency management appears to have blocked a number of planned initiatives. In other cases, delegation of service provision responsibilities to autonomous business units has had the effect of changing the shape of both government and of service providers, as was the case with delegation of significant management responsibilities (financial and personnel) to headteachers in the UK under local management of schools.

4.5.5 Contractualism is certainly not the only way to go. Other advanced reformers have also increased the flexibility available to managers while increasing the focus on monitoring performance – balancing enhanced autonomy with a greater emphasis on results and the measuring of achievements. This group can be seen as 'incremental modernizers'.<sup>17</sup>

**Box 12: Reform activities in Chile**

From 1973 to 1990 a military dictatorship governed Chile. That government changed the way the state did business -- from owner and service provider to regulator, and from centralized to decentralized service provider. To accomplish this, the authoritarian regime benefited from the pre-existing professionalized civil service. It centralized financial control within the executive, reduced the influence of interest groups, unified civil servant pay scales, strengthened meritocratic rules, and decentralized some activities while devolving others to the private sector. In 1986 the government formalized into law the distinction between policy-making ministries and autonomous agencies providing services.

These reforms led to a system characterized by the combination of a centralized, rigid control of resources (i.e. inputs) with decentralized implementation -- budget execution, personnel management and procurement. This reformed system was effective in maintaining macro-economic control, but less so in the efficient allocation of resources or delivery of services.

Since the elections of December 1989, Chile has been governed by a president and legislature chosen through free elections. The new democratic government sought to devolve further public services to the private sector, improve the performance of regulatory agencies, and improve social services. It also wanted to address the rigidities arising from hierarchical decision-making and the emphasis on input controls.

The government has gone about further reform in a gradualist, step-by-step manner. A participative form of strategic planning was introduced in 1993. In 1994, modernization agreements between the President and individual agencies were introduced, and experiments in performance-based pay were introduced in some agencies, covering all agencies by 1999. In 1995, budget-based performance indicators were introduced. At the end of 1996, agencies started producing annual performance reports and a system of evaluating public programs was introduced. These reforms have been accompanied by substantial increases in the resources applied to training.

**4.6 Coherence of reforms**

4.6.1 Some reform programs are distinctively sequential. There can be a flow of reform initiatives, each seemingly a logical follow-up to the one before. Alternatively, reform can have a more staccato nature, with a series of episodic, opportunistic reform interventions.

**Box 13: Australian reform activities**

The first phase of the reforms involved increased financial flexibility for government departments, a more certain operating environment through the introduction of rolling forward estimates based budgeting, and an increased focus on identifying program objectives and reporting program outcomes. This altered the focus of the annual budget preparation from the financing of existing government programs to the improvement of those programs.

The second phase of the public sector reforms, undertaken in the 1990s, was intended to increase the efficiency of the delivery of government goods and services by the introduction of commercial principles. These included contestable contracts, more flexible personnel management, and service delivery agreements based on the full cost of providing the service, determined in accordance with accrual accounting principles.

4.6.2 Not all reforms are strictly within the executive. A further important reform area in many of the countries assessed was the strengthening of checks and balances. This includes ensuring the accountability of the executive to the legislature through expanding the remit of supreme audit institutions beyond compliance and towards monitoring of efficiency and effectiveness. Examples include the developing role of the National Audit Office for central government and the Audit Commission for local government in the UK.

4.6.3 The introduction or strengthening of Freedom of Information and similar acts in Finland, South Korea, UK and USA, and the growing power of Parliamentary Select Committees and other specialized committees have also enabled the activities of the executive to be scrutinized in more depth. This has been further reinforced by the development of offices of Ombudsman in the UK and the Netherlands.

#### 4.7 The level of reform activity

4.7.1 Table 6 provides a summary overview of the scope and depth of the country programs. Appendix A provides single page summaries of the country situations.

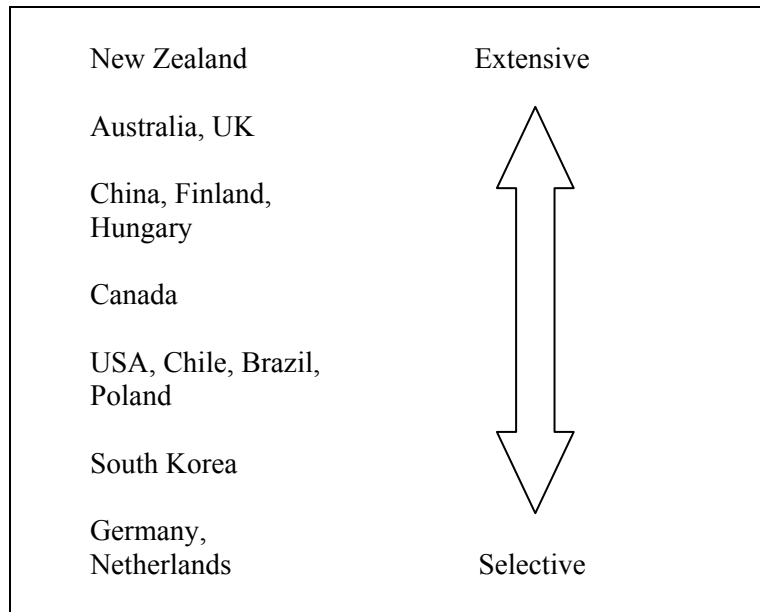
**Table 6: Reform activities**

	Australia	Brazil	Canada	Chile	China	Finland	Germany	Hungary	Netherlands	New Zealand	Poland	South Korea	UK	USA
<i>1. Basic reforms intended to achieve or strengthen public sector discipline</i>														
Public Expenditure Management Reforms	✓	✓	✓			✓	✓			✓			✓	✓
Civil Service Reforms	✓	✓	✓		✓	✓		✓	✓	✓	✓	✓	✓	✓
Organizational Structure of the Executive	✓		✓	✓	✓	✓			✓	✓	✓		✓	
Role and Policy Load Carried by Government	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
<i>2. 'Advanced' reforms</i>														
Public Expenditure Management Reforms	✓		✓			✓			✓	✓			✓	✓
Civil Service Reforms	✓	✓				✓		✓		✓			✓	
Organizational Structure of the Executive	✓		✓	✓		✓				✓			✓	
Role and Policy Load Carried by Government	✓			✓						✓			✓	✓
<i>3. Continuity of reform</i>														
3.1 episodic		✓					✓		✓		✓			
3.2 sequential, continuous	✓		✓	✓	✓	✓		✓		✓		✓	✓	✓

*Source:* authors' assessments from the country studies

4.7.2 If intense reform activity is reflected in wide reform concerns, broad reform scope and a greater use of 'advanced' reforms, then a rough ordering emerges as set out in Figure 4.

**Figure 4: Overall reform activity<sup>18</sup>**





## **5 REFORMERS' ACHIEVEMENTS – WHAT DID THEY GAIN?**

### **5.1 Results are difficult to determine**

5.1.1 These reform activities show remarkable diversity, but the real test of a reform approach lies in its eventual impact on service delivery and accountability improvements and on aggregate expenditure. Case by case, there are undoubtedly many examples of specific improvements in particular services or in the work of ministries or other organizations. There is, however, remarkably little evidence about the overall impact of reforms.<sup>19</sup>

5.1.2 Clearly, there have been results in terms of reformed public management processes. In both radical and incremental/gradualist reforming countries there has been a willingness to borrow either wholesale or in a more targeted fashion from private sector management models. This is despite the often significant difference between the two contexts. On the one hand, the private sector seeks comparatively simple outcomes in often very competitive markets with comparatively straightforward client/customer relationships and extremely powerful and shared performance incentives. On the other, the public sector seeks an often extremely complex set of outcomes, with providers operating in a situation of limited or no competition. The public sector also must deal with a very diverse set of direct and indirect clients, service users and beneficiaries, and in a situation of often multiple and sometimes conflicting performance incentives.

5.1.3 Many of the reform programs apparently have delivered only small parts of what their designers had intended. Clear evidence as to the outcomes actually achieved is generally lacking. There has been very limited formal evaluation either internally or externally to the system in question. In many cases there is a continuing controversy as to the outcomes of the reform programs. One such controversy concerns the significance of IT as a driver of organizational operational efficiency improvements, with some arguing that it is the new technologies rather than the managerial changes that are the key.

5.1.4 Other controversies concern the degree to which reform gains are counterbalanced by unintended losses. Some argue that efficiency and flexibility has been achieved at the cost of staff loyalty. Others suggest that efficiency has been achieved at the expense of coordination. Some critics point to the increasing number of semi-autonomous service providers, run on more business-like lines, found within the public sector and suggest that they are individually more efficient but collectively more fragmented and hard to control.

### **5.2 Reductions in public expenditure**

5.2.1 A recent review of the impact of OECD reform programs points out that although there are some signs of a reduction in general government outlays as a percentage of GDP, with a small but detectable trend towards reduced deficits, gross public debt as a percentage of GDP has in fact increased. Thus, the evidence that fiscal pressures have really been addressed is mixed.

5.2.2 The Canadian Program Review exercise and the New Zealand reforms are amongst the clearest exceptions. In New Zealand the fiscal impact of the reforms has been dramatic. Following the reforms, the government moved from a severe fiscal crisis, to attain a positive net worth in less than four years. Large increases were avoided in the public sector wage bill and the government has been running a surplus on both cash and accrual bases. Chief Executives reportedly treat the parliamentary appropriations as "electric fences" and breaches are extremely rare.

5.2.3 More generally, however, the study points out that that:

1. There seems to be little relationship between the depth of reform programs and any identified savings;
2. The effects of larger macroeconomic changes are such that it is unclear that any savings are the direct result of a particular reform program; and
3. Rather than reform leading to savings, it is equally probable that savings from more or less arbitrary cuts lead to reform.<sup>20</sup>

**Box 14: Program Review in Canada**

In fiscal year 1993/94, the federal deficit in Canada stood at \$42 billion, or 5.9 percent GDP. By 1994/95, net public debt had reached \$546 billion, or 72.8 percent GDP. The annual public debt interest payments had reached \$42 billion, or 35 percent of program spending. Worse, by February 1995, public debt charges had increased by \$7.5 billion beyond the previous year's forecast owing to rising interest rates. At this time, Canada was just beginning to emerge from its worst recession since the 1920s. In the public's mind, future prosperity was linked to the restoration of fiscal responsibility. Program Review was the government's response.

In the February 1994 budget, the government set an objective of reducing the deficit to \$24.3 billion, or 3 percent GDP, by 1996/97. This set the deficit on its first sustained downward track in 23 years. To accomplish this, a 3-year expenditure reduction target of \$29 billion was set. Measures included cutting 45,000 civil service jobs, reducing provincial government transfers \$4.5 billion, eliminating 73 government boards, commercializing or restructuring 47 others, ending agricultural and transportation subsidies, and reducing business subsidies by 60 percent.

The process involved both the administrative and the political levels. Its objective was "to identify the federal government's core roles and responsibilities and allocate resources to priority areas in order to provide effective, affordable, government." Notional budget reduction targets between 5 and 60 percent were set. To guide the process, departments were instructed to review their operations against six questions: Is a public interest involved? Is this something the federal government should be doing? Can this be transferred to the provinces? Could this be done by the private sector? Can this be made more efficient? Is this affordable?. An officials committee chaired by the clerk of the privy council (cabinet secretary) reviewed proposals to meet the target with each department. This was followed by a cabinet committee review and then a review by the full cabinet.

From a fiscal perspective, the results were highly successful. By 1997/98, the budget was in surplus. For 1999/2000, the budget surplus has risen to \$12.3 billion while program spending accounted for only 11.5 percent of GDP, the lowest level in 50 years. Forecasts through to 2006 indicate continuing surpluses of over \$10 billion annually against a backdrop of significant tax cuts.

5.2.4 One contention of the reformers is that even if expenditures have not been decreased, at least they have not continued to grow at the same rate. The principal outcomes of the "Lean State" exercise in Germany were a reduction and streamlining in the number of Federal authorities, a more flexible budget law, and a reverse in the staff increases brought about by Unification. The Federal administrative apparatus grew from 300,000 established posts in 1989 to 381,000 by the end of 1992. This number was then reduced to 315,000 by 1998.

### **5.3 Efficiency improvements**

5.3.1 Difficulties in identifying aggregate expenditure reductions do not of course lead to the conclusion that there have been no efficiency improvements. Arguably, expenditure increases would have been more significant, and service quality subject to deterioration, without the efficiency improvements enabled by the reforms.

5.3.2 However, even here the evidence is uncertain. Even in New Zealand, it is very difficult to assert exactly what has improved as a result of the systemic changes (Boston 2000). Efficiency

gains in the departments and ministries have been noted<sup>21</sup> and others have reported that there is a wide consensus that the reforms have resulted in an improvement in the efficiency of the core public sector (Petrie and Webber 2001, p.28) not least because capital is used more efficiently because of the imposition of a capital charge. However, there have been no comprehensive studies of efficiency gains across a wide selection of departments and ministries, so it is not possible to quantify the level of gains.<sup>22</sup>

5.3.3 Similarly nuanced findings are reported in the UK (Pollitt, Birchall and Putnam 1998) where the reforms seem to be achieving around 3 percent year on year efficiency savings in the running costs (example of the UK quoted in Scott and Taylor 2000). Given that running costs are small relative to program costs, this is a rather modest saving.

**Box 15: Mixed signals on Australian efficiency savings**

Phase 1 of the Australian reforms in the mid 1980s attracted international attention due to the large-scale re-prioritization of spending achieved by successive annual budget cycles. At the same time the aggregate budget outcome was transformed from deficit to substantial surplus.

Phase 2 of the reforms (particularly the introduction of accrual budgeting) has also received international recognition, due to the scale of the transition involved. Phase 2 has the potential to further reduce the resources required to deliver 'public' goods and services due to the introduction of appropriate costing procedures and competitive pressures.

However, the jury is still out on the scale of the benefits. It is clear that there have been some problems in introducing accrual budgeting. It also remains to be seen whether individual departments have fully developed the skills needed to manage service contracts with arms length suppliers well enough to keep costs below levels that were achieved under Phase 1 reforms.

## 5.4 Other gains

5.4.1 Expenditure reductions and efficiency savings were not the only ambition of the reformers, however. In New Zealand, Ministers have expressed satisfaction with the policy flexibility and responsiveness that the New Public Management arrangements have provided. Even the 1999 Labour/Alliance government, which campaigned on making changes to the public sector, has stated that it will not alter the fundamental building blocks of the State Services Act, State Owned Enterprises Act, Fiscal Responsibility Act and Public Finance Act, although it has modified employment law to increase the potential role of trade unions.

5.4.2 Significant gains have been made in accountability improvements at the level of the whole of government and for individual government agencies. Better specification of organizational performance ex ante and reporting on achievements ex post with comprehensive auditing requirements is providing a more robust basis for judging the performance of public sector agencies. Transparency more generally has increased through much broader availability of performance data. However, although this is widely used by parliamentary select committees, opposition parties, the media and interest groups in reforming countries, much performance data is still not in a form that is particularly relevant or easily understood by consumers and the public.

5.4.3 In the civil service, the results have been significant although the impact on outputs is less obvious. Performance-based pay is more discussed than used, and the heads of ministries and departments are still predominantly drawn from the public sector. In many reforming countries there is an increased ability to appoint new people on fixed contract terms. However, in many settings there are still problems with attracting high caliber candidates for agency heads, as they are not as attractive as private sector positions.

## 5.5 Unintended consequences

5.5.1 Reforms have sometimes generated problems of their own. Autonomous agencies have proved problematic in many countries, including the Netherlands and increasingly in New Zealand. The widespread historical difficulties in enforcing performance contracts with state-owned enterprises have been replicated to some degree in the new generation of arms-length service delivery agencies. The increased management autonomy has led to some instances of expenditure by government agencies that have attracted adverse political and public comment, such as spending on air travel, payouts to departing chief executives, and failed implementations of IT systems.

5.5.2 The "new public management" argument for agencies is that service providers should concentrate on efficient production of quality services, with the distractions of evaluating alternative policies removed. The discussion of the creation of "executive agencies" in the UK and the similar developments in Australia, Canada, France, Iceland, New Zealand, and Norway has been replete with references to clear, well-defined targets that allow providers to concentrate on their core business. Similarly, policy-making is seen to be more focused, more rigorous and sometimes even more adventurous if it can be made without the undertow of concern for the existing service providers. The argument, put simply, is that policy-making and service delivery are distinct tasks and that each benefits from the additional attention it receives if it is not competing for management time with the other. In addition, of course, once purchasing has been detached from policy-making, there are opportunities for creating contract-like arrangements to provide performance incentives.

5.5.3 Still, some commentators and some politicians have expressed concerns that this leads to an erosion of a public service ethos and a loss of continuity and institutional memory (Schick 1996). There has also been some speculation that fragmentation may be undermining policy analysis.

### **Box 16: Mixed reform outcomes in the UK**

One yardstick of the impact of the UK reforms is that, at the start, it would have been unthinkable for prisons to be run by a private company. By the end, it had been thought of and was being done, although not necessarily without elements of curiosity and hostility.

There has been a marked shift towards a contractual paradigm within government. This has been accompanied by a growth in the supporting regulations to arbitrate between the contracting parties – to such a degree that some observers have pointed to regulation as the growth sector of public administration in the UK. The Modernizing Government initiative of the current Labor government has sought to build on this acceptance of contracting with a greater emphasis on collaboration and partnership, moving on (in rhetoric at the very least) from the managerial agenda of the 1980s to one which puts the user of services and the outcomes they need at the heart of further change.

The administrative reforms of the 1980s and early 90s strengthened the performance orientation of the public sector and increased technical efficiency. However, the public service ethos in the UK, as well as staff morale, may have suffered in the process. "League tables" for schools and hospitals have proved very popular with the public; but much other performance data goes unused.

To sum up, the 1980s saw the development of a model of public administration that was focused on the efficiency of business processes, on the idea of the distinction between policy and operations and the multiplying of performance indicators.

This model delivered significant advances and is still at the heart of further improvement. But in many respects this model has come up against limits. Recent government analysis identified problems in terms of horizontal co-ordination and of capacity to tackle the deep-seated social problems that cut across traditional Ministerial and organizational portfolios. The analysis suggested the limitations of the paradigm for the new information age environment, and raised questions concerning its impact on the motivation of

public servants.

5.5.4 Other skeptical observations concern the degree to which the users of public goods can be regarded as freely choosing consumers. One of the ideas that powered the "new public management" was that consumers could be motivated to complain about public services, whether these were local (such as health services or education) or national (such as the provision of passports or customs control). Skeptics have suggested that the consumerist trappings of citizens' charters were more symbolic than real (Flynn and Pickard 1996; Miller 1996). They point out that there was little or no chance of judicial intervention to resolve contractual disputes and equally little chance of 'exit' for the service users.<sup>23</sup>

**Box 17: Unintended consequences in the Netherlands**

The General Administrative Law Act has made all government decisions liable to appeal in an independent court of law, instead of having a separate channel of administrative appeal in specialized courts.

In practice, the law has enabled groups of citizens to fight any policy decision in court. Since this entails a huge burden of juridification in the courts, most government institutions have created 'preliminary committees of appeal' to handle citizens' appeals in different fields of policy, including on personnel issues (re-organization, transfer and dismissal etc.). The Act has widened the possibilities for appeal, and has slowed down the pace of internal reform and re-organization in the public service.

At the same time, the large number of parliamentary inquiries into 'policy failures' has led to an 'investigation culture', which has made public servants increasingly cautious and reluctant to take on initiatives and responsibilities.

## 6 REFORMERS' TRACTION - WHY DID THEY DO DIFFERENT THINGS?

### 6.1 A model for explaining reform activities

6.1.1 This paper has examined public administration reforms in four thematic areas:

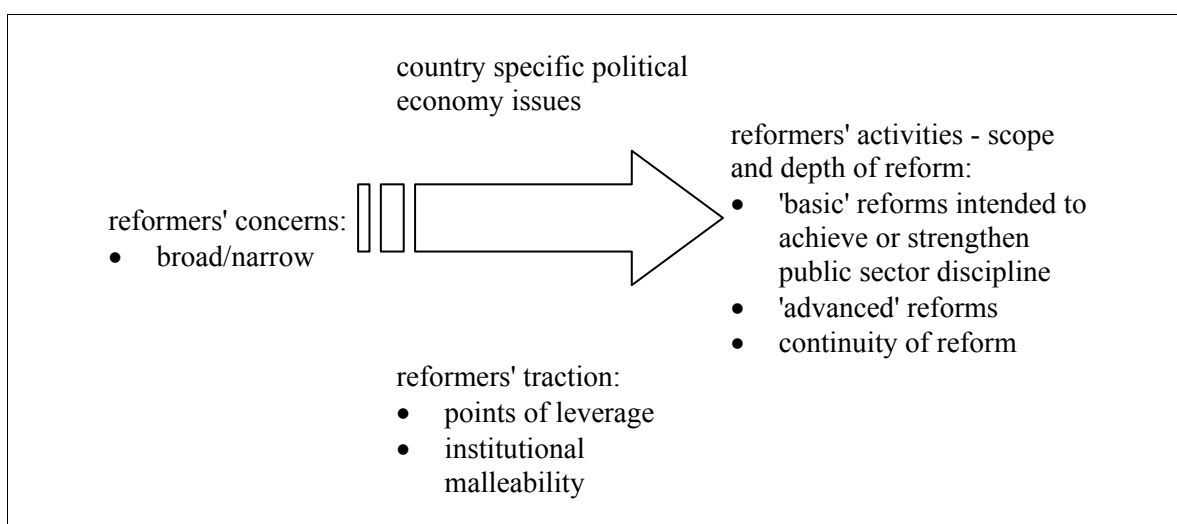
1. Public expenditure arrangements;
2. Personnel management and civil service;
3. Organizational structure of the executive; and
4. Role and policy load carried by government.

6.1.2 It has set out two levels of reforms: basic reforms intended to achieve or strengthen public sector discipline, and 'advanced' reforms that build on an entrenched discipline in the behavior of civil servants and a strong organizational culture of following the rules. It has also suggested that the advanced reforms allow a choice between the 'new contractualists' and the 'incremental modernizers'.

6.1.3 To the extent that many governments were driven by very similar sets of concerns, why did they pursue different reform activities?

6.1.4 One set of answers must lie in country-specific political economy issues. The particular alignment of interests and the historical momentum that different factions have obtained must be a (if not the) major factor. However, such analyses offer little comfort for other observers as there are few political economy stories that can readily be transported from one setting to another.<sup>24</sup> Consequently, this paper looks at the institutional arrangements within government that have given "traction" to reformers. It points out that much of the pattern of reform can be explained by the leverage that was available to reformers, and by the intrinsic malleability of state structures. As evidenced below, these vary to a significant degree.

**Figure 5: A model for explaining reform differences**



### 6.2 Points of leverage

6.2.1 Some reformers had more leverage than others, as institutional arrangements provided them with some powerful points of entry to comprehensive reform programs. In examining leverage for reform, the intention is not suggest that all reforms are equally valuable and that therefore all opportunities that facilitate reform are to be welcomed.

6.2.2 There is a diverse range of levers available to some reformers. Governments that have control over a single strong central agency have often been able to drive through major changes.

Single party majority governments are particularly well positioned to drive through complex reform programs that would create tensions within coalition governments. When the system is such that senior civil servants frequently become ministers at some point in their careers, and vice versa, ownership of reforms is likely to be deeper at senior levels. Also, some public sector environments find it easier to tolerate experimentation and are more likely to foster innovations.

6.2.3 The leverage available to reformers can be identified under four headings:

1. Tradition of a single strong central agency;
2. Tradition of single party majority;
3. Tradition of integrated mandarin/ministerial careers;
4. Tradition of heterogeneity in the public sector.

6.2.4 This is an incomplete list. Many forces outside of this rather narrow set of internal/institutional arrangements could be construed as levers. A public that is discontented can be a radical force for reform. There is seemingly a distinction to be drawn however between the pressures for change arising from a public that considers government corrupt and to some degree illegitimate, and the pressure for change from a public that has a grudging respect for the probity of the civil service but considers that it is unduly bureaucratic and self-interested. Put starkly, there is a difference between the pressures that have mounted in Indonesia over the last four years, and the forces that initially welcomed change in New Zealand.

6.2.5 Another set of 'opportunities' outside of the public sector arises from the pressures that can be mounted and contributions that can be made by think-tanks, management consultants and academics. Again, the examples of the UK and New Zealand suggest that these radical reformers were helped significantly by the presence of intellectually, financially and politically powerful think tanks.

6.2.6 Appendix C provides a methodological note that gives further background on this classification of reform levers.

### **6.3 Institutional malleability**

6.3.1 While reformers may have distinctively different leverage on the public sector, the basic institutions of the public sector can be more or less malleable. Malleability is not all good; a reformer's rigidities are of course someone else's checks and balances. As one example here, a strong political lead in the UK was able to produce radical changes to the pattern of public sector employment and in reporting arrangements within the public sector with remarkably few legislative obstacles. That same malleability also facilitated the abolition of an entire tier of government within London and in other major Metropolitan areas in England in a manner that would have been inconceivable in other European settings and to the consternation of many administrators within the UK. The opportunity for swift and radical reform may also be an opportunity for ill-conceived change. Time alone can confirm which category such reforms fall within.

6.3.2 Centralization provides considerable malleability. Governments in states that have divided authority constitutionally between levels of government are less able to drive through comprehensive and uniform reform programs. Political neutrality at senior levels also fosters malleability, since when the majority of senior public official positions are politicized, with consequent high levels of turnover following a change of government, it is harder to sustain a reform effort. The Germanic and the traditional Scandinavian State traditions provide some legal rigidity. By contrast, the Anglo-Saxon State tradition is peculiarly compatible with recent reform efforts. Governments in this tradition are regarded as something of a necessary evil that must be held to account at all times. The law is in the background and enforcing the law is implicit rather than explicit as a principle in the work of civil servants.

6.3.3 Extensive trade union membership in the public sector makes substantial resistance to reform more probable, although this is emphatically not to argue that trade unions are intrinsically obstructive and could not or should not be fundamentally involved in reform design.

6.3.4 Malleability can be assessed along the following dimensions:

1. Degree of centralization
2. Politically neutral, permanent senior administrative positions
3. Anglo-Saxon administrative tradition;
4. Limited trade union membership in the public sector

6.3.5 Appendix D provides a methodological note which gives further background on this classification of constraints to reform.

#### 6.4 Mapping reformers' traction

6.4.1 Traction refers to the combination of leverage and institutional malleability available to reformers. It is important to emphasize that these are not "virtues". They are simply distinctive arrangements that give reformers a stronger grip on the public sector. Appendix A provides single page summaries of the country situations. Table 7 provides an overview of the traction that reformers can get on the public sector in the 14 countries.

**Table 7: Reformers' traction**

	Australia	Brazil	Canada	Chile	China	Finland	Germany	Hungary	Netherlands	New Zealand	Poland	South Korea	UK	USA
<i>Points of leverage</i>														
Tradition of a single strong central agency				✓				✓		✓		✓	✓	
Tradition of single party majority	✓		✓	✓	✓					✓			✓	
Tradition of integrated mandarin/ministerial careers					✓									
Tradition of heterogeneity in the public sector		✓				✓	✓							✓
<i>Institutional malleability</i>														
Degree of centralization				✓	✓	✓		✓		✓		✓	✓	
Politically neutral, permanent senior administrative positions	✓		✓	✓		✓		✓	✓	✓		✓	✓	
Anglo-Saxon administrative tradition	✓		✓							✓			✓	✓
Limited trade union membership in the public sector				✓	✓	✓		✓	✓		✓	✓		✓


*Source:* authors' assessments from the country studies



## 6.5 Explaining patterns of reform

6.5.1 If the overall level of reform traction is assessed by the availability of reform levers and the degree of institutional malleability, then a rough ordering emerges as set out in Figure 6.<sup>25</sup> That table suggests that the level of reform activity is significantly determined by the traction available to reformers.

**Figure 6: Reformers' traction and reform activity<sup>26</sup>**

<b>Reformers' traction</b>		<b>Reform activity</b>
New Zealand, UK	A lot	New Zealand
Australia, Canada, Chile		Australia, UK
China		China, Finland, Hungary
Finland, USA, Hungary, South Korea		Canada
Netherlands		USA, Chile, Brazil, Poland
Brazil, Germany, Poland	A little	South Korea
		Germany, Netherlands

## **7 THE CHALLENGE FOR LOW TRACTION REFORMERS: HOW TO ACHIEVE BASIC REFORMS**

### **7.1 A dilemma facing low traction reformers**

7.1.1 The 14 cases examined for this paper can roughly be divided between six high traction countries comprising New Zealand, UK, Australia, Canada, Chile and China, and eight with low traction: Finland, USA, Hungary, South Korea, Netherlands, Brazil, Germany and Poland. The more recent reformers amongst this latter group of low traction countries (Hungary, South Korea, Brazil and Poland) tend to focus on basic, as opposed to advanced, reforms - particularly in relation to the civil service and the role and policy load carried by government.

7.1.2 In focusing on the basic reforms, as "low traction" reformers South Korea, Brazil and Poland have to solve a fundamental problem. The basics of strengthening discipline and formality so that recruitment, promotion and pay determination are based on explicit rules, the significance of personal connections reduced, and the credibility of the budget process restored, are in essence cross-cutting reforms that require the broad application and entrenchment of common rules and principles. However, the simultaneous introduction of sweeping, theoretically coherent and uniform reforms across the public sector is the very thing that it is hard to do without traction. The question becomes how to achieve progress on these basic cross-cutting reforms - to address poor public sector discipline, weak rule credibility, and often also comparatively high levels of corruption, informality and patronage - when the public sector institutions are unyielding and not intrinsically malleable, and reformers have so little leverage.

7.1.3 The answer, it seems, is distinctly country-specific. Those reformers finding themselves with limited traction had to be distinctly opportunistic - taking advantage of idiosyncratic developments as they emerged. This seems to have been the hallmark of all the low traction countries.

### **7.2 Seizing opportunities in basic public expenditure management reforms**

7.2.1 In terms of **achieving aggregate cost reductions**, Brazil attempted under Collor to achieve a 30 percent reduction in civil servant numbers. The consequences support the basic thesis about the difficulties facing low traction reformers as this proved in practice impossible to sustain (although numbers in the Executive were reduced from 705,550 in 1988 to 587,200 in 1994). The attempt led to serious damage to the quality of the Brazilian civil service and many of those shed were subsequently re-instated.

7.2.2 This contrasts markedly with the experience of other low traction countries that could count on the basics being in place. Finland was able to reduce the number of civil service personnel from 27,000 in 1991 to 24,000 in 1996; and to reduce the number of employees financed from the state administration budget from 215,000 in 1988 to 124,000 in 2000 (a 43 percent reduction). Public expenditure overall was reduced by 8 percent of GDP in 1999 compared to the 1991 figure. Finland was also able to move to a system of block transfers from the center to municipalities (with pilots in 1987, and full implementation in 1994). Following reunification, Germany was able to achieve a reduction in the number of Federal Government staff from 652,000 in 1991 to 526,431 in 1997. The USA was able to reduce the Federal civil service by 17 percent or 377,000 employees in the period 1993 to 1999; and the size of the national government civilian workforce by approximately 15 percent or 325,000 full-time equivalent employees over the period 1993 to 2000. The achievements of the advanced reformers of the low traction countries compare favorably with the record of the high traction countries (see for example Box 14 : Program Review in Canada).

7.2.3 However, in seeking **efficiency improvements**, Brazil is moving to develop a performance focus to the budget (see Box 9). This is an interesting idiosyncratic development in that Brazil is

essentially retrofitting "programs" around what government is already doing. It is essentially putting existing public business into new boxes, directing government attention to outputs and outcomes rather than inputs or processes, case by case. Programs have simple, self-explanatory titles, objectives, subsidiary actions necessary to obtain these objectives, and output indicators for these actions. This information is publicly available through the Internet. In turn, Programs and actions are clearly linked to discussions about budgetary resources for the four-year Plan period. Strikingly and in keeping with the logic of opportunism, the Program approach has been launched with no explicit statement about where it will lead.

7.2.4 The low traction reformers with the basics already in place could move faster. Finland moved to a results-oriented budgeting system (see Box 7), including three year planning and annual agency reports. This approach, combined with managerial and personnel decentralization, was claimed to have led to significant increased efficiency. Germany's New Steering Model (implemented incrementally and bottom up, and with local authorities and then the laender being most advanced in this respect) involved a performance management system with outputs being defined more clearly, use of performance contracts for managers, flexible resource allocation, and greater reliance on outcomes and contracting out. The Netherlands also effected a move to output-based budgeting with significant resulting efficiency savings claimed. The USA under the GPRA of 1993 (see Box 4) moved to five-year strategic planning, with resources and results linked and a clear focus on program results, and performance information available for Congressional oversight, together with annual performance plans for each agency and performance indicators to measure outputs, service levels, and outcomes of each program activity.

7.2.5 However, none of the low traction countries could move at the speed of their high traction comparators. Australia, Canada, New Zealand and the UK have probably implemented the most radical and comprehensive set of reform measures in this area.

7.2.6 In the area of **accounting reform**, low traction Hungary has taken advantage of the supply of well-trained personnel to move to double-entry book-keeping. More advanced low traction countries made deeper changes, with Finland moving in 1998 to accounting based on accruals concepts, and the Netherlands moving from cash accounting to encumbrance accounting (see Box 6). However, again, the high traction reformers have moved further and more rapidly in this area.

### 7.3 Seizing opportunities in civil service personnel management reforms

7.3.1 In the area of **career management** and **depolitization**, Brazil again took advantage of some idiosyncratic opportunities to develop a fairly effective senior executive service, together with Ministry by Ministry merit-based career systems. Hungary illustrated the challenges facing reformers with little traction when it made merit and depolitization key pillars of its 1992 Civil Service Law, but the mere passing of the law has not been sufficient to impact the established political spoils system. 61 percent of administrative state secretaries have spent less than two years in office. Similarly in Poland, although the civil service is also in theory merit-based and depoliticized (and with a Civil Service State Commission set up to help protect this), there is significant senior staff turnover at change of government. In South Korea a Civil Service Commission was set up as an attempt to protect merit and political neutrality in the appointment of civil servants; and an open recruitment system for senior government positions established. The consequences are not yet clear.

7.3.2 Again, the low traction reformers that could take the basics for granted were in a stronger position. Finland has a decentralized, flexible, competitive personnel policy, with significant delegation to agencies. Merit-based recruitment appears to be reasonably strongly engrained. The Netherlands displays a number of market-like features with for example pay increases and promotion decisions increasingly dependent on performance. The USA system, which has clear demarcation of the large number of political appointees in the system, also set up in 1983 a Senior

Executive Service of around 8,000 senior civil servants. At the start of the reform processes of the last ten to fifteen years these countries already had in place systems with minimal patronage and corruption and generally rules-based and disciplined.

7.3.3 The general rule for the low traction countries seeking to achieve basic reforms seems to have been to move incrementally, avoiding large claims and major announcements, to make progress through legal changes to codify and enforce the accountability of civil servants, and through modest training initiatives to encourage a positive approach to career development.

#### **7.4 Seizing opportunities in reforming the organizational structure of the executive**

7.4.1 Changing the basic structure of the executive is particularly hard for low traction countries. Of the eight low traction reformers, just three had reform activities in this area. All six of the high traction reformers had intensive reform activities addressing this issue.

7.4.2 Low traction Poland took advantage of a radical program of decentralization to restructure government. Finland achieved a 43 percent reduction in the number of employees funded from the central government budget, and implemented extensive micro-level changes to the structure of government. This was accompanied by delegation of decision-making powers from line Ministries to local government. However, this did not lead to the expected reduction in staff numbers at line Ministry level. Finland has also moved towards increased use of contracts together with some use of user fees and market testing. The Netherlands set up semi-autonomous self-standing managed organizations, and transformed many key government departments into semi-public agencies. However, the consequences of this action have been uncertain and marked by continuing controversy.

7.4.3 Again, the low traction countries seeking to achieve basic reforms have avoided dramatic announcements about sweeping reforms. They have advanced incrementally, and often unevenly, taking advantage of opportunities as they arose ministry by ministry, to consolidate ministry structures and to convey non-binding performance targets.

#### **7.5 Seizing opportunities in changing the role and policy load carried by government**

7.5.1 All the low traction countries focusing on getting the basics in place were able to achieve some reallocation of responsibilities between levels of government, and to shed some responsibilities for service provision. They were also able to contract out the more easily-specified support tasks.

7.5.2 Hungary and Poland both gave considerable reform weight to decentralization. In Poland this involved a major recasting of the structure of sub-national government with the restoration of gminas, voivoids and poviats (see Box 10). In Hungary the emphasis rather was on service and fiscal decentralization, with the granting of more autonomy for local governments leading it is claimed to improvements in service delivery. In South Korea, there was a recent move to transfer some service delivery responsibilities to the private sector and to local government; ten arm-length executive agencies have also been established, and a major deregulation program undertaken.

7.5.3 Finland pursued significant delegation of responsibilities from line Ministries, and also undertook some privatization. The Netherlands sought to achieve significant political and fiscal decentralization and completed some significant privatizations (post, telecoms, the port authority). The “New Steering Model” approach in Germany emphasized outsourcing, contracting-out and privatization, together with use of performance contracts and more flexible resource allocation. Local authorities, particularly large cities, have moved furthest forward in implementing these reforms. In the USA, the National Partnership for Reinventing Government

claimed may successes in streamlining government and eliminating obsolete programs and agencies.

## **7.6 Lessons from low traction countries faced by the need for "basic" reforms**

7.6.1 Given that many governments were driven by very similar sets of concerns, there seems to be several reasons why they often followed very different reform paths. First, as has been noted, the leverage available to reformers -- the points of entry to comprehensive reform programs -- and the malleability of basic public sector institutions varied significantly between countries. As Chapter 6 noted, the level of reform activity is significantly determined by the resulting traction that was available to reformers. Low traction countries simply do not have the same room for maneuver. Second, for some low traction countries, there is a distinctive problem in that they have to ingrain a discipline in the behavior of civil servants and in the organizational culture of public sector agencies. Discipline means, in essence, formality – that actual behavior follows the written rules, and that the budget on paper that parliament agreed bears a close relationship to the budget that is executed. Again, their choices are limited by comparison with the high traction, 'advanced' reformers. This group can draw from a menu of options - very particularly deciding how far to base public administration on contractual relationships.

7.6.2 So low traction countries faced with the need for 'basic' reforms find themselves heavily constrained in their actions. Such reformers grappling with the basic reforms had to be distinctly opportunistic - taking advantage of idiosyncratic developments as they emerged. This opportunism has shaped their tactics.

1. *To take advantage of opportunities as they arise*, they have been more concerned with building alliances, partnerships and coalitions at national level, (e.g., with political parties and interest groups on tackling patronage and politicization), and with regions and local governments, and with key stakeholder groups.
2. *To exploit opportunities*, they have also had to be more willing to tolerate diversity in approaches taken in reform areas, including a greater use of pilot and experimental reform activities, including user fees and market testing.
3. *To create opportunities*, they have also found themselves strengthening central agencies such as the Ministry of Finance and the central civil service human resource management agency so that these in turn demand greater discipline and formality of all other units within the system and are able to develop and apply sanctions.
4. *To lessen opposition*, they have had to emphasize internal and external communications; training and change management; and participation and involvement on the part of a wide range of stakeholders.

7.6.3 Low traction countries have also managed expectations. It is unrealistic for low traction reformers to pursue major managerial decentralization and flexibility until basic discipline and formality within the system is in place. It is equally unrealistic to expect to be able to achieve major outcomes from civil service personnel management reform simply through passing civil service legislation and setting up bodies such as a civil service commission: securing outcomes from reform activities in this area requires specific alliance-building with political parties and interest groups to align incentives sufficiently to be able to tackle patronage and politicization. It is also unrealistic to be able to move quickly towards contractualization and extensive use of executive agencies.

7.6.4 Some expectations can and should be raised however. It is realistic to seek to strengthen basic discipline and formality in the budget area through use of approaches such as moving to a multi-year budget framework and strengthening management information systems and reporting. It is realistic to seek to strengthen audit requirements and to begin requiring the production and publication of ministry/agency/service annual performance reports (to strengthen performance

orientation, discipline, transparency and accountability). Also it is realistic to consider approaches such as the setting up of a senior executive service to seek to accelerate the development of merit and depoliticization for the core group of senior civil service managers. Finally, it is realistic to seek to reorient the focus and role of line Ministries on policy analysis and development and to strip out remaining commercial functions and activities from line Ministries.

## 8 Implications for the Russian Federation

### 8.1 Realism and managed expectations

8.1.1 In considering public administration reform Russia is undoubtedly a low traction country. The leverage available to reformers is very limited. There is no tradition of a single strong central agency or of a single party majority. Senior civil servant and ministerial careers are not strongly interlinked, and there is little tradition of integrated mandarin/ministerial careers. The institutional malleability is also limited. It is a highly decentralized system, with few politically neutral, permanent senior administrative positions.

8.1.2 All the evidence from this analysis of 14 reform cases suggests that rapid and comprehensive reform progress is unlikely.

### 8.2 First things first

8.2.1 Any assessment of the current functioning of the public administration in the Russian Federation points towards the need for a basic set of reforms that provide an underpinning of discipline and formality. Developing a strong, legally defined civil service is perhaps the most pressing.

8.2.2 The nearest approximation to civil servant status in the Russian Federation is afforded to the "state service" positions in the Federal executive branch, covered under Federal law no. 119-FZ of July 31, 1995.<sup>27</sup> A minority of Federal state service officials is located in Moscow-based Ministries and other federal executive bodies. The majority are deconcentrated and although employed by the Federal Government are physically located in 'subjects of the Russian Federation', *rayons* and municipalities.

8.2.3 The rewards structure for these staff does not provide motivation. Total rewards for officials in the state service include monetary payments and in-kind benefits such as housing, use of a car and driver, payment of utilities, access to subsidized and premium medical and educational facilities, per diems for foreign travel, and subsidized meals. However these in-kind benefits are increasingly restricted to a very small number of senior officials.<sup>28</sup> Overall, remuneration is inadequate. There are few sound comparators for senior state servant salaries, but it seems probable that official monetary rewards are significantly below those that might be obtained in the private sector. Russian experts estimate that at the level of Deputy Ministers official monetary rewards are between 10 to 15 times below those in the private sector in Moscow. Pay increases for the state service would have a relatively modest impact on the total wage bill.<sup>29</sup> However, it is not clear what the impact of such increases would be on other groups of staff -- and any race towards maintaining parity could prove fiscally unsustainable.

8.2.4 Merit is not protected in the Russian Federation. There is no merit-protection body to protect and ensure competence and guarantee and safeguard political neutrality.<sup>30</sup> Some review of the ethics infrastructure and mechanisms to manage conflicts of interest will support these basic steps. It will be necessary to establish a credible, independent merit-protection body to ensure competence and political neutrality.

8.2.5 In this and other reform possibilities, the challenge is to focus on these few basic changes and not to be distracted by the possibility of more advanced reforms.

### 8.3 Create more traction

8.3.1 In the face of so many difficulties, it is a priority to develop some convincing, even inspirational principles that can provide guidance to staff when doubts set in. Waiting for theoreticians and practitioners to reach a consensus reform strategy might perhaps take second

place to a pragmatic set of principles that will demonstrate government's conviction regarding the appropriate direction in which to move. The Russian Federation does not have a single powerful central agency. Perhaps some steps can be taken in this direction. New Zealand provides a distinctive example of a very powerful central agency (Treasury) that was uniquely prepared for the reform program with a remarkably coherent set of proposals.

**Box 18: Reform management in New Zealand and South Korea**

The reform program in New Zealand was very unusual in that it was driven by a coherent theoretical model (embodying new institutional economics, public choice and transaction costs theories, coupled with a strong dose of managerialism). The model was shared by core group of Treasury officials and Labor Party Parliamentarians. Treasury played a central role in many aspects of the reforms, supported by the State Services Commission (SSC) in the decentralization of management functions.

Overall, the program was designed and implemented by elite group of politicians and central agency officials in a top-down fashion. There was no great pressure for change from citizens -- and the 1984 to 1990 reforms were particularly unpopular with people displaced from the public sector and with the left wing of the Labour party. Extensive use was made of management consultants and other external experts for specialist advice on areas such as privatization and restructuring.

In response to the East Asia economic crisis, President-elect Kim Dae-Jung of South Korea formed the Government Administration Reform Committee on January 7, 1998. The Committee consisted of 22 members. After public hearings and consultations with each government branch, the Committee finalized the government restructuring program on February 18, 1998. The revised Government Organization Act was approved by the National Assembly and took effect on February 28, 1998. The Act aims at producing a small but efficient and powerful government, with decentralized authority and a consumer orientation, flexible in response to social change.

8.3.2 This contrasts with others, notably Canada, where reform management is considerably more diffuse.

**Box 19: Dispersed reform management in Canada**

There is no single ministry or central agency responsible for public administration reform. The key central organizations and personnel include the following:

- The Clerk of the Privy Council Office (Government Apparat) is the head of the public service. *La Releve* is headed by the Clerk. In the federal public service, all Deputy Ministers (the senior official of each department) have a dual accountability to the Prime Minister (through the Clerk) and to their minister. Performance contracts are negotiated between Deputy Ministers and the Clerk of the Privy Council.
- The Treasury Board is the employer of public servants.
- The Treasury Board Secretariat coordinates the business planning process and issues directives on human resources management across government. Business plans contain a public accountability dimension as they report results against objectives on an annual basis and provide the reports to the public.
- The Public Service Commission is responsible for safeguarding merit principle.
- The Canadian Centre for Management Development (CCMD) is responsible for leadership development.

8.3.3 The question for Russia concerns the investment that will need to be found to create the central agency capacity (e.g., in the Administration of the President, the Apparat of the Government, the Ministry for Economic Development and Trade, the Ministry of Finance, and the Ministry of Labor and Social Development) that will be necessary to lead the reforms. Development, implementation and review of the reforms is itself a major and complex set of



activities which must be separately and explicitly resourced, and which can represent a significant real cost of reform. Change management, capacity building, training, consultation, and communications (both internal and external) are all of major significance throughout development and implementation of the reform program. Each is a major exercise that has itself to be managed and resourced.

## **8.4 Seize opportunities**

8.4.1 We commented in section 7 that low traction countries generally do not have the opportunities for pursuing many radical cross-cutting reforms. This is particularly true in federal states with considerable decentralization of powers and responsibilities. For these states, top-down pressure from the political and civil service elite will need to be backed up by a willingness and ability on the part of the central reform team to be able to build networks of complex partnerships and coalitions with subnational units of government. In the case of the Russian Federation, this will be at the level of the 89 subjects of the Federation.

8.4.2 The key point is that low traction countries such as Brazil, like the Netherlands and Germany, made few promises at the start of the reform process about what the results of the reforms would look like. They initiated a comprehensive internal discussion within the public sector -- and then watched to see which agencies took up the challenge and ran. The challenge for Russia will be to spot promising developments as they emerge. This will involve being prepared to devote significant time and attention to building a **national consensus** on reform objectives and priorities, to forging **effective partnerships** with regional administrations, cities, municipalities and districts, and to creating **effective coalitions** with NGOs and with private sector/business associations. Encouraging pilot reform schemes and experiments at agency or subnational level is more likely to generate the dynamism needed than waiting for comprehensive cross-cutting reforms.

8.4.3 This will require a tolerance among the central reform team to what in practice may turn out to be a wide diversity in reform ambitions and activities pursued by different subnational units of government. This is likely to require that the central reform team be willing and able to generate incentives within the system for units of government at subnational level to participate actively and willingly in a broad range of pilot reform activities and experiments. Likewise, this will require an ability on the part of the reform team at central level to be able to build coalitions to disseminate the results of and lessons learned from such pilots across the Russian Federation to stimulate reform activities.

## **8.5 Create opportunities**

8.5.1 The logic of "low traction" for reformers in the Russian Federation is opportunism and asymmetry -- seizing chances as they occur. But opportunities can be created as well as observed. One approach would be the setting up of a Performance Improvement Fund to provide incentives for participation in pilot activities by units of government at subnational level, while also providing concrete resources to support and enable achievement of the reform ambitions of a particular subnational unit of government through an appropriate mix of reform activities coherently and cohesively implemented.

8.5.2 Another pragmatic opportunity-creating approach could be the judicious use of "functional reviews" -- an examination of the functions and structures of state agencies or budget entities that asks whether the functions need to be done at all, whether other agencies or actors could do them more efficiently or effectively, and what the consequences are for structure. Certainly any significant savings at the federal level will only be found through a reduction in the program expenditure. It is clear that there are relatively few opportunities for securing significant savings through implementing efficiency improvements in the Moscow offices of the Federal Ministries and other executive bodies. Indeed, a reduction in the numbers of state servants may even be

unwise and somewhat unproductive given their relatively small number; although some, perhaps many, could perhaps more appropriately be redeployed to support higher-priority Government work-program objectives.

8.5.3 In settings where uniform, symmetric reforms are feasible, functional reviews with their focus on single agencies or ministries have been difficult to justify. However, given the de facto diversity and autonomy of public bodies in the Russian Federation, functional reviews might be a pragmatic way forward. This would respond to the realities of an overhang of unfunded legal mandates, enabling agencies to choose functions from a larger menu of legally authorized activities, coupled with the employment of many staff on a personal basis, owing their level of remuneration to the strength of their informal relationships within the agency.

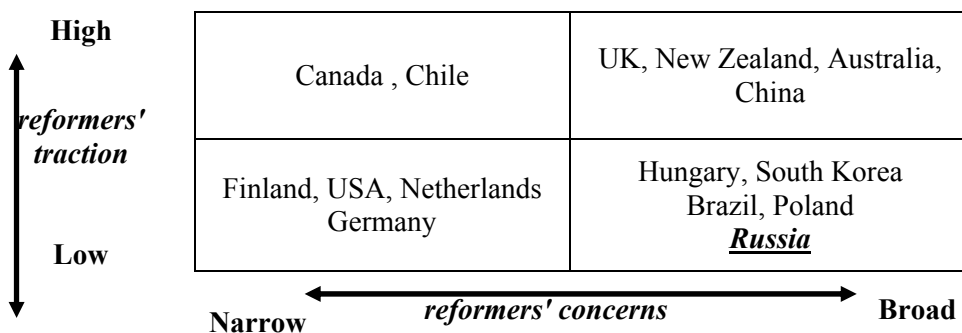
8.5.4 Opportunities will also be created through stimulating external pressure on the executive. The cautious introduction at different levels of Government of some Freedom of Information legislation (mindful of the potential costs) and the development of an office of Ombudsman could assist.

**8.6 In looking for useful experiences, look for the like-minded**

8.6.1 Structurally, looking at the 'traction' that reformers in the Russian Federation will possess, then the natural comparators are the low traction countries, particularly the recent reformer low traction countries. Like Russia, these countries did not have the reformers' levers of a single strong central agency, a traditional single party majority; or integrated mandarin/ministerial careers. As a "low traction" country, then the Russian Federation will also share with these countries the reform challenges that arise from having a public sector that is less intrinsically malleable. It has complex intergovernmental relationships, no Anglo-Saxon administrative tradition, and it does not have politically neutral senior staff.

8.6.2 It is reasonable to assert that the Russian Federation is also concerned to achieve the 'basic' reforms that introduce discipline and formality into the public sector. As the previous chapter noted, this places it in the company of Brazil, Hungary, Poland and South Korea. There is also another reason for looking in more detail at the experiences of these countries - they also have very broad reform concerns.

**Figure 7: Russia's reformers in context**



8.6.3 Finally, an ongoing key issue for the reform team is how to generate external pressures on the system to change and how to raise citizens' expectations of, and demand for, better services. In this respect it will be important that the reform team is able to publicize widely and effectively the "best practice" performance and service levels and standards achieved in the most successful experiments and pilots.

## Notes to main text

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- 1 See <http://www1.worldbank.org/publicsector/civilservice/oecdcountries.htm>
- 2 The dates for these data are: Korea, Rep. - 1978; Russian Federation, Brazil, Canada - 1995; Netherlands, China, Hungary, Poland, United Kingdom - 1997; United States, Australia, Chile, Finland, Germany - 1998; New Zealand - 1999.
- 3 See <http://www1.worldbank.org/publicsector/civilservice/poor.htm>
- 4 See <http://www1.worldbank.org/publicsector/civilservice/patronage.htm>
- 5 See <http://www1.worldbank.org/publicsector/civilservice/individual.htm>
- 6 See <http://www1.worldbank.org/publicsector/civilservice/wageconcerns.htm>
- 7 See <http://www1.worldbank.org/publicsector/civilservice/ineffectivemon.htm>
- 8 See <http://www1.worldbank.org/publicsector/civilservice/limitedrecruit.htm>
- 9 See <http://www1.worldbank.org/publicsector/civilservice/corruption.htm>
- 10 See <http://www1.worldbank.org/publicsector/civilservice/efficiency.htm>
- 11 The World Bank Administrative and Civil Service Reform website classifies the problems that administrative reforms seek to address under similar headings and provides further background on these topics at: <http://www1.worldbank.org/publicsector/civilservice/>
- 12 This chart is a heuristic device to illustrate that country situations differ. No claim is made about precision.
- 13 That phrase has some resonance in other settings, although in the US its usage includes more political concerns. It is used here to refer to the organizational structure of the executive (including the reporting lines and accountability arrangements for Departments and Ministries and other organizational units), and the allocation of functions to those organizations. Usage of the phrase in New Zealand also seems to refer to the softer systems for coordination between these organizational units. This important issue is not implied by the term as used in this note. See <http://www1.worldbank.org/publicsector/civilservice/machinery.htm>
- 14 In some cases, this hardening of budget constraints is accompanied by actual top-down budget reductions in particular sectors. This is equivalent to "cheese-slicing" as it entails a top-down reduction in the funds available for several sectors by a relatively small proportion of the total.
- 15 Full details of the survey of civil service legislation are available at: <http://www1.worldbank.org/publicsector/civilservice/>
- 16 See (Davis, Sullivan and Yeatman 1997; Schick 1998) for the origins of this term.
- 17 The term 'modernizers' derives from (Pollitt and Bouckaert 2000).
- 18 This chart is a heuristic device to illustrate that country situations differ. No claim is made about precision.
- 19 See <http://www1.worldbank.org/publicsector/civilservice/oecdcountries.htm>
- 20 (Pollitt and Bouckaert 2000).
- 21 OECD, "Measuring Public Sector Productivity", PUMA/SBO (99) 6, paper prepared for the 20<sup>th</sup> annual meeting of senior budget officials, Paris, 3-4 June 1999, quoted in (Petrie and Webber 2001). Note that public service staff numbers fell from 67,600 in 1987 to 31,500 in 1992.
- 22 See the New Zealand case study in Public Administration Reform: Country Reform Summaries.
- 23 Schick makes the related point that expectations of standards of conduct migrate between the private and public sectors – low expectations of business conduct translates into low expectations of government performance (Schick 1998).
- 24 See <http://www1.worldbank.org/publicsector/civilservice/engaging.htm> for some discussion of this.
- 25 This ordering assumes that the Anglo-Saxon administrative tradition is a particularly powerful lever, followed in significance by the tradition of single party majority and a tradition of integrated mandarin/ministerial careers and a tradition of heterogeneity in the public sector. Tradition of a single strong central agency is taken to be the weakest form of leverage. It also assumes that a high degree of centralization makes the institutional arrangements distinctively malleable, followed in order of significance by non-politicized senior administrative positions.
- 26 This chart is a heuristic device to illustrate that country situations differ. No claim is made about precision.
- 27 In essence, these are staff funded from the functional category of the Federal Budget: "Public Administration and Local Government". At the most senior levels of government in Moscow, this function covers the complete apparatuses of the legislative, executive and judicial branches. At a total of some 519,000, the state service is a relatively modest proportion of total public employment in Russia. Excluding employment in State Owned Enterprises, for which there are no current data, total public employment in Russia is approximately 6.4 million.

Salaries and allowances are governed by two scales for headquarters offices (for ministries and for other executive bodies) and four for deconcentrated staff, classified according to the size of the Federation subject, *rayon* or municipality in which they are located. The resulting pattern of rewards is highly complex and unlikely to motivate. Article 17 of the Federal Law on the Civil Service (119-FZ of July 31, 1995) states that the upkeep of state servants consists of the official salary, increases in the salary for skill grades, for special conditions of the civil service, seniority and bonuses for the results of this work. The heads of federal authorities are authorized to vary conditions for payment of bonuses and monthly supplements for special working conditions. However, limits on payments are provided in Presidential Decree No. 310 of April 9, 1997 on "Financial Conditions for Federal Public Servants". These state the maximum that may be paid in a single year for each of these additional payments and are calculated on multiples of monthly fixed pay as follows: 4 times for qualification grade; 2.5 times for special working conditions; 3 times for seniority; and 3 times for performance. This decree also acknowledges authority of other legislation, for example, 2 times fixed pay for employees working with state secrets under Law on State Secrets.

An analysis of 1999 civil servant salaries by Goskomstat (Statistics Ministry) showed that the average monthly amount (net of social benefits) was 3089 rubles; of this 38 percent was fixed pay, 25 percent was for additions such as seniority, special working conditions and qualification grade, 26 percent was for performance bonuses and financial aid, and 11 percent was for other payments (primarily vacation payments). There were, however, variances between ministries, for example, 60 percent of ministries had average range of 2.5 to 4 thousand rubles, 30 percent had 3.1 to 4 thousand, and 10 percent had over 4.1 rubles.

The consequence is probably that bonuses and premiums are manipulated to compensate for low basic wages (premiums are ostensibly for performance, while bonuses are for a number of factors, such as conditions of work, qualifying requirements and length of service). Under these circumstances, bonuses and premiums do not provide an incentive to employees because they are considered part of fixed salary and there may be daylighting by civil servants during government time to make up for low salaries.

29 As an extreme illustration of this, providing higher-ranking managerial cadres in the Top and Chief grades with rapid and cumulative wage increases over a five-year period, in a drastic effort to improve management of the state service and alleviate problems in retention and recruitment of senior staff, would have a very modest impact on the total wage bill. Specifically, if each year for 5 years, increases over the previous year of 50 percent were awarded to ministers and 45 percent to all top and chief staff, with no increases awarded to other grades, then the cumulative impact will be an increase of 0.02 percent of GDP to 0.33 percent of GDP, with the nominal wage bill for the state service 15.5 percent higher. It is also possible that such increases could be offset against savings in non-monetary rewards.

30 The only federal civil service body is the Council for the Civil Service (Article 26 of the Civil Service Law). This body has representation from the three branches of government but is under the direction of the President. It appears to have the dual roles of establishing the recruitment process and setting the framework for the management of human resources. This is inappropriate because of the lack of independence from government. The law itself does not appear to provide specific provisions for ensuring the fairness of the merit process.

## **APPENDIX A: SUMMARIES OF INDIVIDUAL COUNTRY REFORM EXPERIENCES**

Australia  
Brazil  
Canada  
Chile  
China  
Finland  
Germany  
Hungary  
Netherlands  
New Zealand  
Poland  
South Korea  
UK  
USA

The full case studies from which these are extracted are provided at:  
<http://www1.worldbank.org/publicsector/civilservice/designimplementing.htm>



## Australia

Context and problems	Approaches	Outcomes and concerns
<p><u>Context:</u></p> <ul style="list-style-type: none"> <li>• Federal state, with strong federal government</li> <li>• Majoritarian electoral system</li> <li>• Adversarial Anglo-Saxon administrative tradition</li> </ul> <p><u>Problems:</u></p> <ul style="list-style-type: none"> <li>• Fiscal pressures mid 1980s</li> <li>• Some public resistance to poor quality public services, but little demand from public for management reforms</li> <li>• Employment rigidities in the civil service</li> </ul>	<p><u>Approaches:</u></p> <ul style="list-style-type: none"> <li>• Focus on increasing efficiency, achieving expenditure reductions, streamlining government</li> <li>• Centralized implementation of reforms driven by federal government</li> <li>• Mixture of radical and pragmatic approaches</li> <li>• Early focus on managerialism</li> <li>• Mid 1990s emphasis on privatization and the introduction of market mechanisms</li> <li>• Early step was creation in 1984 of Senior Executive Service</li> <li>• Focus on open and competitive recruitment</li> <li>• Early moves to results-oriented management and program budgeting</li> <li>• Government structure streamlined and number of Ministries reduced from 27 to 16 Departments in 1987</li> </ul>	<p><u>Outcomes:</u></p> <ul style="list-style-type: none"> <li>• Streamlined structure of government</li> <li>• Public service reduced from 180,893 in 1986 to 143,305 in 1996</li> <li>• Substantial state assets privatized</li> <li>• Substantial re-prioritization of government expenditure</li> <li>• Overall significant efficiency gains</li> <li>• Culture of public service altered: less tenure for civil servants, more managerialist, closer to private sector, less distinctive</li> <li>• Policy advice to Ministers diversified</li> </ul> <p><u>Concerns:</u></p> <ul style="list-style-type: none"> <li>• Morale problems at middle management and lower levels of the public administration</li> <li>• Weakening of public service ethos</li> <li>• Some difficulties in contract management.</li> </ul>

## Brazil

Context and problems	Approaches	Outcomes and concerns
<p><u>Context:</u></p> <p>Federal state 26 States and one Federal District. State governments exercise power in those areas not reserved to the Federal or municipal governments. Administrative tradition strongly influenced by the US Military exited government in 1985, followed by new civilian government 1988 Constitution drafted from scratch by the Constitutional Congress as a result of high level of distrust of the previous, 1967 military Constitution.</p> <p><u>Problems:</u></p> <p>Lack of central control over civil service existed prior to 1986. Federal government experienced chronic deficit, aggravated by irresponsible state governments. Low morale of public employees, leading to many of the most experienced and skilled civil servants to resign their posts during Collor administration.</p>	<p><u>Approaches:</u></p> <p>President Cardoso's administrative reform agenda formulated in 1995 by the Ministry of Federal Administration and State Reform (MARE) Focus on the state reducing its role as provider of services. MARE diagnosis asserted that federal civil servants were not overly numerous, although poorly allocated. Proposed changes included improving the professionalism of civil servants, increasing the flexibility of public sector managers, and facilitating a sectoral and regional distribution of civil servants. Creation of ministerial level political coordinator to serve as a liaison between the executive and the legislature. Managerial flexibility proposed to be achieved through measurable performance indicators built into contracts with heads of autonomous agencies. Later reforms have focused on the creation of a performance focus to the budget, developing a series of program areas.</p>	<p><u>Outcomes:</u></p> <p>Some initial reduction in the number of federal public employees, and constitutional reform now requires retrenchments or other actions if the federal, state or municipal governments expend more than 60% of revenues on payrolls Contracts between the State and autonomous agencies or "Social Organizations" may allow greater pay flexibility, including pay for performance. A new legal framework for autonomous agencies and "Social Organizations" under the Cardoso reform program were intended to make the State more agile and responsive. The "managerial" reforms embedded in the administrative reform amendment may lead to greater efficiency and better service delivery. However, it is too early to know.</p> <p><u>Concerns:</u></p> <p>Quality of civil service was seriously damaged during the Collor administration.</p>



## Canada

Context and problems	Approaches	Outcomes and concerns
<p><u>Context:</u></p> <p>Majoritarian Federal system with strong Provinces and much service delivery at Province and local government levels            Federal government central agencies relatively large and influential within overall system but no single dominant central agency            Cohesive Mandarin cross-Departmental culture</p> <p><u>Problems:</u></p> <p>Weak economic performance 1980s            Poor fiscal discipline: spending targets not achieved            Large growth in levels of public debt: from Canadian \$168 billion in 1984 to \$508 billion in 1993            Federal budget deficit 6% in 1994            Citizen demands for greater accountability</p>	<p><u>Approaches:</u></p> <p>Reforms carried out “calmly, competently, without fanfare”            Focus on long-term alignment of expenditures and revenues            Dispersed central agency authority            Reforms incremental, not driven by ideology            Some preference for private sector approaches, but much weaker than UK or New Zealand            1989 Special Operating Agency Program: limited autonomy for new governmental bodies and wide experimentation and diversification in organizational forms            Attempt explicitly to build partnerships with individual Provinces by the center            Program review and downsizing 1994 onwards            Attempt to rebuild and revitalize elements of public service management after years of downsizing through La Releve 1997            Commitment to full accruals accounting and results statements for all Departments            1996 improved reporting to Parliament</p>	<p><u>Outcomes:</u></p> <p>Balanced budget achieved in 1997/98 (first for thirty years)            Cabinet reduced from 35 to 23            Public service lost 15,000 under the Mulroney Government (1984-1993) (half transferred to Provincial governments or elsewhere) and it declined by further 17.4% (39,000 employees) over last four years (transfers to other parts of system, alternative service delivery, and cuts in civilian defense employees).</p> <p><u>Concerns:</u></p> <p>Use of performance measures uneven            Career civil servants losers from the reforms (worsening comparative pay position for many)            Special Operating Agencies not sufficiently different from Ministerial Departments to support flexible and innovative delivery            Implementation gap: reforms not meeting all expectations            Concern about contract management</p>

**Chile**

<b>Context and problems</b>	<b>Approaches</b>	<b>Outcomes and concerns</b>
<p><u>Context:</u></p> <p>Governed by a military dictatorship, headed by General Augusto Pinochet, from 1973 to 1990. Governed by a president and legislature chosen through free elections since March 1990. Unitary republic, divided into 13 regions, further subdivided into 51 provinces. Bicameral legislature.</p> <p><u>Problems:</u></p> <p>Although public sector may be most capable in Latin America, there was still a need for more flexible, efficient and effective State administrative apparatus. Patronage had become widespread by the mid-1970s. Over-expanded government.</p>	<p><u>Approaches</u></p> <p>Focus on turning to private markets to enhance efficiency; government handed over to private sector substantial activities in health, education, housing, and social security            Legal distinction between autonomous service providers and policy-making ministries            Government began prolonged policy of increasing public sector wages under the a unified wage policy in 1985.            Online government procurement launched            Initiative launched to employ performance-based budgeting.</p>	<p><u>Outcomes:</u></p> <p>Pinochet government succeeded in privatizing a number of activities, and cutting the number of public employees. Subsequent democratic governments had no need to further cut public employment.            Role of private sector retained and extended in service delivery.</p> <p><u>Concerns:</u></p> <p>Impact and success of performance-based budgeting not yet clear.</p>

## China

Context and problems	Approaches	Outcomes and concerns
<p><u>Context:</u></p> <p>Single party majority (Communist) 23 provinces, 5 autonomous regions, 4 municipalities Low public respect for civil service. Central government/communist party large and influential within overall system.</p> <p><u>Problems:</u></p> <p>Fiscal pressures Trend toward market economy necessitated administrative reforms. Tradition of staffing was through labor allocations, resulting in a large amount of staff being placed in positions for which they were not suitably qualified Complex, inefficient overlapping administrative structures.</p>	<p><u>Approaches</u></p> <p>Economic reforms preceded administrative reforms and foreign investment encouraged Greater autonomy given to state-owned enterprises, and decentralization and decollectivization of agriculture Organizational reforms conducted in '82, '88, '93 and '98, which led to streamlining of government agencies. Late 1980s early 1990s government began to decentralize government decision-making to local governments, producers and consumers. Local governments given greater power over their personnel administration. Fixed tenure established for government officials, with mandatory retirement ages. Cadres (civil service personnel) recruited into the service through open, competitive examinations, rather than through labor allocations. Wage markets used to determine civil servants' salaries. Content of training revamped to meet the needs of a market economy.</p>	<p><u>Outcomes:</u></p> <p>1982 reforms reduced State Council agencies from 100 to 61, and number of employees from 51,000 to 30,000. 1988 restructuring reduced the number of ministries and commissions from 45 to 41 and the number of directly subordinate bureaus from 22 to 19. Increased negotiations between the center and local governments over remittances. Younger and more skilled generation in government.</p> <p><u>Concerns:</u></p> <p>China weak in publishing administrative and judicial decisions. More accountable government structure necessary to accede to WTO.</p>

## Finland

Context and problems	Approaches	Outcomes and concerns
<p><u>Context:</u></p> <ul style="list-style-type: none"> <li>Unitary state supported by Constitution</li> <li>Tradition in recent past of coalition governments</li> <li>Unicameral legislature</li> <li>Career civil service</li> <li>No significant demand for change from general public</li> </ul> <p><u>Problems:</u></p> <ul style="list-style-type: none"> <li>Adverse economic conditions 1990s (and collapse of Soviet Union)</li> <li>GDP fell by 12% from 1990 to 1993</li> <li>Unemployment reached 18.4% in 1994</li> <li>Central government fiscal deficit 11% of GDP in 1993 and 1994</li> </ul>	<p><u>Approaches:</u></p> <ul style="list-style-type: none"> <li>Focus on budgetary reform and restraint, with a move to multiyear planning, and results-based management and budgets</li> <li>Reforms pragmatic, consensual; not driven by overall strong ideology</li> <li>No intensive use of consultants or outsiders</li> <li>Reforms driven by a fairly small number of senior civil servants together with politicians</li> <li>Gradual formation of set of proposals for streamlining the state apparatus and restraining expenditures</li> <li>Lightening of bureaucratic weight of central government</li> <li>Parallel shift to block transfers from center to municipalities (pilots from 1987, full implementation 1994)</li> <li>Some measure of decentralization</li> <li>Extensive experimentation, use of pilots, dissemination and training</li> <li>Some use of market mechanisms in selected service delivery areas</li> <li>Performance management initiatives</li> <li>Extensive development of electronic service delivery</li> </ul>	<p><u>Outcomes:</u></p> <ul style="list-style-type: none"> <li>Number of personnel financed by state budget fell by about 40% from 1989 to 1995: 213,000 to 130,000 (moved to off-budget enterprises and companies accounted for 34,000 of the 78,000 reduction)</li> <li>Public expenditure reduced by Finnish mark 60 million (equivalent to 8% of 1999's GDP)</li> <li>Openness and transparency of administration increased</li> <li>State employees funded from the central government budget reduced by 43%</li> </ul> <p><u>Concerns:</u></p> <ul style="list-style-type: none"> <li>Little progress in civil service human resource management</li> <li>Bureaucracy increased in some areas</li> <li>Most movement at local government and agency levels: not so much at central government level</li> <li>Delegation of responsibilities from central Ministries not followed by commensurate reductions in the staff numbers of the central Ministries</li> </ul>

## Germany

Context and problems	Approaches	Outcomes and concerns
<p><u>Context:</u></p> <ul style="list-style-type: none"> <li>• Federal state (16 laender, 329 counties, 115 non-county municipalities, 14,915 municipalities)</li> <li>• Extremely strong law-based state tradition</li> <li>• Extremely varied and complex public administration</li> <li>• Upper levels of Federal civil service extremely politicized</li> <li>• Federal administrative role mainly confined to lawmaking</li> </ul> <p><u>Problems:</u></p> <ul style="list-style-type: none"> <li>• Some pressure from citizens for better service from local governments</li> <li>• Unification of the East German laender</li> </ul>	<p><u>Approaches:</u></p> <ul style="list-style-type: none"> <li>• Not driven by political ideology</li> <li>• Administrative tightening up and incremental modernization as opposed to view of minimalist role for state or a strong focus on marketization</li> <li>• Focus on improving existing system as opposed to trying to emulate another system or import wholesale approaches from elsewhere</li> <li>• Federal structure and tradition militate strongly against any form of centralized top-down model of reforms</li> <li>• Few reform initiatives at central level</li> <li>• Transformation of the East German public administration through changes in role of government, move to merit-based civil service, horizontal and vertical separation of powers, transition to legalistic rules-based culture and behavior)</li> <li>• Promoting entrepreneurship at local level</li> </ul>	<p><u>Outcomes:</u></p> <ul style="list-style-type: none"> <li>• Federal apparatus 300,000 in 1989 to 381,000 in 1992 to 315,000 in 1998</li> <li>• Significant early reforms at local government level</li> <li>• Some increased flexibility in budget execution.</li> </ul> <p><u>Concerns:</u></p> <ul style="list-style-type: none"> <li>• Reform fatigue in relation to New Public Management – new governance concepts just emerging</li> <li>• Small “club” of reformers – reforms not widespread</li> <li>• Attempt to introduce greater flexibility in civil service pay system defeated in the German Parliament</li> </ul>

## Hungary

Context and problems	Approaches	Outcomes and concerns
<p><u>Context:</u></p> <ul style="list-style-type: none"> <li>• Parliamentary democracy</li> <li>• Unicameral legislative branch</li> <li>• Strong focus on developing tools for a democratic system of governing.</li> <li>• Decentralized system of local governments</li> </ul> <p><u>Problems:</u></p> <ul style="list-style-type: none"> <li>• Large debt burden</li> <li>• Aggregate employment concerns</li> <li>• Senior civil service positions patronage-based</li> </ul>	<p><u>Approaches:</u></p> <ul style="list-style-type: none"> <li>• Emphasis on decentralization</li> <li>• Favorable environment for private sector by means of public sector streamlining emphasized.</li> <li>• Reform of public finance system, prepared by Public Finance System Reform Committee.</li> <li>• Territorial development councils at departmental and regional levels established.</li> <li>• Replacement of hierarchic system of public administration by a system of public management.</li> <li>• Act on Local Governments amended in 1994, enforcing the improvement of municipal government.</li> <li>• Act on Legal Status of Civil Servants adopted, introducing a performance based process of promoting employees, as well as outlining the necessity of civil servants remaining in office regardless of party or political changes.</li> <li>• Training for task performance in public administration administered.</li> </ul>	<p><u>Outcomes:</u></p> <ul style="list-style-type: none"> <li>• Local authorities in the municipal governments were granted more power and autonomy to take decisions on local matters in the 1990s.</li> <li>• Service delivery strengthened.</li> <li>• Excessive legislation removed, legislation streamlined, resulting in increased governance capabilities.</li> <li>• 15 percent reductions in ministry employment.</li> <li>• Budget transfers to local government reduced from 8.8% of GDP in 1994 to 4.6% in 1997</li> <li>• "Government effectiveness" seen as high (EBRD)</li> </ul> <p><u>Concerns:</u></p> <ul style="list-style-type: none"> <li>• Debt burden remains large.</li> <li>• Possible politicization of the Senior Executive Service</li> </ul>

## Netherlands

Context and problems	Approaches	Outcomes and concerns
<p><u>Context:</u></p> <p>Unitary but decentralized state            Consensual multiparty coalitions; quasi-corporatist            Open structure with wide range of consultative and advisory structures            14 Ministries, 12 provinces, 500 municipalities            Some public demand for less bureaucratic approach but general administration held in reasonable esteem</p> <p><u>Problems:</u></p> <p>Sizeable budget deficits late 70s to early 80s            Public concerns about corruption            Senior civil service is patronage-based.</p>	<p><u>Approaches:</u></p> <p>1980s: sharp cutbacks in public sector and imposition of tight control of expenditures            Some use of reform ideas from Sweden, UK, USA            Some reform ideas from private sector            Drive for increasing efficiency and achieving savings            Reform approaches based on compromise and building consensus            Much attention from the political and bureaucratic elite to budgetary imbalances            Some significant privatizations (post, telecoms, mint, port authority)            Some decentralization initiatives with responsibilities offered with 90% of funding            Establishment of many new semi-autonomous departmental agencies – 20 set up from 1991 to 1998            Pay and conditions became closer to those pertaining in the private sector            Development of performance indicators</p>	<p><u>Outcomes:</u></p> <p>Financial management greatly improved            Significant efficiency savings achieved</p> <p><u>Concerns:</u></p> <p>Loss of public accountability for non-Ministerial public bodies            Power struggles at center with spending departments reluctant to lose powers through decentralization impeded real progress in this area            Civil servants excessively cautious because of increased political oversight.</p>

## New Zealand

Context and problems	Approaches	Outcomes and concerns
<p><u>Context:</u></p> <ul style="list-style-type: none"> <li>• Small remote island country</li> <li>• Unitary government</li> <li>• Traditionally a single party majority government, but the recent introduction of proportional representation has made coalition governments more likely</li> <li>• Few constitutional constraints on party in power</li> <li>• Unified depoliticized civil service at start of reforms</li> </ul> <p><u>Problems:</u></p> <ul style="list-style-type: none"> <li>• GNP per capita was 90 in 1985 and 76 in 1992 against OECD average of 100</li> <li>• Dwindling of trade relations with UK</li> <li>• 1984: stagnant economy, large national debt, 20% devaluation</li> <li>• 1985 inflation 13%</li> <li>• Unemployment grew from under 5% in 1984 to 10% in 1992/3</li> <li>• Public concern about the economy but not about the civil service.</li> </ul>	<p><u>Approaches:</u></p> <ul style="list-style-type: none"> <li>• Comprehensive public management reforms 1984 to 1990</li> <li>• Reforms driven by explicit and coherent ideology and theoretical base (not party political): based on elements of public choice, managerialism, transaction costs</li> <li>• Reforms driven by small group from political and bureaucratic elite with shared values and interests</li> <li>• Civil service human resource management – extensive use of contracting arrangements, performance contracts decentralization of personnel management to agency line managers</li> <li>• 1989 Public Finance Act: Move to accruals accounting and focus on outputs and outcomes</li> <li>• Implementation of reforms vigorous and harsh</li> <li>• Extensive use of management consultants and of external experts</li> </ul>	<p><u>Outcomes:</u></p> <ul style="list-style-type: none"> <li>• Public sector employment fell from 88,000 to 37,000 from 1988 to 1994 (many transferred to crown entities or state owned enterprises)</li> <li>• Major productivity and efficiency improvements and cost savings</li> <li>• Range of policy advice available to Ministers broadened</li> <li>• Flexibility for operational managers to manage</li> <li>• Operational managers wield genuinely decentralized powers</li> <li>• Greater amount of performance information in public domain</li> </ul> <p><u>Concerns:</u></p> <ul style="list-style-type: none"> <li>• Weak policy advice in some areas</li> <li>• Loss of continuity and institutional memory and weakening of public service ethos</li> <li>• Insufficient focus on outcomes</li> <li>• Unclear accountabilities for crown entities due to failure to complete reforms in this area</li> <li>• Loss of energy and momentum in the mid 1990s</li> <li>• High transaction costs inbuilt in new system</li> </ul>



## Poland

Context and problems	Approaches	Outcomes and concerns
<p><u>Context:</u></p> <ul style="list-style-type: none"> <li>• Bicameral legislature</li> <li>• Separation and balance of power.</li> <li>• Large decentralization of power</li> <li>• Strong service delivery at local government levels</li> </ul> <p><u>Problems:</u></p> <ul style="list-style-type: none"> <li>• Large debt burden</li> <li>• Aggregate employment concerns</li> <li>• Weak service delivery prior to reform</li> <li>• Demanding targets for EU accession.</li> </ul>	<p><u>Approaches:</u></p> <ul style="list-style-type: none"> <li>• Country restructured into gminas (basic level of public administration), voivoids (largest administrative unit in the subnational organization of the state), and poviats (county level of public administration designed to maintain many of the everyday institutions of public life).</li> <li>• Act on Branches of the Government Administration made clear that ministers would be responsible for policy and strategy in particular branches.</li> <li>• In process of eliminating complicated administrative procedures at various levels of government.</li> <li>• Focus on reforming system of public finance.</li> <li>• Civil Service Act passed, unifying all staff employed within the government.</li> <li>• Civil Service State Commission began testing potential civil servants to ensure quality employment.</li> </ul>	<p><u>Outcomes:</u></p> <ul style="list-style-type: none"> <li>• Local authorities given more responsibilities for service delivery.</li> <li>• Decentralizing political decisions helped reduce central government employment</li> <li>• Fiscal Responsibility Act passed.</li> </ul> <p><u>Concerns:</u></p> <ul style="list-style-type: none"> <li>• Morale of central government civil servants weakened</li> <li>• Significant politicization at senior levels.</li> </ul>

## South Korea

Context and problems	Approaches	Outcomes and concerns
<p><u>Context:</u></p> <ul style="list-style-type: none"> <li>• Presidential republic, with powers shared between the president and a unicameral legislature</li> <li>• Tradition of strong executive branch</li> <li>• Weak political parties with minority administrations</li> </ul> <p><u>Problems:</u></p> <ul style="list-style-type: none"> <li>• Economic crisis</li> <li>• Government employment high prior to reform</li> <li>• Perceptions of cronyism and corruption</li> </ul>	<p><u>Approaches:</u></p> <ul style="list-style-type: none"> <li>• Ministry of Government Administration and Home Affairs established in 1998 as the central agency responsible for the civil service system.</li> <li>• Civil Service Commission established in 1999 to reform the civil service system.</li> <li>• Administrative reforms linked to other democratizing reforms central to President Kim's overall political agenda.</li> <li>• Multi-annual budgeting adopted in 1998, as well as a medium term fiscal plan.</li> <li>• Performance-oriented personnel appraisal system introduced in 1997, expanded into enhanced pay programs</li> <li>• Registration and disclosure of property for elected officials and high-ranking public servants enforced, and the Advisory Council for Anticorruption created in 1999.</li> <li>• Government adopted Government Information Disclosure Act, to ensure people's right to access government information.</li> <li>• Regulatory Reform Committee Established</li> </ul>	<p><u>Outcomes:</u></p> <ul style="list-style-type: none"> <li>• GDP grew 10.2% in 1999.</li> <li>• Cabinet ministers reduced from 21 to 17 and ministerial level officials from 33 to 24.</li> <li>• 230 high level posts abolished (4 assistant ministers, 16 office directors, 74 bureau directors, and 136 division directors).</li> <li>• In first year of operation, the Regulatory Reform Committee scrapped 48% of administrative regulations, and improved 22% of the existing administrative regulations. In 1999, the Committee eliminated 7.4 of the remaining regulations.</li> </ul> <p><u>Concerns:</u></p> <ul style="list-style-type: none"> <li>• Too early to discern whether the open recruitment system for senior government positions being adopted will be successful or have impact on the quality of the civil service.</li> </ul>

## UK

Context and problems	Approaches	Outcomes and concerns
<p><u>Context:</u></p> <ul style="list-style-type: none"> <li>• Unitary highly centralized system</li> <li>• Majoritarian and highly adversarial political system</li> <li>• Powerful executive, tight party discipline enforced consistently in legislature</li> <li>• Extremely few constraints on executive's ability top down to impose even unpopular reforms</li> <li>• Depoliticized and generalist civil service</li> </ul> <p><u>Problems:</u></p> <ul style="list-style-type: none"> <li>• Control inflation</li> <li>• Reduce public sector borrowing requirement</li> <li>• Perceived need to reduce government expenditure as % of GDP</li> <li>• Civil service felt to be privileged and complacent</li> <li>• State felt to be too big and interventionist</li> </ul>	<p><u>Approaches:</u></p> <ul style="list-style-type: none"> <li>• Reforms driven by ideology: monetarism</li> <li>• Managerialist and private sector influences extremely strong</li> <li>• Extensive use of performance management and measurement systems and performance indicators (including league tables for hospitals and schools)</li> <li>• Extensive use of executive agencies: 140 set up, more than 70% of civil service; compulsory competitive tendering in local government</li> <li>• Massive use of management consultants</li> <li>• 1979-1983: reducing civil service numbers</li> <li>• 1980s: improving financial management</li> <li>• 1987: focus on market mechanisms, introduction of purchaser/provider split in health</li> <li>• 1991 Market testing; Citizens Charter</li> <li>• Mid 1992: further downsizing of central government ministries following management reviews</li> <li>• Late 1990s: Service First; comprehensive spending reviews; Best Value initiative in local government</li> <li>• Insistent top-down reform implementation</li> </ul>	<p><u>Outcomes:</u></p> <ul style="list-style-type: none"> <li>• Civil service cut by 14% then by a further 6% from 1979 to 1983</li> <li>• Performance orientation greatly increased; customer orientation greatly increased</li> <li>• Technical efficiency increased</li> <li>• League tables for hospitals and schools very popular with general public</li> <li>• Recognition of the limitations of NPM led to drive to focus Government on citizens' real life</li> </ul> <p><u>Concerns:</u></p> <ul style="list-style-type: none"> <li>• Service delivery failures not eliminated</li> <li>• Collapsed staff moral in education and health</li> <li>• Executive agencies a half way house: Not sufficient managerial delegation and flexibility and more complex for users</li> <li>• Fragmentation of system and possible adverse impact on quality of policy advice being produced</li> <li>• Some undermining of civil service ethos</li> <li>• Some increasing politicization at senior levels of civil service in late 1990s</li> <li>• Reform initiative overload</li> <li>• Provider-led agenda</li> </ul>

## USA

Context and problems	Approaches	Outcomes and concerns
<p><u>Context:</u></p> <ul style="list-style-type: none"> <li>• Federal system with strong states and constitutionally entrenched division of powers between branches and levels of government</li> <li>• Little party discipline in legislature</li> <li>• Extensive lobbying by private interests</li> <li>• Legislative Committees independent and powerful; legislature overall comparatively powerful</li> <li>• Legislature predilection for micromanaging the Federal bureaucracy</li> <li>• “Spoils” system with respect to political appointments on change of administration</li> <li>• Open and fragmented government: risk of gridlock</li> </ul> <p><u>Problems:</u></p> <ul style="list-style-type: none"> <li>• Significant public disenchantment: strong distrust of government on the part of citizens</li> <li>• Collapse in morale in federal civil service late 1980s</li> <li>• 1980s: high Federal budget deficit</li> </ul>	<p><u>Approaches:</u></p> <ul style="list-style-type: none"> <li>• Creation of Senior Executive Service 1983 (8,000 civil servants)</li> <li>• Business-oriented free enterprise cultures; quick penetration of varied private sector approaches</li> <li>• Difficult to build coalition behind a specific reform measure</li> <li>• Executive elite and legislature not in agreement in many areas</li> <li>• 1992 National Performance Review and 1993 Government Performance and Results Act (strategic planning and performance measurement)</li> <li>• Focus on changes in techniques, not on Government structure reforms (budgetary, customer service, performance management)</li> <li>• Reagan: emphasis on privatization, contracting out, user fees</li> <li>• Extensive use of private sector managers (12,000 under Grace Commission)</li> <li>• Leadership of the reforms mostly by political appointees, not career civil servants</li> </ul>	<p><u>Outcomes:</u></p> <ul style="list-style-type: none"> <li>• Budget surplus achieved in 1999</li> <li>• Many outcomes patchy: lot of micro-level efficiency gains, increased customer orientation and responsiveness</li> <li>• Federal civil service reduced by 17% or 377,000 employees in period 1993 to 1999</li> <li>• Public trust in the federal government has improved by 9 percentage points from 1994-1998.</li> </ul> <p><u>Concerns:</u></p> <ul style="list-style-type: none"> <li>• Collapsed morale of federal civil servants at end 1980s</li> <li>• Performance plans produced under the 1993 legislation mainly disappointing</li> </ul>

## APPENDIX B: REFORMERS' CONCERNS - METHODOLOGICAL NOTE

### Reducing public expenditure Aggregate employment and wage bill concerns

Noting that there are no hard and fast metrics for deciding when to reform public sector pay and employment, and that overstaffing is a relative concept, aggregate employment and wage bill concerns arise when there are grounds for concern that the country can not afford to pay the existing numbers of public employees consistent to support the operation of a motivated and professional public service on a sustained financing basis. Comparisons with GDP and population are useful only as guides to judgment. This problem tends to be identified when:

**The central government wage bill is a large percent of GDP:** This ratio can vary between 10 percent and 25 percent, with many countries around the 15 percent mark. The ratio depends on the relative involvement of the state in the economy. Developing countries tend to have smaller governments relative to GDP and consequently a lower ratio.

**The number of public sector employees is a large percent of total population:** Reformers are interested not only in the size of the wage bill but also in the number of public servants. Governments acting as an "employer of last resort" have often taken on large numbers of public servants in the lowest grades on meager wages. These are often the most unproductive government employees, but the extent of such a problem will not be immediately apparent by examining the wage bill alone.

**The number of government employees is a large percent of total employment:** This metric is similar to the preceding one, but it corrects for developing countries (especially in Africa) that have a relatively high proportion of children in the population, leading to a relatively low public servant to population ratio.

**The public sector wage bill is large as percent of total public sector spending:** In order to deliver quality public services, governments will need to spend money on goods and services as well as wages and salaries. As a rule of thumb, when this ratio rises over 25 percent, governments risk reducing their effectiveness by squeezing non-wage expenditure such as goods and services, maintenance, and capital expenditure. In practice, this means that hospitals will lack medicines, schools will go without textbooks, etc.

**Average government wages are low compared to per capita GDP:** In order to recruit quality staff, encourage productivity and avoid corruption, governments in developing countries must pay their employees at least a living wage. This ratio provides an important indicator of whether government employees are under or over-paid in comparison to the prevailing standard of living. A larger numbers of dependants, the relative scarcity of trained labor, and low standards of living imply that this ratio will tend to be larger in developing than developed countries. However, this does not mean that government employees are over-paid.

**Recruitment growth rate is faster than GDP:** When government recruitment grows faster than GDP, revenue or population growth it is clear that either financial stability (growing deficits) or future performance (through reduced wages or reduced non-wage expenditure) will be jeopardized.

**Military spending is large:** Governments that spend an inappropriate proportion of their total budget on the military sector are likely to be jeopardizing future development objectives. In such situations, a country's budget might show that development related spending (on health, education, social safety nets, basic infrastructure etc.) is being crowded out by high and rising defense spending which has little justification. Countries that employ more soldiers than health and education personnel could perhaps improve their development outcomes through a reduction in military personnel expenditure. There are no hard and fast rules however, and the key is not to assess military expenditure, but to assess the accountability of its overall public expenditure allocations.

## **Improving government ability to implement legitimate policies**

### **Patronage**

The distinction between policymaking and implementation holds that politicians and their immediate appointees should make decisions concerning political priorities, while neutral, professional staffs use their skills and experience to implement those policies. Optimally, such an arrangement allows public administration to remain sensitive to political goals yet protected from political meddling in its day-to-day functioning. Merit and competition are undermined – and arguably civil service performance, as well – when unqualified individuals are hired or promoted into posts for which they are unsuited. Morale is harmed as rank and file staff observes others disregarding rules or receiving special treatment, while their own prospects for advancement based on merit and competition appear dim. Finally, widespread staffing changes in response to shifts in political power have a crippling effect on institutional memory, which in turn is likely to be detrimental to performance.

Although the dangers of pervasive patronage are generally known, it is much less clear where the line between political and regular posts should be drawn. Some rough and ready measures can be found. The most common is the ratio of political appointees to the size of the civil service. Another measure that could facilitate the assessment and control of patronage is regular (monthly) data on turnover rates, provided by a personnel information system. Still, there is no clear cut-off point beyond which patronage is plainly illegitimate.

When transparent mechanisms to define the extent and conditions of political versus non-political appointments are lacking, the risk is that every position *de facto* becomes subject to political influence. This is particularly the case in countries where the public administration experienced extended periods of intense politicization, such as the former socialist states of Central and Eastern Europe.

This is of course a nuanced point as political appointments are often an essential and legitimate instrument to craft and maintain a multi-party governing coalition. Many countries have a significant number of hybrid appointments in which merit (defined by meeting explicit and contestable criteria) is accompanied by subjective political judgments. By contrast with "pure" political appointments, in which serving members of the government make hiring and firing decisions, in hybrid appointments merit is a necessary but insufficient condition for appointment. Hybrid appointments require careful management.

Many reforms seek to restrain political patronage appointments to a level similar to that observed in OECD countries. This is a rather broad target as, in the United States, the proportion of political appointees is around 1:400, while in Sweden it is around 1:2,000. The percentage change in budget-funded public sector staff in core central government ministries following elections can be informative.

### **Employment contracts and tenure**

In many cases the target of reform has been the nature of the employment contract between the civil servant and the state – but the direction of reform sought has been distinctly varied.

For countries without a well-entrenched legal and customary view of civil service employment, access to civil service positions and the responsibilities of civil servants has been legally defined with greater precision. The intention of these reforms has been to place checks and balances around the employment contract of civil servants so that they form a distinct and unified corps, with security of tenure and objective bases for promotion used as protections against capricious political action.

In most settings, reforms to employment contracts have either consolidated or extended prohibitions against patronage and nepotism in career appointments and promotions, with some

requiring that appointments and promotions to career positions be made through merit-based competition. Unity of the civil service with common organizational structures and career classification systems has been achieved with reporting frameworks consistently applied across all management units.

In some other countries that already have a secure legal and customary regime for civil service employment, employment reforms have run counter to this general movement. For these, primarily Anglophone OECD countries, the direction of reform has been to reduce (although not abandon) security of tenure and the significance of seniority in decisions concerning promotion and career advancement. In these settings, the unity of the civil service has also been reduced somewhat, as individual agencies become more akin to separate private sector employers with divergent terms and conditions for their staff.

## **Improving government as an employer**

### **Ineffective monetary incentives**

The extent of salary decline in some settings has forced employees to find additional sources of income, and the quality of public services and human resource management in the civil service have been undermined as a result. Employees resorted to other income-generating activities, while retaining their public sector jobs with relative impunity. Outright corruption may be the most pernicious effect (although the empirical evidence on whether low civil service wages foster corruption is inconclusive). Absenteeism and day-lighting are also deleterious to public sector efficiency. These are all serious problems in countries where civil service wages are simply below a living income.

Real wage erosion within the public sector has resulted in pay levels in some countries that are well below what would seem to be the reservation wage of the individuals employed. Yet the particular mix of lax management standards that tolerate additional income-earning activities amongst civil servants on the one hand, and the allowances, in-kind benefits, and intangible incentives such as prestige and job security, on the other hand, have ensured lower than expected attrition rates. This has meant that in such settings the “best and brightest” were not necessarily lost from the public sector -- but there was little motivation for them to apply their talents.

Low public sector pay relative to the private sector<sup>1</sup> can, of course, be associated with skill shortages. However, over-compensation can create excessive pressure for public sector employment.

Key points are that vertical compression<sup>2</sup> can make low-skilled jobs relatively more attractive to job-seekers while recruiting and retaining staff for high-skilled posts tends to become more difficult. Likewise, high vertical compression reduces civil servants’ incentives to pursue a long and successful career in the civil service by reducing the appeal of promotions.

Monetary incentives other than through base pay can have adverse effects on civil service productivity. Excessive horizontal decompression<sup>3</sup> can be unmanageable and foster patronage, while extreme horizontal compression can indicate that pay progression is over-dependent on length of service, creating rigidity.

## **Improving service delivery and building public and private sector confidence**

### **Perceived corruption and low public respect**

When businesses consider government rules and policies to be unpredictable, investment and growth are weak. Poorer persons attempting to establish small businesses may be particularly harmed, because with few assets other than their labor it is far more difficult for them to diversify across sectors of the economy — which is otherwise a rational response to unpredictable policies — than it is for the wealthy.

Government can prepare such chaotic and fast-changing budgets that they lose their impact as signals of government policy intentions. A budget that varies tremendously from year to year in its inter-sectoral allocations is signaling to the business community that government has no coherent policy stance. Businesses that perceive this are less likely to heed the rules and regulations that governments issue on the basis that all are unstable and unlikely to be enforced.

Expectations concerning the future flow of budgetary and other resources are also significant determinants of civil servant behavior. Officials that doubt that the budget will be implemented as planned may have few reasons to implement policies vigorously and every reason to over-staff, as salaries will ultimately be paid even if program funds are reduced.

Public concern about corruption is a significant driver of low public respect. A common definition of corruption is "the abuse of public office for private gain." Clearly, corruption (both political and bureaucratic) can have a devastating social and economic impact. The recent World Bank report "Anticorruption in Transition: Confronting the Challenge of State Capture" has usefully distinguished between state capture and administrative corruption. "State capture" refers to the actions of individuals, groups or firms both in the public and private sectors to influence the *formation* of laws, regulations, decrees and other government policies to their own advantage as a result of the illegal transfer or concentration of private benefits to public officials." By contrast, "administrative corruption" refers to the intentional imposition of distortions in the prescribed *implementation* of existing laws, rules and regulations to provide advantages to either state or non-state actors as a result of the illegal transfer or concentration of private gains to public officials."

### **Operational inefficiency and poor service delivery**

In terms of performance, it is often asserted that efficiency is low within the public sector, and that quality of service is poor. These are two related but separate considerations – and both are distinctly hard to substantiate or refute.

Assessing organizational performance in the public sector is quite difficult. First, unlike private organizations, public organizations have no single performance indicator – such as profits or market share – that can be used to compare across different types of organization or product. Few organizations in the public sector work for profit; and the outputs of organizations such as an audit body or the planning division of the Ministry of Finance are used only by other organizations within the public sector.

Second, public sector organizations are often responsible for goods with low contestability and measurability. In such circumstances it is generally impossible to find performance measures that satisfy the ideal qualities of consistency, comparability, clarity, controllability, comprehensiveness, boundedness, relevance, and feasibility. The current debate on performance in the public sector provides illustrations of benchmarks that can be applied over time, but has done little to solve the problem of comparability between diverse agencies and sectors. When public agencies' performance is measured, the metrics are distinctly organization or service-specific: the waiting time for a patient to see a doctor is not readily comparable to primary school enrollment rates. One popular approach in local government is to benchmark performance in a similar functional area across different, but comparable, governments.



## APPENDIX C: POINTS OF LEVERAGE FOR REFORMERS - METHODOLOGICAL NOTE<sup>4</sup>

### Tradition of a single strong central agency<sup>5</sup>

#### **Box 20: Stronger central agency in Finland**

The new Finnish Constitution will strengthen the position of the Prime Minister as a political leader in Government. The role of the Prime Minister has traditionally been quite a weak one, overshadowed by the strong role of the President. Recent steps taken towards a parliamentary system of government, away from the semi-presidential system, have raised the position of the Prime Minister's Office to that of a central coordinating body in the government. The Prime Minister's Office now actively co-ordinates political work in both Government and EU matters. EU matters were transferred from the Ministry of Foreign Affairs to the Prime Minister's Office in July 2000.

Governments that have control over a single central agency that by tradition has been able to drive through major changes are better placed to initiate comprehensive reforms than others are. These powerful central agencies do not arise through some single historical accident. They are generally the symptom of a tight system of horizontal coordination within government. The Treasury in the UK and in New Zealand places those countries in a very different starting position than the USA or France where no single central agency holds sway. The USA indicates the degree to which formal constitutional arrangements can influence this. The active involvement of Congress in many managerial details of line departments, in a manner that would be unthinkable in much of Europe, provides a system where departments report to multiple principals. No single central agency within the executive can drive through change under such circumstances. France and Germany are often cited as public sectors with multiple competing central agencies -- reducing the prospects for rapid reforms.

#### **Box 21: Cabinet Office in Australia**

The Expenditure Review Committee of Cabinet (ERC) is responsible for budget preparation. It reviews new spending and savings proposals by individual Ministers in considerable detail. In the case of savings proposals it fine-tunes the proposals to minimize adverse political fall-out. The principle of collective cabinet responsibility ensures a high level of contestability of new spending proposals - ministers have every incentive to test the spending proposals of their colleagues in order to maximize the pool of uncommitted budget funds available for their own proposals. There is also pressure on individual ministers to come up with savings options in their portfolio.

In the first phase of the reforms, the Cabinet Office played a key role in enforcing the rule that portfolios could not lodge new spending proposals for ERC consideration unless they also lodged portfolio savings proposals. In enforcing this, the Cabinet Office received strong backing from the Prime Minister's Office to overrule special pleading by ministers that there were no savings options available in their portfolio.

### Tradition of single party majority<sup>6</sup>

Majoritarian governments have a form of representation that affords political power on the basis of a bare majority. By contrast, consensual arrangements see the simple majority as only a minimum requirement and allow or even require many people to take part in governing. In this way they provide broad participation in government and facilitate broad agreement on the policies that the government should pursue.

This distinction can be made in two dimensions – within central or federal government and between levels of government. At the central or federal level, when the majority party in Government holds more than 50 percent of the seats in the legislature it is in a distinctly stronger position to drive reforms than in settings where two parties between them hold 50 percent of the seats in the legislature or when parties comprising government between them hold less than 50 percent of the seats. In highly centralized states such as the UK or New Zealand, the simple majority achieved by the national

government gives them relative supremacy over all levels of government. By contrast, Canada has a majoritarian government at federal level, but that government must be very mindful of the constitutional privileges and sensibilities of the provincial governments and so could not exercise that power casually. Switzerland has both a highly consensual form of central government and a highly decentralized set of arrangements between levels of government.

**Box 22: Majority government in Canada**

With a constituency-based electoral system, most elections result in majority governments. Although minority governments occasionally exist, coalitions are extremely rare. Canada has relatively few political parties represented in Parliament compared to countries that use a proportional representation system. Currently, there are five (Liberals, Alliance, Bloc Quebecois, Progressive Conservatives, and New Democratic Party). Each of the provinces has its own legislature and a constituency-based electoral system. There is not a direct relationship between federal and provincial political parties.

Partly in consequence, the UK and New Zealand were able to drive through reforms rapidly. The public sector in Switzerland has shown remarkable resistance to change.

**Tradition of integrated mandarin/ministerial careers**

When senior civil servants frequently become Ministers at some point in their careers, and vice versa, ownership of reforms is likely to be deeper at senior levels (although it might also cause some alienation at lower levels). The overlapping careers of civil servants and ministers in France might provide potential reforming politicians with a clearer understanding of the realities of the civil service and consequently a greater willingness to 'own' proposals made by the civil service. Arguably, however, this opportunity might be undermined somewhat by the resistance born of resentment that lower grade civil servants feel concerning reform proposals that they see originating in the privileged intertwined ranks of the grand *cours* and the political elite.<sup>7</sup>

**Tradition of heterogeneity in the public sector**

A body of sociological work on the nature of organizational change has suggested that external pressures, such as those from strong professional associations, tend to encourage homogeneity and that this inhibits change.<sup>8</sup> Public sector environments that allow a large number of different organizational forms to emerge will probably best support evolutionary and revolutionary developments -- with new organizational forms emerging from local experimentation. More uniform systems are more resistant to experimentation. Countries with a tradition of establishing public bodies with diverse and heterogeneous management and accountability arrangements offer the opportunity for innovative one-off pilots that can be the point of entry for larger reforms. Limited cross-cutting consistency in legal employment arrangements and weak mechanisms for enforcing consistency in financial or audit systems provide opportunities for experimentation.

Horizontally, this heterogeneity is more likely in presidential regimes where large numbers of special purpose bodies have been created by legislatures for specific purposes. Vertically, significant decentralization is often considered to produce provincial and state governments that act as test laboratories for larger public sector reforms.

**Box 23: Organizational heterogeneity in Brazil**

Brazil's federal ministries are widely seen as effective, relative to their equivalents in many other countries of the region. However, large differences in culture, institutional history and the characteristics of their professional corps, make them very different organizational environments in which to work. Fragmented parties, coalition government, and the strong constitutional role of Congress and State Governors all add to the pressures for organizational diversity.

## APPENDIX D: INSTITUTIONAL MALLEABILITY - METHODOLOGICAL NOTE<sup>9</sup>

### Degree of centralization<sup>10</sup>

Governments in states with authority constitutionally divided between levels of government are less able to drive through comprehensive and uniform reform programs. Thus, Germany and the USA have more restrictions than UK or New Zealand, for example. Unitary but decentralized states (France since the 1980s and the Nordic states) fall in between. However, as noted above, decentralization can provide local 'laboratories' for testing reforms prior to launching them on a larger scale.

There are various rough indicators of the degree of centralization: the percentage shares of total public employment employed at national or federal level; the proportion of total government spending that is undertaken by central government; and the degree of autonomy of subnational government.

#### **Box 24: Federalism in Canada**

Currently, Canada is one of world's most decentralized countries. The majority of public services are provided through provincial or municipal governments including health, education, social assistance, transportation, natural resources, and police. Key federal responsibilities include defense, foreign affairs, trade, regional development and setting national policy standards.

Judicial interpretation of the Constitution has traditionally tended to favor the provinces. However, the federal government significantly increased its powers during the 1960s by establishing and funding national social programs. The trend since then has been an expansion of provincial powers. One of the outcomes of the 1994 Program Review was the reduction in federal fiscal transfers to the provinces, with the consequence that federal influence over the provinces was significantly reduced.

### Politically neutral, permanent senior administrative positions<sup>11</sup>

When the majority of senior public official positions is politicized, with consequent high levels of turnover following a change of government, it is arguably harder to sustain a reform effort. It is also probable that politicized senior post holders have less legitimacy in the eyes of their junior colleagues and consequently would find it more difficult to lead change.

### Anglo-Saxon administrative tradition<sup>12</sup>

States with a "Rechtsstaat" tradition imbue their civil servants with a profound sense of the importance of preparing and enforcing laws in order to maintain the integrity and continuity of the state. This is in distinct contrast to the Anglo-Saxon "public interest" tradition which sees civil servants as employees more or less like any other, except that their employer happens to be the state. The consequence of this distinction is that civil servants in "Rechtsstaat" tradition states are justified in resisting rapid changes, as preserving the existing procedures and institutions is a key (and legitimate) concern.

The position of civil servants in the Germanic State tradition confers upon them an additional sense that it is service to the state, rather than specific levels of efficient management, is the basis of their rewards. In consequence, performance-related pay and many other outputs-based aspects of the New Public Management do not fit well with this tradition. The equivalence between citizens and consumers is a particularly difficult concept in the Germanic tradition. However, this position may be changing given the recent strong focus on staff motivation and citizen-orientation in recent reforms to modernize public agencies in Germany.

Decentralization is compatible with this tradition, however. Even nominally centralized countries with a Germanic tradition, such as the Netherlands, have engaged in significant efforts at decentralization.

**Box 25: The civil service and the German administrative tradition**

In Germany there is a very clear and formal distinction between civil servants (Beamte), who exercise public authority or state powers (around 40 percent of public employees), and the remaining state employees (Angestellte), who are subject to private sector labor laws. Civil servants are regarded as agents of the State, and are accountable under public law. Non-civil servants are regarded as simply performing a profession in the public sector of the economy, or within the public services funded by the state budget.

The core elements of the German civil service are relatively uniform for public servants at all levels of government, with the term "public servant" (Verwaltungsmitarbeiter) being used as a generic term to include civil servants (Beamte) as well as public employees (Angestellte) and public workers (Arbeiter). Unlike other federal states such as Canada and the United States, Germany has one single civil service. This is justified by the need to avoid "destructive competition" between vertical administrative levels as well as between Laender or local authorities.

The prevailing philosophy of the civil service is enshrined in the German constitution, which "reserv[es] to civil servants the right to act on behalf of the state" (article 33, paragraph 4, Basic Law) and by emphasizes the traditional principles of the professional civil service (article 33, paragraph 5, Basic Law). Although there is no clearly defined specification of the traditional characteristics of the professional civil service, some features are widely seen as typical, such as lifetime occupation, an appropriate salary according to the "maintenance" principle (Alimentationsprinzip), impartiality, political neutrality and moderation, dedication to public service, no right to strike, and acceptance of special disciplinary regulations.

The traditional Scandinavian State tradition is less concerned with formal legal processes, but the strong bias in favor of state action runs counter to privatization and deregulation policies. Even when there has been a retreat of the state and some apparent privatization, the supporting rhetoric was primarily that of "modernization" rather than the terms more common in other settings. Scandinavian governments have adopted individualized pay systems quite widely.

Again, decentralization is fully compatible with the Scandinavian State tradition. There is a strong history of local autonomy that is being reinforced by political changes of the 1980s and 1990s. Additionally, within the central administration the Scandinavian pattern has been deconcentrated, utilizing boards and agencies as quasi-autonomous implementing organizations – a pattern copied, at least in part, by "Next Steps" reforms in other countries. In addition, empowerment of the lower echelons of the public service (and of their clients) is compatible with the democratic and participatory ethos embedded in this tradition.

There is great variation among countries with a Napoleonic tradition. France has displayed a keen interest in administrative reform, and this has been accepted by bureaucratic elites provided they remain in control of it. "*La réforme administrative*" is now a major theme of French public administration, as is "*le management public*". This tradition appears, on paper, hostile to political decentralization. However, there have been significant and successful decentralization efforts in many countries within this tradition. Greece is a prominent exception.

Several types of reform that were antithetical to the Germanic tradition appear to be acceptable within the Napoleonic tradition. For example, performance-related pay is compatible with the established pattern of differential rewards for public employees in France and Belgium.

The Anglo-Saxon State tradition is peculiarly compatible with recent reform efforts. There are just two areas where there is some resistance to change. First, notions of citizen "empowerment" sit a little awkwardly within this culture. Second, as this state tradition is the most suspicious of government and of its own civil service, attempts to grant greater power to lower level civil servants is likely to be unpopular. Governments in this tradition are regarded as something of a necessary evil

that must be held to account at all times. Enforcing the law is implicit rather than explicit as a principle in the work of civil servants.

### **Limited trade union membership in the public sector<sup>13</sup>**

Extensive trade union membership in the public sector makes substantial resistance to reform more probable. This is not to argue that trade unions are intrinsically obstructive or could not (or should not) be fundamentally involved in reform design. Reforming governments in the UK and New Zealand have signed quality partnership agreements with large public sector trade unions. These partnerships commit both sides to continuing innovation in management and service delivery. This kind of partnership has a long history in the Nordic countries, Germany, the Netherlands, Ireland, Australia and, since the election of a democratic government, South Africa.

## APPENDIX E: GLOSSARY

Terms	Meaning <i>Italicized words or phrases are further defined elsewhere in the table.</i>
Administrative corruption	The intentional imposition of distortions in the implementation of existing laws, rules and regulations to provide advantages to either state or non-state actors as a result of illegal transfers or redirection of private funds to public officials.
Administrative decentralization	Redistribution of authority, responsibility, and/or financial resources for providing public services. It is the transfer of responsibility for planning, financing, and managing certain public functions from the central government and its agencies to field units, subordinate units or lower levels of government, semi-autonomous public authorities or corporations, or regional or functional authorities. Administrative decentralization has three major forms - <i>deconcentration</i> , <i>delegation</i> , and <i>devolution</i> . See: <a href="http://www1.worldbank.org/publicsector/decentralization/">http://www1.worldbank.org/publicsector/decentralization/</a>
Allowances	Current rewards other than <i>base pay</i> . These can be provided as part of the employment contract (e.g., transportation, housing, meals, telephone, travel, cost-of-living), or can be provided on a non-contractual basis or as intangible rewards (e.g., trips abroad or training). See: <a href="http://www1.worldbank.org/publicsector/civilservice/agency.htm">http://www1.worldbank.org/publicsector/civilservice/agency.htm</a>
Armed Forces (as employment category)	All enlisted personnel (including conscripts) and professional military. Administrative employees of the Ministry of Defense are generally excluded from this category and accounted for as <i>Civilian Central Government</i> employees. See: <a href="http://www1.worldbank.org/publicsector/civilservice/cross.htm#1">http://www1.worldbank.org/publicsector/civilservice/cross.htm#1</a>
Base pay	The salary or wages that every civil servant receives regularly (usually fortnightly or monthly) from the government by virtue of being on the payroll. <i>Base pay</i> is usually linked to the employee's position and is uniform across similar positions. The base wage is often cited to compare wages in the public and private sectors. It is, however, only one component of civil servants' <i>total rewards</i> . See: <a href="http://www1.worldbank.org/publicsector/civilservice/agency.htm">http://www1.worldbank.org/publicsector/civilservice/agency.htm</a> .
Central agencies	Those organizations in the executive branch that co-ordinate the activities of, and provide guidance to the operating ministries and agencies. Terminology varies widely from country to country, but central agencies are generally regarded as including: <ul style="list-style-type: none"> <li>• the Ministry of Finance;</li> <li>• the Cabinet Office/Chancellery/Apparat, or the ministry assisting the Prime Minister or the Council of Ministers in the development and co-ordination of policy;</li> <li>• the ministry or agency responsible for developing and coordinating policies in relation to human resource management within the public sector; and</li> <li>• the Ministry of Foreign Affairs, in certain areas of work such as policy on European integration.</li> </ul> See: <a href="http://www1.worldbank.org/publicsector/civilservice/center.htm#2a">http://www1.worldbank.org/publicsector/civilservice/center.htm#2a</a>

Central Government Wage Bill	<p>The sum of base wages and salaries paid to <i>civilian central government</i> and the <i>armed forces</i>. Wages and salaries consist of most payments in cash, but not in kind, to employees in return for services rendered, before any deductions for taxes and employee pension contributions. Monetary <i>allowances</i> (e.g., for housing, transportation) are included in the wage bill. Countries vary as to whether state contributions to pensions or all monetary <i>allowances</i> are included within this total.</p> <p>See:  <a href="http://www1.worldbank.org/publicsector/civilservice/cross.htm#3">http://www1.worldbank.org/publicsector/civilservice/cross.htm#3</a></p>
Charters	<p>Statements of service targets published by service-providing agencies that set standards for the agency and can define compensation to be provided to the public if they are not achieved. These are known by such names as "Citizens Charters" (UK) or Public Service Charters (Korea).</p>
Civil Service (as employment category)	<p>Distinctive employment status for some public servants, generally defined by law and usually with four characteristics:</p> <ol style="list-style-type: none"> <li>1. Civil servants are "appointed" by decision of an authorized public institution in accordance with the civil service law. A decision by a representative of the State to "appoint" a civil servant must conform to established rules that structure the hiring process.</li> <li>2. Once appointed, there are many constraints on dismissal. This is because civil servants are not simply employees of the state; they also have a constitutional role. The intent of civil service legislation is to balance the requirement these employees be responsive to the government of the day, with the parallel requirement that they respect and maintain state institutions over time. In other words, additional job security is provided in order to prevent short-term political pressures from leading to inappropriate personnel changes.</li> <li>3. There are more constraints on the actions of civil servants than on other groups. Again, this is because of the strategic and constitutional role of civil servants.</li> <li>4. Civil servants are part of the employment categories of <i>civilian central government</i> or <i>subnational government</i>.</li> </ol> <p>However, the total here might overstate the number of staff defined as civil servants. There are other employment arrangements in the public sector that provide something akin to civil servant status. For example, the judiciary can often be employed under arrangements that provide constitutionally-based constraints on dismissal. Yet, members of the judiciary are rarely known as civil servants.</p> <p>See:  <a href="http://www1.worldbank.org/publicsector/civilservice/civilservice1aw.htm">http://www1.worldbank.org/publicsector/civilservice/civilservice1aw.htm</a></p>

<p>Civilian Central Government (excluding education, health, and police) (as employment category)</p>	<p>Employees in the central executive and legislative administration, in departments directly dependent on the Head of State or the Parliament, together with all other ministries and administrative departments of central government, including autonomous agencies paid by central government. The exceptions are education, health, and police employees, which are accounted for in other employment categories.</p> <p>NB Accounting for these employees within one employment category for the purposes of measuring the size and cost of the public sector, does not remove the need for some institutional separation of powers between the legislature, executive and judiciary.</p> <p>See:  <a href="http://www1.worldbank.org/publicsector/civilservice/cross.htm#3">http://www1.worldbank.org/publicsector/civilservice/cross.htm#3</a></p>
<p>Closed career system</p>	<p>In closed career systems in the <i>civil service</i>, the recruitment arrangements ensure that initial entry to the <i>civil service</i> is generally based on a relevant university degree or academic credentials. Closed career systems allow subsequent mobility and promotion within the <i>civil service</i>. Overall, they are characterized by limited possibilities for <i>lateral entry</i> and a strong emphasis on career development. They are sometimes referred to as 'mandarin' systems.</p> <p>This is in contrast to <i>position-based systems</i> where the emphasis is placed on selecting the best-suited candidate for each position to be filled, whether by external recruitment or via internal promotion or mobility.</p> <p>See:  <a href="http://www1.worldbank.org/publicsector/civilservice/civilserviceaw.htm">http://www1.worldbank.org/publicsector/civilservice/civilserviceaw.htm</a></p>
<p>Compression ratio</p>	<p>See <i>vertical compression ratio</i></p>
<p>Contract Intensive Money</p>	<p>Contract intensive money is the proportion of the money supply that is not held in the form of currency, i.e. the proportion that is held in bank accounts and as other financial assets. The percentage of contract intensive money indicates in part how much faith investors have in the government's ability and willingness to enforce financial contracts, and to refrain from expropriating financial assets. It is a measure of trust in banks and in the government. Contract intensive money is calculated as one minus the ratio of currency outside of banks to the sum of money and quasi-money (one minus line 14a divided by the sum of lines 34 and 35 in the International Financial Statistics published by the IMF).</p> $\text{CIM} = 1 - \frac{\text{Currency outside of banks}}{\text{Money} + \text{Quasi-money}}$
<p>Contracting out</p>	<p>Government transfers supply or operation of a function to a contractor for a specified period of time, but without relinquishing program responsibility or accountability.</p>
<p>Decentralization</p>	<p>The transfer of authority and responsibility for public functions from the central government to subordinate or quasi-independent government organizations or the private sector. This covers a broad range of concepts relating to the type of decentralization - political, administrative, fiscal, or market.</p> <p>See: <a href="http://www1.worldbank.org/publicsector/decentralization/">http://www1.worldbank.org/publicsector/decentralization/</a></p>



Deconcentration	A form of <i>administrative decentralization</i> . The redistribution of decision-making, financial, and management responsibilities among different levels of the central government is often considered the weakest form of <i>administrative decentralization</i> , and is used most frequently in unitary states. Within this category, however, policies and opportunities for local input vary: deconcentration can merely shift responsibilities from central government officials in the capital city to those working in regions, provinces, or districts. Or it can create strong field administration or local administrative capacity under the supervision of central government ministries. See: <a href="http://www1.worldbank.org/publicsector/decentralization/">http://www1.worldbank.org/publicsector/decentralization/</a>
Degree of centralization	The percentage of <i>total public employment</i> accounted for at the national or federal level; the proportion of total government spending that is undertaken by central government; and the degree of autonomy of <i>subnational government</i> . See: <a href="http://www1.worldbank.org/publicsector/decentralization/">http://www1.worldbank.org/publicsector/decentralization/</a>
Delegation (as administrative decentralization)	Transfer of responsibility for decision-making and administration of public functions to semi-autonomous organizations. See: <a href="http://www1.worldbank.org/publicsector/decentralization/">http://www1.worldbank.org/publicsector/decentralization/</a>
Devolution	The transfer of authority for decision-making, finance, and management to local government. Devolution usually transfers responsibilities for services to municipalities that elect their own mayors and councils, raise their own revenues, and have independent authority to make investment decisions. In a devolved system, local governments have clear and legally recognized geographical boundaries over which they exercise authority, and within which they perform public functions. It is this type of <i>administrative decentralization</i> that underlies most <i>political decentralization</i> . See: <a href="http://www1.worldbank.org/publicsector/decentralization/">http://www1.worldbank.org/publicsector/decentralization/</a>
Education employees (as employment category)	Primary and secondary public school teachers. Administrative employees of the Ministry of Education and local school administrators are generally excluded from this category and accounted for as <i>Civilian central government</i> employees. See: <a href="http://www1.worldbank.org/publicsector/civilservice/cross.htm#1">http://www1.worldbank.org/publicsector/civilservice/cross.htm#1</a>
Efficiency and effectiveness reviews	A discrete approach for developing recommendations for change, outside of the usual budget and planning cycle.
Fiscal decentralization	Fiscal decentralization can take many forms, including: <ol style="list-style-type: none"> <li>1. Self-financing or cost recovery through user charges;</li> <li>2. Cofinancing or coproduction, in which users or suppliers participate in providing services and infrastructure through monetary or labor contributions;</li> <li>3. Expansion of local revenues through property or sales taxes or indirect charges;</li> <li>4. Intergovernmental transfers of general revenues from taxes collected by the central government to local governments for general or specific uses;</li> <li>5. Authorization of municipal borrowing and mobilization of national or local government resources through loan guarantees.</li> </ol> See: <a href="http://www1.worldbank.org/publicsector/decentralization/">http://www1.worldbank.org/publicsector/decentralization/</a>
Fiscal weight of public employment	The public sector wage bill as a percentage of gross domestic product (GDP).

Functional review	A form of <i>efficiency and effectiveness review</i> that examines the functions and structures of state agencies or budget entities and asks whether the functions need to be done at all, whether other agencies or actors could do them more efficiently or effectively, and what the consequences are for structure.
GDP per capita based on purchasing power parity (PPP) (current international \$)	PPP GDP is gross domestic product converted to international dollars using purchasing power parity rates. An international dollar has the same purchasing power over GDP as the U.S. dollar has in the United States. GDP is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources. Data are in current international dollars. For more information, see World Development Indicators table 1.1.
General Government (as an employment category)	Employment in "all government departments offices, organizations and other bodies which are agencies or instruments of the central or local authorities whether accounted for or financed in, ordinary or extraordinary budgets or extra-budgetary funds. They are not solely engaged in administration but also in defense and public order, in the promotion of economic growth and in the provision of education, health, cultural and social services." (International Standard of Industrial Classification of All Economic Activities (ISIC), Series M No. 4, Rev 3- 1990). There are six mutually exclusive categories of employment within general government: <ol style="list-style-type: none"> <li>1. <i>Armed Forces</i></li> <li>2. <i>Civilian Central Government</i> (excluding education, health, and police)</li> <li>3. <i>Subnational Government</i> (excluding education, health, and police)</li> <li>4. <i>Health employees</i></li> <li>5. <i>Education employees</i></li> <li>6. <i>Police</i></li> </ol> See: <a href="http://www1.worldbank.org/publicsector/civilservice/cross.htm#1">http://www1.worldbank.org/publicsector/civilservice/cross.htm#1</a>
Government	In most parliamentary and semi-presidential systems, this term refers to the entire executive branch of the state, or to the members of governments (usually termed "ministers" but occasionally called "secretaries") selected by the legislature or appointed by the head of government to run the executive branch. In the United States, the term "government" is used in a variety of ways. It can refer to the entire executive branch of the federal government, to the federal government generally, and sometimes to federal, state, and local governments combined.
Health employees (as employment category)	Medical and paramedical staff (doctors, nurses, and midwives) and laboratory technicians employed in government hospitals and other government health institutions at all levels of government. Administrative employees working in the health sector are generally excluded from this category and accounted for as <i>Civilian central government employees</i> . See: <a href="http://www1.worldbank.org/publicsector/civilservice/cross.htm#1">http://www1.worldbank.org/publicsector/civilservice/cross.htm#1</a>

Heterogeneous public sector environments	Public sector environments that allow a large number of different organizational forms to emerge. Horizontally, this heterogeneity is more likely in presidential regimes where large numbers of special purpose bodies have been created by legislatures for specific purposes. Vertically, significant decentralization is often considered to produce provincial and state governments that act as test laboratories for larger public sector reforms.
Horizontal compression	The degree to which earnings differ for officials at the same grade or level in the same or in different agencies. It is the ratio by which the total remuneration of a civil servant can differ from that of a colleague at the same level of seniority, as a consequence of discretionary <i>allowances</i> . Horizontal compression is measured by dividing total monetary compensation - including all discretionary <i>allowances</i> - by base compensation. See: <a href="http://www1.worldbank.org/publicsector/civilservice/agency.htm">http://www1.worldbank.org/publicsector/civilservice/agency.htm</a>
Hybrid appointments	Appointments made subject to merit, defined by meeting explicit and contestable criteria, as well as by subjective political judgments. See: <a href="http://www1.worldbank.org/publicsector/civilservice/recruitment.htm#7">http://www1.worldbank.org/publicsector/civilservice/recruitment.htm#7</a>
Information-intensive reform activities	Reforms that require a stronger and more developed information systems infrastructure.
In-kind benefits	Non-monetary rewards such as health insurance, transportation, housing, meals, and travel. See: <a href="http://www1.worldbank.org/publicsector/civilservice/agency.htm">http://www1.worldbank.org/publicsector/civilservice/agency.htm</a>
Institutional malleability	The ease with which the state institutions can be changed, as reflected in the following four factors: 1. High degree of political centralization; 2. Politically neutral, permanent senior administrative positions; 3. Anglo-Saxon administrative tradition; 4. Limited trade union membership in the public sector. It is important to emphasize that these are not "virtues." They are simply distinctive arrangements that give reformers a stronger grip on the public sector.
Integrated mandarin/ministerial careers	Career paths in which senior civil servants frequently become Ministers at some point in their careers.
Labor force	Total labor force comprises people who meet the International Labour Organization definition of the economically active population: all people who supply labor for the production of goods and services during a specified period. It includes both the employed and the unemployed. While national practices vary in the treatment of such groups as the armed forces and seasonal or part-time workers, in general the labor force includes the armed forces, the unemployed, and first-time job-seekers, but excludes homemakers and other unpaid caregivers and workers in the informal sector. For more information, see World Development Indicators table 2.2.

Lateral entry	<p>Entrance to the <i>civil service</i> by external recruitment or otherwise than through promotion or transfer from within the service. Arrangements for lateral entry are generally most widespread in <i>position-based systems</i> where the emphasis is placed on selecting the best-suited candidate for each position to be filled, whether by external recruitment or via internal promotion or mobility.</p> <p>See:  <a href="http://www1.worldbank.org/publicsector/civilservice/civilservice1aw.htm">http://www1.worldbank.org/publicsector/civilservice/civilservice1aw.htm</a></p>
Locally-initiated reforms	<p>"Locally-initiated reforms" start from the premise that participation at the local community level can be a powerful point of entry to broader reforms. These reforms assume that without some purposeful destabilization of existing dysfunctional public sector equilibria (for example, by providing local communities with greater voice in the production of local public services) there will be no change. This approach to reform notes that many donor-supported "whole of government" reforms have been unsuccessful in many countries. "Locally-initiated reforms" reforms can be seen in distinction from "whole of government" reforms, but often reform programs contain elements of both. See  <a href="http://www1.worldbank.org/publicsector/civilservice/strategies.htm">http://www1.worldbank.org/publicsector/civilservice/strategies.htm</a></p>
Machinery of government	<p>Primarily an Anglo-Commonwealth phrase, though it also has some resonance in other settings. It generally refers to the organizational structure of the executive (including the reporting lines and accountability arrangements for Departments and Ministries and other organizational units), and the allocation of functions to those organizations. In the United States its meaning is more political.</p> <p>See:  <a href="http://www1.worldbank.org/publicsector/civilservice/machinery.htm">http://www1.worldbank.org/publicsector/civilservice/machinery.htm</a></p>
Majoritarian governments	<p>Governments that have a form of representation that affords political power on the basis of a simple majority.</p>
New Public Management (NPM)	<p>This is a slippery label. Generally, it is used to describe a management culture that emphasizes the centrality of the citizen or customer, as well as accountability for results. It also suggests structural or organizational choices that promote decentralized control through a wide variety of alternative service delivery mechanisms, including quasi-markets with public and private service providers competing for resources from policymakers and donors. NPM tends to include a greater reliance on contracts and <i>contracting out</i>, and places more emphasis on managerialism than formal rules and procedural standards, while de-emphasizing a career <i>civil service</i>. NPM does not claim that government should stop performing certain tasks -- although the New Public Management often is associated with this policy perspective. NPM is not about whether tasks should be undertaken or not. It is about getting things done better.</p> <p>See:  <a href="http://www1.worldbank.org/publicsector/civilservice/debate1.htm">http://www1.worldbank.org/publicsector/civilservice/debate1.htm</a></p>
Performance budgeting	<p>This is a widely used, but poorly defined term. There are few examples of mechanical connections between measures of performance and budget allocations. A performance orientation is generally achieved by the greater dissemination of performance monitoring data alongside the published budget.</p>

Performance management	Generally understood to be the management of the performance of government organizations as a whole, their chief executives and their staff.
Personal disposable income	<i>Personal emoluments</i> minus any employer deductions such as those for income tax, provident fund/pension contributions, etc. See: <a href="http://www1.worldbank.org/publicsector/civilservice/agency.htm">http://www1.worldbank.org/publicsector/civilservice/agency.htm</a>
Personal emoluments	<i>Base pay</i> plus monetary <i>allowances</i> such as transportation, housing, meals, telephone, travel, cost-of-living. See: <a href="http://www1.worldbank.org/publicsector/civilservice/agency.htm">http://www1.worldbank.org/publicsector/civilservice/agency.htm</a>
Police (as employment category)	All personnel – whether military, paramilitary or civilian – that exercise police functions, including corps like Gendarmerie and Carabinieri.
Political decentralization	Political decentralization aims to give citizens and their elected representatives more power in local public decision-making. It is often associated with pluralistic politics and representative government, and it can also support democratization by giving citizens or their representatives more influence in formulating and implementing policies. Advocates of political decentralization assume that decisions made with greater participation will be better informed and more relevant to diverse interests in society than those made only by national political authorities. The concept implies that the selection of representatives from local electoral jurisdictions allows citizens to better know their political representatives and allows elected officials to better know the needs and desires of their constituents. Political decentralization often requires constitutional or statutory reforms, development of pluralistic political parties, strengthening of legislatures, creation of local political units, and encouragement of effective public interest groups. See: <a href="http://www1.worldbank.org/publicsector/decentralization/">http://www1.worldbank.org/publicsector/decentralization/</a>
Position-based systems	Position-based career systems in the <i>civil service</i> place an emphasis on selecting the best-suited candidate for each position to be filled, whether by external recruitment or via internal promotion or mobility. Position-based systems are characterized by relatively open access to positions at all levels, with <i>lateral entry</i> relatively common. This is in contrast to <i>closed career systems</i> in the <i>civil service</i> , where the recruitment arrangements ensure that initial entry to the <i>civil service</i> is usually based on a relevant university degree or academic credentials. In those systems, appointments tend to be from promotion within the <i>civil service</i> . These are sometimes referred to as 'mandarin' systems. See: <a href="http://www1.worldbank.org/publicsector/civilservice/civilserviceaw.htm">http://www1.worldbank.org/publicsector/civilservice/civilserviceaw.htm</a>
Privatization	Shifting functions, in whole or part, from government to the private sector when there is no continuing public policy reason to retain responsibility within government, or when that responsibility can be discharged through regulation.
Program review	An efficiency and effectiveness review that envisages comprehensive policy reforms, shifting from low to high priority programs, including large scale restructuring of the machinery of government.
Public interest civil service tradition	See Rechtsstaat civil service tradition

Public servants	A wider group of employees than civil servants. For example, teachers and doctors in publicly owned schools and health facilities may or may not be legally civil servants, but they are always public servants if employed by budget-funded organizations.
Rechtsstaat civil service tradition	A civil service ethos that provides civil servants with a profound sense of the importance of preparing and enforcing laws in order to maintain the integrity and continuity of the state. This is in distinct contrast to the Anglo-Saxon "public interest" tradition that sees civil servants as restraining the partisan actions of politicians on behalf of the public.
Reform leverage	The arrangements that provide <i>central agencies</i> and reform drivers with a distinctive capability to introduce changes in the public sector: <ol style="list-style-type: none"> <li>1. Tradition of a single strong central agency;</li> <li>2. Tradition of single party majority;</li> <li>3. Tradition of integrated mandarin/ministerial careers;</li> <li>4. Tradition of heterogeneity in the public sector.</li> </ol> It is important to emphasize that these are not "virtues." They are simply distinctive arrangements that give reformers a stronger grip on the public sector.
Reform outcomes	The eventual impact of a reform on service delivery, accountability improvements and on aggregate expenditure.
Reformer's traction	The combination of leverage and institutional malleability available to reformers. It is important to emphasize that these are not "virtues". They are simply distinctive arrangements that give reformers a stronger grip on the public sector.
Semi-autonomous agencies	Semi-autonomous agencies can be organizations responsible for executing government programs, reporting to ministries or to members of government under the day-to-day supervision of a ministry. The relevant minister/secretary generally defines their objectives. Their funding sources can include some revenue earnings. They are given some form of managerial autonomy, and are often staffed with public employees whose status and/or employment conditions differ from general employment rules. Most function under public law (when relevant). Semi-autonomous agencies can also be statutory commissions, independent regulators, or other bodies with a separate legislative existence. Their objectives are often enshrined in a charter, and their functions are defined by legislation in addition to any powers of direction held by the minister/secretary. They may be non-asset owning (legally distinct but unable to own assets) or asset owning. They can be budget dependent (subvented) or collect significant revenue earnings. They also may have legal competence to enter into contractual relationships. Such bodies tend to be established for regulatory purposes, although in some presidential systems they can also be service providers. See: <a href="http://www1.worldbank.org/publicsector/civilservice/autonomous.htm">http://www1.worldbank.org/publicsector/civilservice/autonomous.htm</a>
Senior Civil Service	See <i>Senior Executive Service</i>

Senior Executive Service	In many countries a group of senior public servants is identified as a "senior executive service" (SES). This is a mobile cadre of senior executives that have broad management expertise and an overview of public sector values and responsibilities. The purpose of the SES is to prevent the management of individual departments from becoming 'in-grown' and to promote policy coordination between departments. Examples include Australia, USA, Netherlands, South Korea and it was attempted in New Zealand. In the UK and Hungary it is known as the Senior Civil Service.
State capture	The actions of individuals, groups or firms, both in the public and private sectors, to influence the formation of laws, regulations, decrees and other government policies to their own advantage as a result of the illegal transfer or concentration of private benefits to public officials.
State-Owned Enterprise (SOE) employees	Employees of enterprises that are majority owned by government.
Statutory commissions and independent regulators	Semi-autonomous agencies can be "statutory commissions" or independent regulators when that they have a well-defined separate legislative existence. Their objectives are often enshrined in a charter, and their functions are defined by legislation in addition to any powers of direction held by the Minister. They may also be non-asset owning (legally distinct but unable to own assets) or asset owning. They can be budget dependent (subvented) or collect significant revenue earnings. They can also have legal competence to enter into contractual relationships. See: <a href="http://www1.worldbank.org/publicsector/civilservice/autonomous.htm">http://www1.worldbank.org/publicsector/civilservice/autonomous.htm</a>
Subnational Government (excluding education, health, and police) (as employment category)	All <i>general government</i> employees who are not members of the <i>armed forces</i> or directly funded by the central government. This includes municipalities, as well as regional, provincial, or state (in federal systems) employment. The distinction between Central and Subnational Government employment categories is budgetary, not geographic. If central government agencies are geographically dispersed, but without changing their ultimate sources of finance, then the staff in those agencies are included in the employment category <i>Civilian Central Government</i> . See: <a href="http://www1.worldbank.org/publicsector/civilservice/cross.htm#1">http://www1.worldbank.org/publicsector/civilservice/cross.htm#1</a>
Subsidiarity	Decentralizing the provision of public service to the lowest level of government where it can be properly carried out. See: <a href="http://www1.worldbank.org/publicsector/decentralization/">http://www1.worldbank.org/publicsector/decentralization/</a>
Supervised bodies or Executing agencies	A form of semi-autonomous body that is responsible for executing government programs, reporting to ministries (or reporting to members of government - ministers/secretaries - but under the day-to-day supervision of a ministry). The relevant minister/secretary generally defines their objectives and their funding sources can include some revenue earnings. They are given some form of managerial autonomy, and are most often staffed with public servants whose statuses and/or employment conditions differ from general employment rules. Most function under public law (when relevant). See: <a href="http://www1.worldbank.org/publicsector/civilservice/autonomous.htm">http://www1.worldbank.org/publicsector/civilservice/autonomous.htm</a>

Total civilian central government (as employment category)	All <i>general government</i> employees who are not members of the <i>armed forces</i> or directly funded by <i>subnational government</i> . The distinction between Central and <i>Subnational Government</i> employment categories is budgetary, not geographic.
Total compensation	<i>Personal emoluments</i> plus <i>in-kind</i> benefits and <i>allowances</i> such as health insurance, transportation, meals, or travel. See: <a href="http://www1.worldbank.org/publicsector/civilservice/agency.htm">http://www1.worldbank.org/publicsector/civilservice/agency.htm</a>
Total Public Employment	<i>State-owned enterprise (SOE) employees</i> plus <i>General Government</i> . See: <a href="http://www1.worldbank.org/publicsector/civilservice/cross.htm#1">http://www1.worldbank.org/publicsector/civilservice/cross.htm#1</a>
Total rewards	<i>Total compensation</i> plus non-contractual/intangible rewards and <i>allowances</i> such as job security, prestige, social privileges, and future expectations such as pension or anticipated housing or land grants. See: <a href="http://www1.worldbank.org/publicsector/civilservice/agency.htm">http://www1.worldbank.org/publicsector/civilservice/agency.htm</a>
Vertical compression ratio	The ratio of the highest salary to the lowest on the central government's main salary scale. The OECD measures wage compression in OECD countries as the mean of ninth decile salaries divided by the mean of first decile salaries. The OECD's approach ensures that a handful of salaries will not dramatically skew the compression ratio. However, all compression ratio approaches can be misleading if there are significant monetary <i>allowances</i> not captured in the calculations, or if the perceived value of non-monetary rewards represents a significant proportion of <i>total rewards</i> . See: <a href="http://www1.worldbank.org/publicsector/civilservice/agency.htm">http://www1.worldbank.org/publicsector/civilservice/agency.htm</a>
Whole of government reforms	The design of "whole of government" reforms focuses on <i>civil service</i> restructuring and budget reforms, emphasizing that it is the vertical integration of public bureaucracies (with central controls and the over-arching discipline of a unified budget) that prevent local elites from capturing policy, and discourage patronage or public salaries in excess of the market rate. "Whole of government" reforms are also concerned with the risk that public bodies will start quasi-fiscal activities (e.g., fee-based services, special concessions to certain groups) that serve the same role as taxes and subsidies, and exceed the original policy intention of the national government. "Whole of government" reforms can be seen in distinction from "locally-initiated reforms", but often reform programs contain elements of both. See: <a href="http://www1.worldbank.org/publicsector/civilservice/strategies.htm">http://www1.worldbank.org/publicsector/civilservice/strategies.htm</a>



## Notes to Methodological Appendices

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- <sup>1</sup> Public/private wage comparisons must be considered with care as it is frequently unclear who or what the comparators should be. In industrial countries, the usual comparators are clerical jobs in private companies. But this comparison may not be relevant in many developing countries, where the true employment alternatives of many public sector workers are in the informal sector of the economy. Public sector jobs may be under-compensated with respect to jobs in the top formal sector companies of a developing country, but still be over-compensated with respect to the "average" job. For instance, public sector jobs may pay a low salary, but offer health coverage, annual leave, old-age pension, and other benefits.
- Choosing elite private sector companies as comparators has been at the root of serious fiscal problems in some countries. These comparisons have convinced government officials, trade unions, and public opinion that public sector workers are dramatically under-paid. Through policy choices, strikes, or arbitration awards, their salaries often have been increased dramatically across the board, making the wage bill unsustainable. As a result, large downsizing operations may be needed to restore the fiscal balance, even if they are not fully justified on welfare grounds. It is thus important to supplement any comparator study with a careful analysis of earnings in and out of the public sector, using individual (or household) surveys.
- <sup>2</sup> Vertical compression reflects the proportionate difference between the top and bottom salaries, and refers to the multiplier between the total salary package of an official in the highest echelon/rank and that of an official in the lowest echelon/rank in the same agency classification. There are different ways of measuring it. One is to divide the salary at the midpoint of the highest public employee pay category by the salary at the midpoint of the lowest category. Another, more rigorous, approach is to take the median of the ninth decile of disposable monetary compensation divided by the median of the first decile of disposable monetary compensation. This calculation is on a single year basis and excludes any net present value of future pension entitlements and any estimated value of in-kind benefits.
- <sup>3</sup> Horizontal compression reflects the degree to which earnings differ for officials at the same grade or level in the same or in different agencies. It is the ratio by which the total remuneration of a civil servant can differ from that of a colleague at the same level of seniority, as a consequence of discretionary allowances. It is measured by dividing total monetary compensation, including all discretionary allowances, by base compensation without any discretionary allowances.
- <sup>4</sup> Except where indicated otherwise, this Appendix draws from Pollitt and Bouckaert (2000). The authors have altered some interpretations.
- <sup>5</sup> See <http://www1.worldbank.org/publicsector/civilservice/center.htm#2a>
- <sup>6</sup> This section borrows from Lijphart (1999).
- <sup>7</sup> See Pollitt and Bouckaert (2000, p.51).
- <sup>8</sup> See, for example, DiMaggio and Powell (1983)..
- <sup>9</sup> Except where indicated otherwise, this Appendix draws from Pollitt and Bouckaert (2000). The authors have altered some interpretations.
- <sup>10</sup> See <http://www1.worldbank.org/publicsector/civilservice/subnational.htm> for discussion of this issue in relation to the civil service
- <sup>11</sup> See <http://www1.worldbank.org/publicsector/civilservice/patronage.htm>
- <sup>12</sup> See <http://www1.worldbank.org/publicsector/civilservice/traditions.htm>
- <sup>13</sup> See <http://www1.worldbank.org/publicsector/civilservice/psunions.htm>

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