A Missing Link in Federalism Reforms: The Culture of Governance

Anwar Shah
Fiscal Federalism in Mercosur
Porto Alegre, Brazil
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Why are developing and transition economies (DTE) decentralizing?

Serving citizens better? NO
## Decision to decentralize primarily guided by politics

<table>
<thead>
<tr>
<th>Motivation</th>
<th>Countries/Regions</th>
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<tbody>
<tr>
<td>Political &amp; economic transformation</td>
<td>Central and Eastern Europe, Russia</td>
<td>Improving service delivery</td>
<td>Chile, Uganda, Cote D’Ivoire</td>
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<tr>
<td>Political crisis due to ethnic conflict</td>
<td>Bosnia-Herzegovina, Ethiopia, Yugoslavia, Nigeria, Sri Lanka, South Africa, Philippines</td>
<td>To centralize</td>
<td>China, Turkey, European Union</td>
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<tr>
<td>Political crisis due to regional conflicts</td>
<td>Indonesia, Madagascar, Mali, Senegal, Uganda, Mexico, Philippines</td>
<td>Shifting deficits downwards</td>
<td>Eastern and Central Europe, Russia</td>
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<td>Enhancing participation</td>
<td>Argentina, Brazil, Bolivia, Colombia, India, Pakistan, Philippines</td>
<td>Shifting responsibility for unpopular adjustment programs</td>
<td>Africa</td>
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<td>Interest in EU Accession</td>
<td>Czech Republic, Slovakia, Hungary, Poland</td>
<td>Prevent return to autocracy</td>
<td>Latin America</td>
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<td>Political maneuvering</td>
<td>Peru, Pakistan</td>
<td>Preservation of Communist rule</td>
<td>China</td>
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<tr>
<td>Fiscal crisis</td>
<td>Russia, Indonesia, Pakistan</td>
<td>Globalization and information revolution</td>
<td>Most countries</td>
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Decentralization: progress so far

• **Political decentralization**: Good progress but citizen empowerment issues remain.

• **Fiscal decentralization**: Modest progress but incomplete tax decentralization, and manna from heaven fiscal transfers encourage leviathan, institutional void

• **Administrative decentralization**: Poor progress especially in re-orienting political and bureaucratic culture of governance to service delivery performance and citizen satisfaction
A citizen’s perspective on the unfinished agenda for public governance reforms

• Being Responsive or Doing the right things
  – Matching public services with citizens’ preferences
  – Improving the quality, quantity and access of local public services

• Being Responsible or Doing it right
  – Earning trust
  – Working better and costing less

• Being Accountable
  – Citizens charter
  – Social norms and trust, consensus on limits to govt. intervention
How it can be done?

- Greater reliance on own benefit taxes and charges
- Credit market access and private sector participation in infrastructure provision
- Avoiding self-defeating investment promotion and fiscal wars
- Re-orienting the political and bureaucratic culture of governance to service delivery performance and citizen satisfaction
..missing piece: bureaucratic culture and incentives

- “Government is the coldest of all cold monsters – whatever it says it lies – and whatever it has it has stolen.”

»Nietze
Why governments do not deliver?

- Mandate
- Authorizing Environment
- Operational capacity
- Outputs, reach, outcomes
The bottomline

• It is the culture of local governance and not the operational capacity that is critical.
One solution- fiscal transparency

• “...to protect the Treasury from being defrauded, let all money be issued openly in front of the whole city, and let copies of the accounts be deposited in various wards...” - Aristotle, *The Politics*
An approach that always works

Athenian Oath: “We will strive increasingly to quicken the public sense of public duty; That thus... we will transmit this city not only not less, but greater, better and more beautiful than it was transmitted to us”.
## A ROAD MAP FOR ROME

<table>
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<tr>
<th>Program/project</th>
<th>Inputs</th>
<th>Activities</th>
<th>Outputs</th>
<th>Reach</th>
<th>Outcomes</th>
<th>Impacts (goals)</th>
</tr>
</thead>
</table>

### 2. Administration concerned with outputs.
- **Output contract**
- **Executive concerned with outcomes**
- **Legislature**

### 3. Evaluations
- **Citizen evaluations**
A Road Map for ROME

- Program/project=> inputs
  =>activities=>outputs=>reach=>outcome=>
  impact=>citizen feedback and evaluations=> Program design =>
  Program/project
ROME in a nutshell…

Extends results movement beyond concern for capacity, internal structure…

1. Results-Oriented Management alone does not lead to results…
2. Citizen voice and choice is central to achieving results
3. ROME incorporates citizens voice and choice.
4. Results-Oriented Management + Results-Oriented Evaluation = ROME=RESULTS
Key Elements of Citizen Centered Governance Reforms

- Citizens charter
  - Service standards
  - Requirements for citizens voice and choice
- Subsidiarity
- Citizen oriented output budgeting
  - Service delivery outputs and costs
  - Citizens report card on service delivery performance for the previous year
- Public sector as a purchaser but not necessarily provider of services through performance contracts
- Alternate Service Delivery Framework
- Benchmarking
## Making the Dog Wag Its Tail: Blueprint for a citizen-centered civil service (cccs)

<table>
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<th>Current culture</th>
<th>CCCS</th>
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<tr>
<td>• Rigid rules</td>
<td>• Managerial flexibility</td>
</tr>
<tr>
<td>• Input controls</td>
<td>• Results matter</td>
</tr>
<tr>
<td>• Top-down accountability</td>
<td>• Bottom-up accountability</td>
</tr>
<tr>
<td>• Low wages and high perks</td>
<td>• Competitive wages but little else</td>
</tr>
<tr>
<td>• Life-long and rotating appointments</td>
<td>• Contractual and task specialization</td>
</tr>
<tr>
<td>• Intolerance for risk/innovation</td>
<td>• Freedom to fail/succeed</td>
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Alternative Service Delivery Framework

Alternative Service Delivery Options

Public Interest Test
- Yes: Service Shedding
- No: Privatization - divestiture - regulated
  Employee Takeover

Role of Government Test
- Abandon

Jurisdictional Alignment Test
- No: Realign
  Public Partnership - devolution - shared services

External Partnership Test
- Yes: Partner
  Contracting Out - franchising - licensing
  Government Owned/Contractor Operated
  Private, Not-for-profit Agency - self-help - volunteers
  Public/Private Partnership
- No: Restructure
  Crown Corporation - departmental corporation
  Special Operating Agency
  Utility
  Improve
  Line Organization

Affordability Test
An Example: Education grant to Encourage Competition and Innovation

◆ Allocation basis among local governments: School age population (ages 5-17)

◆ Secondary distribution to providers: Equal per pupil to both public and private schools

◆ Conditions: Universal access to primary and secondary education regardless of parents’ income, improvement in educational outcomes. No conditions on the use of grant funds.

◆ Penalties: Public censure, reduction of grants funds

◆ Incentives: Retention of savings
PROMISES MADE, PROMISES KEPT

• An example from the Town of Papakura, New Zealand
Governance Structure: 20th Versus 21st Century

- Unitary
- Centralized
- Center manages
- Bureaucratic
- Command and control
- Internally dependent
- Closed and slow
- Intolerance of risk

- Federal / confederal
- Globalized & localized
- Center leads
- Participatory
- Responsive and Accountable
- Competitive
- Open and quick
- Freedom to fail/ succeed
ROME: towards a better tomorrow?

- Improved norms of conduct (Malaysia, UK)
- Cultural shift from input controls to output and accountability (New Zealand)
- Encouragement of partnership, competition and risk taking (Canada Alternative Service Delivery Framework, Malaysia)
- Greater bottom-up accountability
- Design of incentives critical
- In LDCs strong potential for improving public sector performance
- Moral: Leapfrog or meet a slow death
• Dilbert’s perspectives - This fad will also pass away.
SO, WHAT HAVE YOU ACCOMPLISHED THIS YEAR?

I HATE PERFORMANCE REVIEWS

WELL, I USED MY EMPOWERMENT TO CREATE A NEW PARADIGM.

AND I TEAMED ACROSS FUNCTIONAL BOUNDARIES TO IMPROVE QUALITY.

I DARE SAY I WAS CUSTOMER-FOCUSED AND MARKET-DRIVEN!

I PROACTIVELY FOUND EXCELLENCE IN THE MIDST OF CHAOS!

I RE-ENGINEERED MY CORE PROCESSES AND EMBRACED CHANGE!

I GIVE YOU — DILBERT — THE PERFECT EMPLOYEE!

WAS THAT SARCASM? TO BE HONEST, I DON'T KNOW EITHER.