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# **INSTITUTIONAL DEVELOPMENT:**

## **Improving Management in Developing Countries**

**Reports  
on a  
Seminar Series**

**The American Consortium For  
International Public Administration  
1986**

# **INSTITUTIONAL DEVELOPMENT: Improving Management in Developing Countries**

**A Report  
on a Series of Seminars  
Conducted by  
The American Consortium for International Public Administration  
under a grant from  
The United States Agency for International Development**

## PREFACE

Between 1984 and 1986, the American Consortium for International Public Administration conducted a series of twelve seminars on institutional development in less developed countries (LDCs), based on earlier ACIPA-sponsored working group discussions. The seminars were funded by a grant to the Consortium from the U.S. Agency for International Development. Principal purposes of the series have been to identify and discuss ways of improving private and public management capabilities in LDCs in order for them to achieve sustained economic and social development; to bring together leading donors, practitioners and academicians to facilitate communication among them; and to produce a series of publications on the latest thinking in the field by the participants.

Shortly after the grant was made, ACIPA formed a small steering group with representatives from ACIPA, AID, and several other donor organizations. A general overall plan was adopted and the series began. Some mid-course corrections were made as a result of discussions with either the steering group or AID. Approximately twenty people knowledgeable in the subject field, were invited to each session with a small core group providing continuity. Among the principal participants have been representatives from USAID, the World Bank, Inter-American Development Bank, Organization of American States, Pan-American Development Foundation, General Accounting Office, National Academy of Public Administration, National Association of Schools of Public Affairs and Administration, U.S. Department of State and from the American, George Mason, George Washington, Harvard, Howard, New Mexico and Pittsburgh Universities, as well as from a number of private sector organizations interested in the institutional development topic. Topical papers normally were distributed in advance as a basis for discussion\*; one or more authorities in the field made a brief presentation to initiate discussion and the topic was thoroughly examined by the participants. Proceedings were tape-recorded and a report of each session was prepared. A summary of the session's proceedings was published in the ACIPA newsletter, "Global Network". Each full report was separately produced and reviewed and all are here collected. Summary reports of 11 sessions were provided to a select group of participants who met in a special seminar for the conclusion of the series. The report of that session is included here as Session 12. Biographic notes on each of the speakers, a bibliography, and a brief analytic overview and comment on the series concludes this publication.

The Project Director for ACIPA was Melbourne Spector. AID officers on the project were Kenneth Kornher, Robert Shoemaker, and Gary Hansen.

The American Consortium is grateful to AID for the opportunity to develop this program, and is particularly appreciative of the interest, efforts, and contributions by the participants. Special thanks go to those who prepared papers and made the presentations around which the series was built.

\*Texts of these advance papers are on file in ACIPA.

## SUMMARY OVERVIEW

Any effort to capture the full essence of a series of 12 seminars, ranging widely over a variety of related topics, and reflecting views of approximately seventy five discussants, is bound to fall short of high hopes, if not expectations. However, it has seemed desirable to try to distill into a few pages some of the key content of this seminar series. This summary is an attempt at such distillation.

Within the broad scope of the series' subject matter of institutional development, the record reflects four recurring interrelated themes - guidance and "how tos" for enhancing general institutional development undertakings, special focus on financial management and accountability aspects of institutional development, privatization approaches, and donor cooperation. Each is separately addressed in the follow paragraphs.

### Guidance for Institutional Development Efforts

There is a rapidly growing experience and literature on institutional development in less developed countries. However, there is a great need to document such experience as a basis for in-depth analysis of both successes and those less successful. At present there is just not enough known to provide the kind of firm knowledge base necessary to approach new institutional development undertakings with confidence. "There is no adequate kit of management tools for people-oriented projects" - no reliable process for realizing institutional goals. While continuing accumulation of development management experience contributes to the building of a broadly applicable science, with consequently less reliance on artistry geared to individual case needs, the road to such science is long and requires time and each new effort will always require some individual tailoring. For the present, such activity should focus on clarifying terms, concentrating on the most crucial tasks, recognizing the problems of cultural diversity, taking account of political linkages, considering applicability of new techniques, and utilizing global networks of management expertise.

Considerable attention was given the subject of approaches to institutional development with the "blueprint" project approach being held unsuited to the needs of institution building where the primary resources are people. The project approach was viewed as essentially commodity-oriented. While these views were much discussed, there seemed to be some agreement that a mix of both project type and people-oriented undertakings is desirable.

Time perceptions were frequently cited as being of great importance. Although donors and hosts are usually impatient for results, the time periods set to attain development objectives are most often unrealistic. Truly effective change in developing countries normally requires longer time periods than donors allow for. While there tends to be dissatisfaction with results of many development efforts, it was pointed out that there have been significant gains in many developing countries over the past three decades; many of those societies are hardly recognizable today from their status 20-30 years ago and the problems being worked on today are at more advanced levels of society as a result of the earlier work. This was perceived as a basis for encouragement. The current stage of development of a country is of basic importance in determining the appropriate kind of development assistance to be provided.

The time factor was stressed particularly in connection with donor staff rotation policies. Frequent turnover of staff works against the building of experience on a project, the opportunity to learn the project's problems, the local people and the environment, and tends to undermine the essential commitment to the project. While institutions and coalitions associated with the project must be built strong enough to withstand losses of individuals, the fact remains that frequent shifting of project personnel is incompatible with the length of time required for successful institution building.

Political factors are crucial to the success of development and are too often overlooked or sidestepped by management-oriented advisors. Politics is vital to any institution building and this fact of life must be recognized and utilized. Aid specialists should be better prepared to deal with the political dimensions of development. While political support is essential, its firmness and depth are often very difficult to judge and such judgment usually comes only with experience. A political feasibility assessment should be part of every institutional development effort.

Relatedly, the objectives of the key figures associated with a project must be identified and understood. The political objectives of host country politicians normally overshadow economic and/or management objectives.

Not only national politician's support but also local support is essential because without local interest and participation, most institutional development efforts are almost certain to fail. Decentralization and delegation are indispensable for effective local participation but are often opposed by central authorities who fear loss of their control. Donor discretion is required to achieve a proper balance. The motivations and character of the host country public service bureaucracy also is of critical importance to the success of development efforts. Identifying and nurturing dedicated and skilled indigenous personnel associated with a program is one of the most vital activities of donor specialists.

The participation of the host country, at all levels, is fundamental to successful institutional development but how to achieve it has not yet been adequately articulated. Clearly the development of a coalition of committed people around an idea is a basis for successful action. Therefore goals must be defined in terms of mobilizing people to control and manage their own resources more effectively. One avenue strongly urged is to work more with existing institutions, building on them and strengthening them by bringing in beneficial technologies, minimizing constraints, and augmenting training and research. Too often donor programs have virtually obliterated existing systems and imposed externally devised systems which require ever-continuing input, creating dependency of the host country on the donor. Incorporation of indigenous institutions is held vital to success. One specific area, legal institutions, was cited as an area often overlooked but frequently having a major impact on development efforts; special attention should be given to the effect of laws on development plans.

Improved management of the public sector in host countries was recognized by early U.S. assistance programs as a crucial need if the aid program were to be sustained after the donor's departure.

Although U.S. AID efforts moved somewhat away from a public management improvement focus, there is now an increased interest and the World Bank is concentrating a major effort in the field. Host country interest in such improvement generally has been much more recent, as a result of fiscal problems, not from an insistence on principles of efficiency. Improvement of public sector management in developing countries is deemed to require long term (10-15 years) external assistance.

One special management area particularly stressed in the series was the call for more effective management of agricultural technology as being absolutely vital to the production required by the world's increasing needs for food.

The universal caution was "avoid overoptimism and high expectations; public management is not a precise science and technical assistance is a high-risk enterprise".

### Financial Management and Accountability

Donor agencies were judged to have given little or no joint attention to, adopted policies, or developed adequate coordinated programs of assistance to improve, host countries financial management systems. Although transparency of public transactions is not subscribed to in some countries host governments generally have indicated interest in improving their financial management policies and practices and in receiving external assistance for such improvement. While accountability is essential to the continuation of assistance programs, the terms of accountability may be made more flexible and compatible with the practical problems of institution building.

A long term program for improving financial management is deemed essential and the present climate is considered favorable in many countries due to current fiscal problems focus on finance, new leaders - many of whom were educated in western business schools, etc. Donors were urged to jointly establish, and then enforce, common minimum accounting standards; these should be relatively simple and have some flexibility to permit utilizing all that is practicable in host countries existing systems. Experience cautions that "ideal" and oversophisticated systems should be avoided as self-defeating. Collaboration of the host country is fundamental to any successful reform effort.

### Privatization

Public goods and services can be provided by a variety of options ranging from government operations to an array of private vendors. Privatization "changing the mix between the private and public sectors with the aim of shrinking the latter and increasing the scope of the private sector" is receiving increasing attention in the development arena. Although having a long history, it has recently been reemphasized by U.S. AID policy and has been appearing in such unlikely places as China and Viet Nam. In practice, there appears to be more rhetoric than action and privatization, it was agreed, is not a panacea; but there is clearly an increasing mixing of public and private enterprise. While clear cut privatization is unlikely in most developing nations partial moves and phased transitions appear probable ranging from divestiture which changes

ownership to methods which leave ownership untouched such as contracting, deregulation, user charges, etc.

No clear answer can be given as to whether private or public operation is "better" or "more efficient". Analyses applying economic reasoning to non-market decision-making can be effectively applied to the organization and delivery of public goods and services. Cultural, religious, and physical environment factors relate importantly to the successful development of a private economy. Of critical importance is the provision by government of a favorable environment for the functioning of a private market. Essentials of such an environment include provision for:

- maintenance of law and order
- possession of property
- contract enforcement
- exchange standards
- social overhead/capital goods (transportation, communication, etc.)

A systematic study is needed of privatization experience, particularly in other than western developed nations.

Some key related considerations are:

- privatization may bring fears of disemployment and political backlash in some countries;
- most foreign assistance is by bilateral agreement with national governments and emphasizes governments' roles;
- nationally administered functions frequently fail to deal effectively with local problems which can be addressed by smaller local entities.

It was generally agreed that both public and private efforts are needed; the question is how to achieve the most efficient and effective mix. Emphasis should be on the function to be performed and how best to achieve effectiveness in that function, rather than on the instrument to be used - public or private enterprise. The key factor determining the efficiency of an enterprise is not whether it is privately or publicly owned but how it is managed. Productivity was held to be the most useful measurement of the effectiveness of an enterprise.

### Donor Cooperation

Achieving effective donor cooperation is considered extremely difficult primarily because of different goals of the several donors. Also emphasized was the frequent lack of cooperation within donor organizations as well as between donors. Improvement in coordination was considered to be an extremely important goal from the standpoints of more effective use of donor resources, enhanced opportunity to achieve goals, and lessened stress on host countries too

frequently encountering bewildering and frustrating different donor requirements and direction.

Coordination in specific selected areas, such as accounting, and improved communication between donors were considered vital first steps toward more effective donor coordination.

Suggested actions:

- further document and analyze in-depth the increasing experiences of institutional development - both successes and failures.
- reduce staff turnover.
- donors jointly establish, and enforce, common, simple, minimum accounting standards.
- make a systematic study of privatization experience, particularly in other than western developed nations.
- establish mechanism for improved communication among donors - at both headquarters and field levels - as first step toward improved donor coordination.

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## Session 1

March 7, 1984

### INSTITUTIONAL DEVELOPMENT AND THE AGENCY FOR INTERNATIONAL DEVELOPMENT

The first seminar focused on AID concepts of, and policy and priorities for, institutional development. The session was chaired by Dwight Ink, former President of ACIPA, who was instrumental in establishing the ACIPA working group discussions which led to this seminar series. A 1983 AID Policy Paper, previously circulated to participants, provided the basis for the discussion which was led by three USAID officials: John Ericksson, Deputy Assistant Administrator for Science and Technology; Edwin Hullander, Associate Assistant Administrator for Program and Policy Development; and Norman Nicholson, Deputy Director of the Human Resources Directorate.

#### AID Institutional Development Policy

The AID Policy Paper, "Institutional Development", sets forth the AID policy to help countries establish and strengthen public and private institutions in support of mutually agreed upon priority development objectives. Achievement of such effective institutions is considered to:

- enhance the country's ability to marshall its own human and financial resources for development;
- expand people's opportunities to undertake successful development by providing increased incentives for investment;
- provide individuals with opportunities to acquire the capabilities needed to increase their productivity and well-being;
- increase the likelihood that AID assistance will foster development that can be sustained after external assistance is withdrawn.

AID's general guidelines for its efforts anticipate that institutional development must:

1. be addressed as an issue in all projects, and should not be seen as a special activity of its own;
2. address weaknesses in complementary institutions;
3. encourage institutions that are flexible and capable of adapting to changing local and national needs;
4. provide for the active participation of clientele in the assessment of their needs, and in the design, implementation, and evaluation of field programs;
5. be aimed at providing people increased ability to acquire essential resources, and greater opportunity to apply these resources in rewarding ways;

6. carefully consider private sector options and, where there is a choice, encourage and support such options.

The most critical areas of current concern to AID in institutional development relate to:

- the host country policy environment,
- the potential of various forms of organization,
- the importance of institutional learning capacity,
- the problem of transferring knowledge and technology,
- the improvement of coordination and linkages among institutions,
- improvement of management systems,
- provision of training,
- the role of local initiative and participation, and
- the role of institutions in undertaking the development of physical infrastructure.

The paper concludes that some changes are implied in the current AID approach:

(a) missions will incorporate a more complete analysis and integration of host country institutional performance into their country development strategies, sector assessments, and project analyses;

(b) AID must be able to make longer term commitments to institutions, both public and private, and must be prepared to support a wide range of institutional development requirements; and,

(c) AID should devote greater attention to the identification of alternative private and non-governmental organizations to perform important development functions, and should explore how development assistance can support these institutions.

### Recent Policy Initiatives

John Ericksson first reviewed the guidelines and principles set forth in the policy paper and the background of its development. He emphasized that the establishment and strengthening of viable, sustainable, development-oriented institutions are essential to cost-effective and sustained development efforts. To that end, AID has sought to synthesize the institution building concerns of the 1960's, which focused on internal organizational efficiency of institutions, and the more recent concerns which are directed to the external efficiencies — relevance to clients they are to serve, participation, learning by doing — and the effective relating of institutional development to technology and to economic policy. Ericksson cited several noticeable changes already resulting in the AID

approaches to institutional development. Based on the paper's recommendations, a series of 15 country social and institutional profiles have been prepared to provide for each country a detailed and systematic look at its structure, function, and dynamics of development institutions. These profiles now constitute essential requirements in framing AID projects.

Relatedly, the Asian bureau has set up an intra-country Committee on Community Resource Management to collect and organize a wide range of innovative project documents. Among the principal operational implications of AID's revised approach to institutional development is the increasingly explicit recognition that effective institution building is a lengthy proposition; ten years or more, for instance, is now viewed by many experts as the necessary time-frame for adequate designing, evaluating, and redesigning of projects. The paper has also spawned a new, more critical look at recurring cost-financing means, in order to set in place viable institutions.

### The Role of the Private Sector

Ed Hullander opened his comments by stressing the importance of the existence of the policy statement as something that now "is there" and thus provides a base to be dealt with in the operational administering of all projects. He then emphasized that, paralleling the effort to synthesize the best of two decades of institutional development experience, is the concern with the role the private sector can and should play in some development issues. Clearly, the intention here is to weigh private vs. public sector options, and, where possible, to determine which strategy is less costly and/or more responsive to the needs of the public concerned, especially recognizing that assistance programs are conceived of as being temporary in nature, albeit some will be longer term than others; none are expected to be permanent. How can we best assure that institutions will survive?

There are two principal reasons why AID is devoting greater attention to the identification of alternative private and non-governmental organizations to perform important development functions. First, there is the recognition that public sector resources for development, in terms of money, manpower, and capacity for innovative action, are usually meager in comparison to those found in the private sector. Second, there is a feeling in the current administration, as well as among many practitioners in the field, that the private sector, because it generally allocates resources more efficiently and effectively, can and ought to play a constructive role in development.

A key consideration in weighing private vs. public sector options is to determine the rightful boundaries of the private, public, and para-statal sectors and the areas in which each can be most effective. A number of experts indicate that these boundaries do exist and can be defined. At AID, the current feeling is that with the exception of such areas as basic public administration, major transportation infrastructure, basic schooling, and public preventive health measures, private sector options can and should be considered carefully.

Another major associated consideration is how to more effectively bring the private sector into certain development areas and to build a body of knowledge and experience on which to make assessments. A first step appears to be to conduct policy dialogues with the host country; it is essential that the donor and the recipient reach agreement as to which strategies may be most successful, and then to develop operational experience.

## Institutional Development Priorities in the 1980's

Norm Nicholson emphasized that the concerns with development-oriented institutions that will remain viable and will survive loss of subsidies is not new but clearly has become a priority consideration in the 1980's. He suggested that the reasons for this priority may be attributed to the renewed interest in accountability with regard to development assistance, the financial constraints of the decade, and the empirical evidence suggesting that resources too often have been channeled to the wrong set of institutions.

To assure a better allocation of AID monies in this decade, development experts must research more thoroughly the following areas: extension, corruption, marginal farmers, and an alternative distributive program.

- Past investments in agriculture and extension facilities, for instance, were based on the premise that agricultural technology is a public good. Today, however, this is no longer necessarily true, as major breakthroughs in bio-technology and agricultural research occur in the private domain. Development assistance in this decade thus calls for a much more careful examination of the public vs. private sector options, in order to determine which sector can produce the needed goods and services most efficiently.
- Donor agencies should abstain from building institutions in countries or regions that are thoroughly corrupt, or lack a competent professional civil service, or both; experience indicates that efforts to build in such environments are likely to constitute a waste of resources. All that donor agencies should do in these cases is to train people either directly, or indirectly by supporting the services of private voluntary organizations.
- Another needed focus for the 1980's is assistance to marginal or part-time-farmers. Past development experience suggests that the institutions that have been created for-and generally worked for-the full-time farmers, have failed to alleviate the plight of marginal farmers. Because, in many economies, these marginal farmers constitute a major contributor to the nation's economy, as well as a large proportion of people in need of assistance, their needs must be further addressed.
- Much research also is needed in the area of alternative distributive programs, for it is becoming increasingly clear that distributive bureaucracies, especially when locked in concrete in the early stages of a project, become very inflexible, inefficient, and little responsive to the needs of their clientele by the time the project reaches maturity. Thus, a crucial question to be addressed in the future is what alternatives do we have to creating distributive programs and bureaucratic inflexibility?

## Some Practical Problems in Implementation

The discussion following the overview of AID policies on institutional development brought out a wide range of concerns shared by most development experts, largely corroborating or complementing the views of the AID panel. Comments were directed principally to three areas: the method of analysis of past experience, the political dimension of development assistance, and local initiative and participation.

a) Method of analysis of past experience. Several participants suggested that reviews of development experience in recent decades tend to focus on "what went wrong." Marginal emphasis is given to success stories, and even less attention is paid to systematic studies of what happens when projects do work well. Several success stories were cited: water supplies in Latin America, for instance, are ever increasing due to viable projects and there have been a number of very sound projects in agricultural development in several LDCs. It also was pointed out that, generally, the assisted governments are better, and more effective and efficient today, than they were twenty to thirty years ago when assistance programs began.

Principal reasons why the development community should not too quickly criticize past projects are: 1) experts must recognize that the needs, challenges, and expectations of recipients are ever increasing, thus creating problems of perception both at the donor agency and in the field; that is, the initial criteria to measure success may change by the time a project reaches maturity; 2) an increasing number of experts are recognizing that it takes a very long time, and often more money and resources than initially allocated, to establish working institutions; clearly, some projects dependent upon sustained institutional development may indeed require several phases of evaluation redesigns, and cost-financing, lasting over ten years; 3) whenever bilateral assistance is tied to geo-political considerations, i.e., when AID money is used primarily to strengthen political ties, failures may occur; and 4) experts should recognize that institutional structures and procedures in general are often times less than perfect; no institutional organization will work well all the time.

The question also was raised as to whether the development community explicitly addresses the issue of negative linkages. For example, people working in the field must recognize that vested interests often are working actively against the establishment of particular institutions. It is thus crucial to study these negative linkages, not only to avoid costly pitfalls, but also to find ways to mitigate the negative impacts by co-opting the individuals who oppose specific projects.

b) Political dimension of development assistance. There seems to be a consensus among development experts and local clients that institutional development should be aimed at providing people increased ability to acquire essential resources, and greater opportunity to apply these resources in rewarding ways. Often times, however, there is disagreement among donors and recipients as to which institutions should be established or given priority. Who decides, and how are mutually agreeable decisions best arrived at? The problem is further complicated by the fact that at AID, for instance, the emphasis is not only on development but also on the strengthening of political ties. Different donors have different aims.

Tentative answers stressed the importance of conducting policy dialogues with the client, as well as systematic analyses of the host country policy environment. Thus, an assessment of the host country in terms of its legislation, regulatory procedures, and policies -- developmental, economic, etc. -- should be an integral part of the overall program. Further, a number of experts emphasized the advantages of working with already existing organizational structures and procedures, in order to ensure, among other things, greater local initiative and thus a more coordinated development effort.

c) Local initiative and participation. It is commonplace to find agreement among many development experts that the recipients of aid must be brought into the formulation and implementation of projects. The emphasis on participation stems in part from past experience indicating that technology and managerial skills cannot be imposed from above; the needed knowledge and capacity on the part of the recipients at the community level must be built through actions.

There is, however, little agreement as to what is implied by the concept of participation, and what constitutes an adequate measure of participation. For instance, some experts stress that participation is not only essential, but actually an end in itself; from this angle participation is perceived as more valuable than the services produced by the institution. Others view local initiative and active participation as an effective means of increasing people's ability in resource control, learning, problem-solving, and technology management, thereby increasing the viability of projects. Still others, although not denying the merits of participation, acknowledge that participation is very time-consuming and that it often slows down the design and implementation processes. Clearly, the experts present agreed, the issue of participation has not yet been adequately articulated, either conceptually or methodologically.

#### PRINCIPAL POINTS RAISED DURING THIS SEMINAR

Key thoughts emphasized during the first session were:

- A more in-depth examination of AID's successful projects should be undertaken in order to guide and direct future efforts.
- While success stories do require analysis, we must examine our failures as well, in order to avoid repeating mistakes.
- Donors must work more with existing institutions.
- Although foreign aid inevitably brings western models, indigenous requirements are vital to success and should not be over-looked.
- Vested interests constitute negative linkages which are politically difficult; their impact should be studied and a means found to overcome them.
- Contracts and time too often are emphasized at the expense of goals; this needs to be remedied.
- The building of new institutions should not mean the destruction of reasonably effective existing local institutions.
- Host country participation in order to foster more effective development is very desirable; the nature of that participation, however, is also very important, requires careful thought, and should be emphasized.
- While institution-building is very important, "crisis management" is often the critical need of LDC's and as such, merits some parallel serious consideration.

## Session 2

April 19, 1984

### PRACTICAL PROBLEMS OF PROJECT DESIGN AND IMPLEMENTATION

The second seminar addressed some of the practical problems experienced in field implementation of USAID policy on institutional development. Dwight Ink, former President of ACIPA, chaired the session. Norm Nicholson of AID, who was instrumental in initial planning of the seminar series, noted in preliminary remarks that those experienced in institutional development in the third world were aware some years back that the bureaucracies of many host countries were often more a part of the problem than of the solution. In their efforts to deal with such situations, AID had begun to work with the speaker, Dr. David Korten, who proposed innovative ways to reorient bureaucratic processes to make them more effective in delivering services to their clientele. Session 2 therefore was scheduled to take advantage of Dr. Korten's presence in Washington before leaving for assignment in Indonesia.

#### AID Experience in Four Projects

David Korten's paper "Learning From USAID Field Experience: Institutional Development and the Dynamics of the Project Process" was provided in advance to invitees to the seminar. The paper addresses AID's policy on institutional development, a primary element of AID foreign assistance strategy. That policy calls for new approaches which focus on helping existing institutions learn from their own experience. The paper describes efforts to apply a learning process approach in four AID projects in the Philippines and Thailand. This approach conforms to AID policy guidance, but contrasts sharply with the "blueprint" approach which has characterized most AID project programming. Features of both approaches are briefly described below.

The "Blueprint" Approach - This approach is geared to achieving a predetermined outcome at a specified point in time. Planning is directed to the creation of a document which details the project plan against which further actions will be measured (e.g., completing a specified number of roads or water systems in certain time frames). Project implementation consists of assembling technicians and consolidating their inputs to carry out prescribed activities on schedule. [The blueprint approach to institutional development often involves the replication in a new setting of an institution similar to an institution in a donor country utilizing technical assistance and participant training experience to transfer experience and knowledge from one group to another.]

Learning Process Approach - The learning process approach is directed primarily to developing new institutional capacities able to deal over an indefinite period of time with some class of problems or needs (e.g., local government capacity to deal on a continuing basis with infrastructure needs). The planning of the development intervention focuses not on planning some number of roads, but rather on a strategy for developing desired institutional capacities through their increasingly effective utilization. This strategy probably would be worked out in collaboration with some small number of local governments; it is extremely important that

whoever works with these local governments be able, over time, to work with numerous local governments on a similar process. Planning and implementation phases in this approach are inseparable because adjustments are made in the strategy as experience is gained.

Korten's study describes four AID-assisted projects: the Local Resource Management (LRM) and Rainfed Resources Development (RRD) projects in the Philippines and the Decentralized Development Management (DDMP) and Northeast Rainfed Agricultural Development (NERAD) projects in Thailand. Each of the four projects conceptually has both operational and learning components. However, in practice, efforts to implement both aspects of AID's current institutional development policy are hindered by the fact that the project mechanisms and supporting management systems of AID and recipient organizations appear best suited to the blueprint approach—which unfortunately is ill-suited to the requirements of an institutional development process. Strong pressures focus the attention of project managers on the more limited and more clearly definable sub-project outcomes to the neglect of intended longer-term, less obvious institutional outcomes. Happily, in the cases of the projects Korten describes, evaluations tended to correct projects in mid-course but often valuable time and effort was lost.

The sub-project focus does not lend itself to forming the change coalitions essential to achieving the significant institutional changes often required in developing institutions which are supportive of local initiative—a key objective of AID's institutional development policy. The formation of effective change coalitions is one of the most important and difficult tasks intended to support an institutional learning process. This loosely defined social network cuts across formal lines of organizational authority and is able to facilitate processes which the formal structure constrains. The change coalition is to the learning process approach what the project paper is to the blueprint approach. The development of such a coalition which is committed to a project concept and has carefully thought through the implications of its implementation is the central concern during the design phase of a learning process project. This coalition then serves as a primary source of guidance during project implementation, continuously assessing project experience, detecting errors in original design premises and taking corrective action as required. The learning from this process then becomes the basis for actions intended to achieve broader application of successful program approaches by the implementing organization. As Russel Ackoff has noted, the real product of planning is not the plan but the learning obtained from thinking the problem through.

(The learning process approach advocated by Korten calls for:

- use of resource institutions to support the institutional learning processes of the implementing agency which is managing the institutional learning process, providing social and technical analyses, workshops, and collegial interactions;
- establishment of a small and highly flexible fund to support experimental activities—ideally including during the project planning period;
- continuity of professional project leadership and staff to enable sustained project direction, commitment, and learning;

- host country commitment to institutional development accomplished by host country clientele sharing in the design of donor assisted projects and programs; and,
- flexible project planning and management mechanisms which allow for revision of strategies in response to changing conditions and objectives.)

The paper describes how, in day-to-day operations, AID procedures frequently work against fulfilling such requirements for effective institutional learning.

### The Conflict Between Policy and Practice and the Emergence of the "Empowerment" Model

Korten opened his remarks by stating his belief that donors are near a crisis in terms of their ability to provide appropriate assistance in ways which are effective in meeting institutional development requirements. He sees a contradiction between AID aims and the approaches to achieve them. In his experience in Asia, he observed that in normal "blueprint" approaches the project paper is the driving force behind development action; by contrast, in those efforts where real learning and institutional change occurs, it is not a piece of paper but the development of a coalition of committed people around an idea which is the basis for action.

While trying to do this within the existing system is not easy Korten believes there is some progress being made and that we are learning how to go about it. His presentation reviews some of the framework of his own thinking about the development problem and how to approach it:

- define the problem in more people-centered terms,
- determine goals in terms of mobilizing the mass of people to control and manage their own resources more effectively;
- apply experience in reorienting bureaucracies to be responsive to self-help initiatives; and
- identify and work to resolve gaps between what AID says it wants to do (and can do) and what experience indicates too often actually happens.

Korten recalled the 1950's conventional growth models' focus on production-centered values and the expansion and development of a modern economy into which it was assumed the entire population would eventually be absorbed. This model was characterized by macro-economic production indicators both to define the problem and to measure success in its solution. The private sector was not always aggressive enough so the state often played an entrepreneurial role. The 70's increased concern with basic human needs and welfare led to more people-oriented strategies with state intervention to fill unmet social needs, using social indicators to define the problem. Two problems have increasingly arisen: (1) insufficient resources to address needs, and (2) insufficient administrative capacity in the bureaucracies to respond to actual needs. These facts are leading to a third model focused on the empowerment

of the people.

This empowerment model is based on people-centered values and development is defined as a process requiring as its primary resource human commitment and creativity. The state then becomes the enabler, helping people to better mobilize and organize themselves, and to gain access to technology and resources so that they can address their own needs at the lowest possible organizational level. It is a broadly based concept which allows for drawing the entire population into the development process rather than assuming that people must wait for development done by someone else to finally reach them. Korten emphasizes the significance and the practicability of this approach by citing Indonesian statistics of a total population of 150 million with 60 million absolute poor, constant employment of just under a million with 2 million per year additions to the labor force, and public debt doubling in the last four years. In this situation, expansion of the economy is not a practicable answer.

Korten cited an example of some of AID's recent Asia region work with the concept of community management. In small scale agricultural development conventional approaches involved bureaucratic initiatives to obtain farmer compliance in applying uniform and centrally prescribed technology packages. In this model, the government makes most basic farm management decisions and the farmer is expected to function as an extension of the bureaucracy following bureaucratic direction; however, it is up to the farmer to sustain any risks. The donor in this model is the architect and funder, and the management mode is based on blueprints and controls with the process likely to absorb substantial government attention and resources. Government may come to view small-holder agricultural production and development as dependent upon government inputs and guidance as the basis of agricultural productivity; from the farmer's perspective much of what consumes the attention and resources of government is to the farmer irrelevant. His reality is a system in which he interacts with other farmers, seed and fertilizer dealers, money lenders, farmer's markets, local government structures and various other parties on whose inputs he draws in developing a farming system appropriate to his reality. Korten proposes that our interventions be designed to strengthen these existing processes by bringing to them beneficial technologies, minimizing existing constraints, augmenting training and research, and helping to develop the capacities of the communities. The government becomes enabler; the donor becomes facilitator in motivating commitment rather than enforcing controls against a blueprint. This empowering development approach is clearly preferable to the too characteristic approach of modern bureaucracy to obliterate an existing-often primitive but locally devised-system and imposes an externally devised system which is seldom responsive to local needs and depends on continued government subsidy to exist.

The empowerment model seeks to strengthen the existing process in order to facilitate development at a more rapid rate of growth; it builds from the bottom rather than the top, combining indigenous and scientific knowledge, developing organization gradually based on sufficient social analysis to understand the system in which the intervention is being made. Intervention also may be needed to strengthen community level management capabilities, and to reorient those bureaucracies providing supporting services so that they are able to work in a more responsive mode. Korten noted that some authorities refer to these efforts not as "reorienting" but as "debureaucratizing". The donor in this model becomes the facilitator of institutional learning. The management mode is one where the focus is on motivating commitment and facilitating learning at all system levels.

Korten observed that programs which are effective in contributing to local empowerment generally share a number of basic features. They:

- are initiated in the village,
- begin with problem-solving by working collaboratively with local people,
- use local people and resources as the primary resource base,
- combine indigenous and scientific knowledge, and
- embrace errors encountered in implementation as the basis for program adaptation.

If the program expands, the supporting organizations are built gradually from the bottom up rather than the top down. Staff development is a gradual process based on direct field experience. Organizational leadership and commitment is strong. Leaders begin their involvement in the field, working out the basic program ideas with the people, and stay with the program for a substantial length of time, providing continuity in purpose and in learning. The management focus is on developing systems and institutions which can support and sustain performance.

In contrast, typical donor funded programs are dependency creating. They begin with a formal, static plan designed by experts using primarily scientific knowledge, relying on a centralized bureaucracy using central resources, and often having inadequate time or inclination to deal with error because of the scale of programs with which they deal. The program structure is developed from the capital city down, with leadership provided by people who have had little or no direct village contact or experience and who are periodically rotated to new assignments. A principal problem identified by some in the field is to reorient this bureaucracy or, as some refer to the process-"debureaucratize" it.

In order to increase the effectiveness of government programs which are intended to empower communities to control and manage their resources more productively, it is necessary that they move through a bottom-up program development process analagous to the process by which successful programs have evolved.

Such a process can be facilitated through the formation of the earlier-cited "change coalition" which includes participation by a number of research and training institutions which take a lead role in developing tools for village level social analysis, documenting experimental project experience, and providing experience-based training for agency staff, leading to the devising of a community management approach.

The program development-learning process has three basic stages. The first stage focus is on learning to be effective. Commonly, this will involve experimental action in a few communities which serve as learning laboratories. It requires that the most creative people be involved and will require a longer time than can be regularly afforded but it is setting up a process which is expected to be replicated. By carefully monitoring experience in the learning laboratories, the members of the change coalition gain insights into the requirements for such interventions and their implications for the bureaucracy.

As the requirements for effectiveness come to be understood, program development proceeds to Stage 2—learning to be efficient. During this stage, the coalition refines approaches and methodologies, and standardizes procedures to make the intervention replicable. The process of testing the replicable approach is structured so that it develops an experienced cadre of agency personnel who will later provide support during the expansion phase.

The third stage deals with learning to expand. The emphasis during this stage is on learning how to apply the approach on an expanded scale. This will include development of training modules based on the results of Stage 2. The new approach is introduced gradually into the organization in a way which builds commitment to it and the development of supporting norms. Changes in management systems and institutional norms are also introduced to support the new approach.

Drawing some parallels between managing large corporations and managing village-level projects, Korten cited Thomas Peters' description of the process, in his In Pursuit of Excellence, as "messy, sloppy and unpredictable" and requires that participants take advantage of such as learning opportunities. Commitment on the part of leadership is also an important requirement. Too often accountability is the main focus of project management procedures, whereas commitment is more often the key to successful projects.

Stressing that the requirement for commitment is not unique to development projects, Korten quoted Peter Drucker's observation that: "Fanaticism is crucial whenever anything is accomplished." Korten also cited the observation of Brian Quinn from his study of corporate experience with successful strategies for change:

"If it was an entirely new venture for the enterprise, top executives often wanted more than mere accountability for success. They wanted genuine commitment from its leaders."

Korten observed that perhaps the greatest deficiency of the programming procedures of the large donors is that they are not geared either to developing or to identifying centers of commitment.

AID's current policies stress four themes: (1) institutional development, (2) private enterprise, (3) technology transfer, and (4) policy dialogue. It is a sound agenda which gets at the heart of the need for sustainable development outcomes. But these four "cornerstones" share in common the quality that their implementation is necessarily very people intensive. They are also, by nature, risky undertakings as results can never be assured. Consequently, they do not readily lend themselves to blueprint programming.

Nevertheless, blueprint programming methods, with their demand for precisely prescribed inputs and assured results, dominate AID administrative systems. Indeed the inputs are basically defined by the major budget categories of technical assistance, training, commodities, and facilities. So in many respects, the bottom line in project design consists of dividing the project budget among these four categories. Furthermore, nearly all U.S. foreign assistance goes through bilateral agreements which tie the efforts specifically to the public sector, contributing to the dominance of government's role despite AID's emphasis on private initiative.

With continuing staff cutbacks and increasingly cumbersome administrative requirements, the typical AID project officer has little choice but to concentrate on administering procedures and competitive contracting; the primary rewards in the AID system go to those who demonstrate their ability to obligate funds and do paperwork having little to do with the development results achieved. Administrative pressures seem to be moving in the direction of fewer, bigger, simpler projects which move more money with less staff--which develops systems best suited to buying development by specification rather than development - the "messy act of creation".

Enlarging upon the earlier emphasis on creative, committed people as essential in development, Korten observed that AID staff rotation policies result in fairly rapid turnover of staff relative to project life. It often takes from one to three years of planning before a project agreement is signed and another year after that to get people and budgets in place to begin actual implementation. During this period, the responsible project staff may turn over twice, if not more. And any creative or technical input into the project is apt to come from external short-term consultants who have no role in supporting implementation. Instances in which the persons responsible for a project's design are around to participate in its implementation are rare. This often undermines both commitment and the opportunity to learn from error.

Projects are not all bad. It depends on how they are viewed: one is as a purchase order in which specifications are clearly set out and a shelf item can be purchased; an alternative view is to consider the project more as a resource pool, recognizing the dynamics of the project situation, the outcome of which is not determinable but which requires committed people, attractive ideas, building teams, and making some subjective judgments.

Basically, AID's project system treats development as though it were a commodity which can be acquired through competitive bidding against blueprint purchase order specifications with guaranteed outcomes with respect to cost, inputs, product delivery date, and place of delivery. The system assumes that development is that shelf item, that knowledge and capacity are in place, that the donor need simply add money, and that once the specified delivery is made development is completed.

The reality of development is quite different. It is a messy and highly dynamic act of creation involving direction but no end point. Its primary resources are creative, committed and knowledgeable people. The knowledge and capacity which drives the development process is built only through its application in action. This requires treating a development project more as a resource pool used to place bets on committed people with creative ideas. The donor's role in this process is best thought of as one of providing venture capital, supporting coalition formation, and brokering ideas, people, and resources. This requires an ability to commit small amounts of money quickly and flexibly. It also requires an intensive commitment of professionally qualified staff whose job is to work collegially with counterparts, and who have sufficient continuity of assignment to develop in-depth country expertise and credibility. It also requires a freedom to work outside of bi-lateral channels, and a tolerance for failure.

Although they face growing constraints, some USAID missions in Asia are making efforts to use project resources more creatively and to get a clearer focus on achieving the reorientation of government bureaucracies required to

support a more people-centered development approach consistent with AID policy.

### Lessons and Questions from Practice

The discussion period ranged broadly over the Korten proposed approach, with some supporters, some identifying problems, and some arguing for modifications and a mix of the approaches, utilizing the most recent successful experiences. Following is a summary of the discussion.

- In dealing with governments, the process of attitudinal change takes a long time not only to get to know people, but also to get projects started. With the degree of instability and insecurity in most Latin American governments, there is not sufficient time to develop effective programs; this also must be coupled with changes in the donor organizations.

In Bolivia, AID wanted to mobilize resources from the base private and public sectors through a national community development program. It is hard to do this in a way that is non-threatening to the government, but, with some negotiation, the government of Bolivia began to see that the end result had to be some kind of local self-government and the proposed funding mechanism for the development was a reinstated land tax. Washington turned down the project because there wasn't enough self-help and it wasn't adequate to meet the immediate financial crisis so the process was destroyed.

With regard to the nature of the system, in Panama, the AID mission took two years to study community development in the most backward areas and two years to develop the blueprint for the project. By the time the mission had a plan that was acceptable to AID/Washington, all the actors in the Panamanian government related to the project had changed, and there was a new AID mission director with his own set of priorities. The result was that there was a \$10 million loan and no place to implement it. While there is basic agreement with the approach outlined by Korten, the real question is: How does one get from Point A to Point B?

The staff continuity issue is absolutely essential, although there is no answer on how, practically, to achieve it. In the Philippines experience cited there has been substantial stability of staff assigned to an irrigation project there, and continuity of key people in the Agency. The project officer's role is particularly important to project success. In two Thailand projects where some learning process success appears to be achieved, personal factors are keeping AID project directors on the job and maintaining continuity. In the Philippines projects the learning process is really working.

The AID personnel system appears designed primarily to satisfy the needs of the personnel system; it certainly does not relate to the development process. The development problem is not going to change to fit the Agency's convenience. If the Agency is going to do development in a particular part of the world, then they should hire people who want to go there and make a career of it in that place.

- Accepting most of the presentation's points, one conclusion that can be drawn is that AID should get out of the project approach entirely except under very unusual circumstances and let the Private Voluntary Organizations and foundations do the development work.

Another view is that the different "approaches" posed in the presentation are not, in fact, alternatives; they are complementary. A proper development strategy should include a mix of projects, some of which go to increasing production and others to reversing poverty. A whole range of tools are needed to deal with different problems. A people-centered element is more important on some projects than on others.

- There are two issues: the role of the individual which, particularly in the case of dynamic ones, is extremely important—and the role of the coalition, which goes beyond the individual. The role of the coalition is something that should be emphasized. If AID can use monies during the project development phase to build coalitions which outlast the individual AID member's tenure, it may be possible to begin a process that goes beyond the individuals. Then, a coalition can continue to put pressure on the donors to do certain things in certain ways.
- Can a coalition be developed that can sustain itself through changes in personnel? Changes in personnel necessarily involve changes in funding. Changes in funding also mean changes in commitment, in definition of tasks, and in critical relationships. Institutions go beyond individuals, but the key actors in institutions are individuals. What is required is the right mix of focusing on individuals and on institutions.

In looking at the experience with the Peace Corps under Sargent Shriver, and the Marshall Plan under Paul Hoffmann, good leaders and organizations with strong values are needed.

Double loop learning can be the key to fundamental change in an organization: its assumptions, structure, and mode of operations. This probably is long term. What is being tried as the job of a coalition is to achieve change, institutionalize it, and then dissolve itself. The problem is how to do this.

- From some African experience, the empowerment approach, if it succeeds, can be a solution to major problems. For the last 20 years, AID and other donors have used the blueprint approach which did not fulfill expectations. Now is the time to learn from experience and start something else. The success of the approach centered on people could have more positive results more quickly if the donors did not contradict themselves in their philosophy and methods.
- What is known about accountability in a system like this? There is legitimate management concern about this issue. If there is a change of direction every six months, how can one distinguish between theft, error, and success?

The basic concept of accountability is pretty essential. The question is to whom is the accountability? If it is to Congress, it may be an unrealistic type of accountability, but it is hard to get away from.

- After trying to develop a project information system, it is clear that while AID projects have blueprints, after two years the projects do not resemble what was in the project paper. There is often an illusion of a greater degree of uniformity than actually exists. If there is a decent manager and a decent mission director, then projects are not constrained in the blueprint sense. The real issues are that projects go from the top down and are not empowering. We ought to focus our efforts on "unleashing the human energy and creativity that is down there."

It is important to recognize that some aspects of the blueprint frequently are requisite to receiving funds. However, it may be possible to develop "blueprints" that enable a social learning process.

- The U.N. Voluntary Fund for the Decade for Women operates on an annual budget of \$2 million, yet, they have the flexibility to respond with small sums to local level initiatives. They have been very successful in such project areas as village level training, tree nurseries, and industrial sewing. While very small, it has had some success and may be a useful model.

Its a question of scale. You can do some very interesting things at the micro-level, but the minute that the World Bank says it is going to do something with a small institution, that institution changes. It is hard for a big institution to deal with a small one.

- Social learning does not mean we don't know where we're going, it just means that the blueprints should be modified and be more flexible. New programs need to go where social learning can take place.

#### PRINCIPAL POINTS RAISED DURING THIS SEMINAR

Key points of the second session were:

- The "blueprint" approach generally used by AID is not well suited to institutional development needs.
- The formation of effective change coalitions of people (a loosely defined social network) - the aim of the "learning process" approach - is key to effective institutional development.
- Although difficult in the existing system, progress is being made toward the development of coalitions of people committed to development actions.
- Lack of resources, and of bureaucratic administrative capacity sufficient to address needs, is leading to an "empowerment" model wherein states help "enable" people to better organize themselves to address their needs at the lowest possible organizational levels,

within local environments - building from the bottom rather than the top. In this process learning emphasis is first on being effective, then being efficient and finally learning to expand.

- AID's staff rotation practices inhibit institution building because they inhibit the people-cooperation essential to institution building. Emphasis on administrative requirements also focuses AID staff attention on procedures rather than on the social networks which constitute institution building.
- AID's project system can - and should - be more people-oriented to achieve the goals of institutional development.
- A proper development strategy should include a mix of both "people-centered" and "product-oriented" efforts.
- The length of time normally required for successful institution building is incompatible with personnel and political shifts as well as with the normal impatience to see rapid results.
- Coalitions must be developed to be strong enough to withstand losses of individuals.
- Accountability must be recognized as essential to any program of financial assistance but the terms of accountability may be made more realistically flexible and compatible with the practical problems of institution building.
- Most U.S. foreign assistance is provided through bilateral agreements which tie efforts specifically to the public sector and contribute to the dominance of government's role despite AID emphasis on private initiative.

Session 3

May 24, 1984

THE WORLD BANK APPROACH TO INSTITUTIONAL  
DEVELOPMENT AND DEVELOPMENT ADMINISTRATION

The third AID-sponsored ACIPA seminar on institutional development considered "The World Bank Approach to Institutional Development and Development Administration". Dr. Wendell Schaeffer chaired the session. Arturo Israel, Chief of the World Bank's Public Sector Management Unit, presented the unit's work program for FY'84, and led a discussion of the Bank's concepts and practices in the institutional development field. A paper outlining the work program was distributed in advance of the session.

The Management Unit Concept and the 1984 Work Program

Establishment of the Public Sector Management Unit grew out of the Bank's growing concern with improving the effectiveness of public sector institutions in its borrowing member countries. The paper defines the general objectives of the Public Sector Management Unit and proposes a work program for FY'84 in the fields of public enterprises, macro-administrative issues, and project and sector institutional development.

The main objective of the Unit is to provide intellectual leadership and operational support in the field of public sector management, so as to improve the quality of Bank work and its contribution to member countries' efforts to enhance the effectiveness of their public institutions. Specific objectives for the next three years are to:

1. accumulate a portfolio of operational activities and a body of experience, from which Bank-wide lessons may be drawn;
2. develop and test specific analytical and operational approaches to performance problems in the Unit's three major work areas (discussed in the 1984 work program);
3. promote systematic treatment of public sector management issues throughout the Bank and, in particular, help establish and maintain an active network of regional staff to address these issues;
4. promote a program of operationally relevant research and establish effective contacts with other institutions working in these areas so that their experience benefits the bank; and
5. become a reference point for operational staff about expertise and information in this field.

The Unit will be primarily operationally oriented. Support will take the following principal forms:

- major involvement in particular countries - undertaking studies or taking responsibility for projects,

- participation in, or leading, operational missions,
- acting as lead advisors for planning assistance activities and for free standing public administration and public enterprise projects,
- providing "desk" advice on all aspects of operations in this area.

The Unit will provide operational support selectively, giving priority to cases where these pre-conditions exist:

- public sector reform is central to the Bank's country strategy, and regional staff would cooperate in providing resources;
- government commitment appears sufficient to sustain reform; and
- there are prospects of wider application of the methods used and lessons learned.

By year's end, the Unit is expected to be fully staffed with high quality professionals, winning recognition as the Bank's center of reference and analytical expertise on public sector management, and making a significant operational contribution.

The Work Program for FY'84 will focus on three areas: public enterprises, macro-administrative issues, and project and sector institutional development. Plans are flexible to adapt to changing requirements.

a. Public Enterprises (PEs). The overall objective is to aid member governments in improving the performance of their state-owned firms. The focus will be on improving the Bank's capacity to analyze the problems of PEs and to propose general policy reforms and specific institutional changes to remedy these problems. Reforms would include establishing processes to set clear and attainable objectives and to cost those objectives, and developing systems to inform government about enterprise performance and to evaluate progress, incentives for performance, processes to select and train managers, and reforms to permit managers greater freedom while maintaining accountability.

b. Macro-Administrative Issues. The overall objective is to assist member governments' efforts to improve the management of national-level development institutions. The work program for FY'84 will be narrowed to two areas, which correspond to the Region's priorities and are closely related to Bank operations:

- the public sector investment planning process - focusing on identifying weaknesses and potential reforms in the organization and management of this decision-making process. Reforms are expected to involve action in three main areas: improving information flows and coordination between ministries, improving financial management - especially planning-budget linkages, and improving government's assessment of whether and how proposed investments can be implemented through public sector institutions.
- public administration as a component of programs of economic reform where concentration will be on public administration work in countries where institutional change is part of a broader program of policy reforms.

Additionally, the Unit will begin building methods and expertise for broad assessments of political and administrative issues as they affect Bank activities. It will continue to be responsible for advice to the Regions on planning assistance questions, particularly with regard to technical assistance to national planning agencies.

c. Project and Sector Work. The work program on institutional issues at the project and sector level continues the activities that have been underway on a small scale for some time. The FY'84 program will focus on three areas:

- Management approaches for people-oriented activities and sectors will explore specific approaches that can be successful in the management of people-oriented activities.
- The development of a market surrogates effort will aim at establishment of ways to induce or simulate market-like competition through managerial and administrative innovation in situations where a market solution is not desirable or feasible.
- The promotion of sector lending avenues seeks more systematic assessment of whether there are new cross-sector lessons to be learned and whether sector lending should be promoted more actively through operational support, staff training, and systematization of experience.

d. Policy work is expected to take about one-third of the total resources available to the Unit. In addition to the specific tasks cited above, the work program will include staff training and research in public sector management. Also, the Unit will set up a documentation and reference center and a roster of consultants for Bank use; it also will be the focal point for contacts with other agencies dealing with public sector management and with the academic community, to ensure that all relevant experiences are available to the Bank and to ensure that it is open to outside influences.

#### The Public Sector Management Unit in Practice

In his presentation, Israel briefly reviewed the recently increasing World Bank interest in the area of institutional development administration for public sector management. In one sense, the Bank has been doing institutional development from the beginning; loans usually include activities and technical assistance designed to improve the effectiveness of the institutions involved. In the mid-70's a new evaluation group within the Bank began a series of studies which showed Bank successes in the investment part of its operations but the evaluations pointed out that results with institutional development efforts were not very good. A comprehensive review of the Bank's experience with institutional development confirmed the evaluation results and further identified specifics. Institutional development in relatively modern high technology activities, such as power or telecommunications was not too bad, but it was particularly weak in people-oriented activities. As a result of these findings two years ago, the 1983 World Development Report focused special attention on management in development. Simultaneously a special Public Sector Management group was established in the central organization of the Bank. Since then there has been a general increase in the interest and effort by the Bank's operating departments in the field of public sector management. The

operational elements - the regional offices of the Bank - began to establish special units concerned exclusively with public sector management issues and in recent months this trend has accelerated. There are still only a few institutional development specialists but Israel noted that a classical process has begun which may parallel what occurred with the introduction of economic analysis at the Bank in the early sixties. Oversimplified, the Bank was put together by financial analysts who hired engineers; the engineers gained leadership and ran the Bank during the fifties. The introduction of economic analysis was a major revolution that was resisted strongly in the early sixties, but eventually the economists assumed the dominant role. People specializing in public management are unlikely to dominate the Bank in the way that the economists did, but it is expected that they will improve the work the Bank is doing in this area and as a consequence make a better contribution to the development of the countries. From the Bank perspective, issues of public sector management are one of the remaining major gaps in any development strategy. The time has come to give to this area the importance it deserves.

The public sector management unit, at the nerve center of the Bank, is a relatively small group. It will likely stabilize at 10-15 people, permanent staff and consultant equivalent. It is intended to provide leadership in this field and perform some traditional functions of a staff unit. The approach taken is to spend at least a third of its resources on direct operational support to the operating units of the Bank. It is believed that the way to prove potential effectiveness is to involve the public sector management component in operations and projects in economic and sector work, adjustment loans, etc., in a way that will improve the quality of the operation and at the same time have a demonstration effect on others and allow the group to collect experience from the patterns that emerge. A training program in public sector management is being developed for staff and the traditional policy and research work also is being initiated.

Size of staff has required selectivity of effort so the unit has concentrated on three areas. The first is related to public or state owned enterprises. The focus is not on internal workings or operation of public enterprises but on a recognized previous important gap - the relationship between the central government and the public enterprises, that is the framework under which public enterprises operate - the "rules of the game". This grows out of recognition that some public enterprises are under the direct control of their managers while others are under the control of central government agencies; often a very important reason for deficits and inefficient operations in many public enterprises can be traced directly to the inefficient way in which the central government defines the rules of the game and implements those rules. So an effort has been made to help the countries, through the Bank operations, in defining a more effective framework for the operation of public enterprises and setting up monitoring structures and mechanisms that will permit a reasonable implementation of that framework. This is being done both through special technical assistance projects designed exclusively for the improvement of the framework as such, rather than the direct effectiveness of the public enterprises, and through structural adjustment lending activities as one of the components in those operations.

The second area is related to macro-management or to public administration. The Bank does not undertake general administrative reforms but its macro-economic country work and structural adjustment lending operations

have identified a need to help improve the effectiveness of the institutional center for the management of economic policies. For example, every country in theory has a set of economic policies or development policies. Much discussion has gone into what should be the nature of these policies: how to design them and how to make them consistent. Some countries have consistent policies and others do not. While having a set of consistent policies is necessary, it is not a sufficient condition for getting those policies implemented; what is also necessary is a set of institutions to execute, monitor, and redesign and modify them as appropriate. This approach allows a different look at the central government agencies; rather than having the traditional vertical view of institutions it affords a horizontal view, taking all or part of those institutions that are directly related to the management of policies. Not a lot of work has been done but this is the direction the Bank is moving.

The third area is management of social or people-oriented activities. At the outset, it was noted that the Bank and the countries have been particularly weak in tackling the institutional and managerial issues of people-oriented activities: most types of agriculture, some types of education projects, population, health deliveries, etc. The new unit has concentrated on identifying successful approaches for people-oriented activities - alternative approaches that could result in an improvement in the way this is done. Few successes are claimed but this is a new effort.

These are the three areas of operation. Quite considerable operational support has been provided. The impact of such a group is very hard to assess at this early stage. There does appear to be continued interest in this new movement in which public sector management or institutional issues have been given a very high priority.

### Views of Participants

In an extensive discussion period following Mr. Israel's presentation, the following points were raised:

- The Public Sector Management Unit did little research in the first year; it was just building and its first priority was to provide operational support. The Unit continues to push for research. It is currently setting up an outside group to advise on areas for Bank support. The Unit encourages research, is beginning to do some, and will further promote and support research, either self-managed, or outside of the Bank altogether. Funding for this will be made available through the Bank's large research budget.
- People centered projects are important to the Bank, but the macro-management issues should not be forgotten. These two functions complement each other. Looking at the reality of the countries, the problems are at the level of the farmers but also at the level of the management of the economic policies by the government. It is the huge distortion of these policies by governments that has created many of the problems facing rural development projects. It would be unwise for the Bank to concentrate solely on people-centered development and ignore the macro-management issues.

- To bypass some of the bureaucratic problems encountered in countries, the Bank used to create institutional enclaves by setting up separate project units of select personnel to implement Bank financed projects. This proved to be unwise because, although often some improvement took place in the separate project created, there was frequently damage to the institutions from which the "best" people had been taken to build up the separate project unit. Furthermore, the project unit operated outside of the normal administrative and bureaucratic channels of the government and was therefore freer to be creative and effective. By the time the project ended none of the specialists recruited for the special project wanted to go back to his or her ministry. Instead, they came to the World Bank or moved elsewhere with the end result that non-Bank financed projects and the country usually were worse off. Also, whatever institutional base there may have been initially was seriously undermined. This "enclave" practice has now been discontinued.
- A major dilemma results from Bank efforts to undertake micro-projects because the injection of World Bank activities into local institutional frameworks distorts such framework so that they change and often deteriorate. The Bank is seeking to overcome this dilemma by working through intermediary institutions and "sector lending". The Bank, instead of dealing directly with grass roots, local development, organizations, tries to work through larger, broader based institutions which, in turn, work directly with the local efforts.
- The analytical base for management or administration is very poor in general. "It's a bit like economics before Adam Smith or physics before Newton, there isn't a very clear bag of tools to rely on." The nature of the topic, i.e., the working of the human mind, makes it extremely difficult to predict or control. Hopefully, the Bank interest can serve as a catalyst to encourage others to expand their efforts which should result in a more serious systematic review and analysis of people-centered development. Already, a good deal has been done in practice, but there is too little systematic evaluation and documentation of what has happened. With more efforts like the Bank is undertaking, the current lack of off-the-shelf guidance can be improved.
- The Bank, by continuing to concern itself with macro-administrative issues, is performing an extremely important service. The Bank has a lot of leverage; it has great powers of persuasion because it controls the purse strings, and because it is international. This leverage is very significant and the Bank should use it to maximize its influence over administrative and managerial improvement.
- When the Bank identifies a needed change or potential for improvement, this objective may be approached in a number of ways. Generally, the Bank tries to promote a package that contains financial resources for financing investments and, also, some resources for correcting the deficiencies that have been identified.

The results vary considerably depending on the degree of, and sincerity of, the support given by the country's main actors. If the key personnel are not interested in remedying the problems that have been identified, they accept whatever "cause" the bank is financing as the necessary cost that has to be paid to get the real money that is to finance the investment. When this is the prevailing attitude, success is unlikely, and, any achievement that might be made will most likely be superficial and short-lived. However, if the local authorities are convinced that something useful might come out of the proposed changes, and they are supportive, the results are likely to prove successful. The continued success of the operation therefore depends largely on the degree of support given by the local authorities.

- Institutional development efforts require different talents and skills at different stages. The early "prescriptive" stage which analyzes needs and determines optional configurations requires different analytical approaches, people skills, and perhaps personalities, than does the subsequent stage of implementation (or still later stage of analysis and course correction).
- Each situation requires the application of a somewhat different combination of theories, analytical frameworks, disciplines, etc. The selection of the best combination requires artistry, so that an artist's approach is needed as well as that of a technician and an analyst.
- The increasing accumulation of experience - analyses of mounting case materials - coupled with the use of the computer, is making it possible to take a step forward from pure artistry to more professional "medical" procedures: it is becoming possible to "plug in" a series of known characteristics, compare the profile with previous case histories, and come up with better prescriptions than in the past.
- There is a need to further examine public management and institutional development issues in order to more completely identify the tools that are already used in the broad spectrum of development activities, and the means by which the numerous efforts of different organizations might be better integrated into or coordinated with the current pool of information and knowledge.

#### PRINCIPAL POINTS RAISED DURING THIS SEMINAR

Key points made during the Third Session were:

- The Bank established its Public Sector Management Unit to assist in improving the effectiveness of public sector institution in borrowing countries - an area of growing concern to the Bank.
- Public sector management reform - previously a major gap - is now central to the Bank's country strategy.
- Macro-management issues should continue to receive major Bank attention.

- The Bank found counter-productive and has terminated establishment of "enclaves" - separate project organizations of select people - for Bank projects.
- The Bank has developed indirect approaches to avoid distorting local institutional frameworks.
- There is no adequate "kit of management tools" to rely on in working with people projects.
- Institution-building - and the related longer-term success of development projects - depends very largely on the degree of support of local authorities.
- Institutional development requires different talents at different stages.
- The continuing accumulation of development management experience contributes to the building of a science with less need to rely on artistry - but the road is long.

Session 4

June 21, 1984

PUBLIC MANAGEMENT IN INSTITUTIONAL DEVELOPMENT

The fourth ACIPA/AID seminar, chaired by Mel Spector, ACIPA Project Director for the seminar series, focused on the role of public management in institutional development. The featured speaker was Dr. Ferrel Heady, a distinguished writer and authority in the field of comparative public administration. A paper on the topic, prepared by Dr. Heady for the seminar, was circulated to invitees in advance of the session.

Relevance of Public Management to Institutional Development: Suggested Guidelines

In his paper, Dr. Heady noted that the U.S. Agency for International Development has chosen the concept of institutional development as a major basis for setting policy goals and identifying operational priorities during the 1980s.

He recalled that recognition of the importance of institutional development in programs of technical assistance is not new. Early development assistance projects following World War II identified the crucial need to establish institutional capabilities so that programmatic activities could be sustained after direct donor aid was withdrawn. The 1960s saw "institution-building" become a major focus for research and analysis on how to improve the results of efforts to transfer administrative technologies. The current AID thrust is based on these previous initiatives, but seeks to broaden the meaning given to "institutions", further stress institutional development options in the private sector, and give more attention to the policy environment in the host country as a factor influencing the effectiveness of its institutions. This emphasis on institutional development has produced an impressive array of documents which define, diagnose, categorize and assess past experience, and point out directions for future progress.

Dr. Heady believes we do not now have, and are not likely soon to get, even from the most systematic studies of management, a thoroughly reliable process for the realization of institutional development goals. As Milton Esman has observed, technical assistance continues to be a high risk enterprise. Heady does believe that we have learned, and are not fated to keep on making the same mistakes over and over. We have been accumulating a better base of knowledge about planning and carrying out technical assistance projects and the rate of progress has been stepped up in recent years. Contributions have come from a variety of sources, including public management as a focus of specialized interest.

Dr. Heady suggests some guidelines that public management can offer to reduce the risk factors and enhance the success prospects in undertakings with institutional development objectives. He also indicates how each guideline might be utilized in the conduct of technical assistance operations.

1. Clarify the meaning of key terms and concentrate on the most crucial task. After more than three decades of widespread usage, there is still confusion and lack of consensus on some key terms employed in technical assistance activities, with consequent costs in both program scope and choice of strategies. "Development administration" is the umbrella term most commonly accepted to denote the objectives sought by technical assistance cooperation between donor and recipient countries, but fuzziness as to its meaning persists. It would help to specify as clearly as possible what public policy goals are appropriate as development administration targets. George Gant, Nasir Islam, Georges Henaut and others appear to be on the right track in suggesting that development administration centers on "nation-building departments and ministries" engaged in "designing, implementing and evaluating policies and programmes leading to socio-economic change." Development administration is something different from public administration, in the sense that it is less inclusive, and its boundaries need to be identified.

The terms "institution-building" and "institutional development" have also been widely and variously used. The process of institution-building, as used earlier by Esman and his associates in their inter-university consortium, referred to "new or reconstituted organizations" which functioned as change agents and were at the same time fitted to the environment in which they operated. More recently, the World Bank has defined institutional development or ID as "the process of creating or strengthening the capability of institutions to make effective use of available human, financial and other resources," encompassing capabilities both public and private at all levels. Similarly, AID in its 1983 policy paper on institutional development considers as "institutions" not only specific organizations, both public and private, but also the broader institutional networks within which they function. The tendency seems to be toward greater inclusiveness. While having the advantage of explicitly recognizing the interconnectedness of things, it may tempt donor agencies to try to do too much with too little.

It seems wise to select meanings for crucial concepts which are limited rather than expansive. AID's policy paper stated that "much of A.I.D.'s institutional development effort will be focused on improving the policies and procedures of key organizations." This emphasis on "key organizations" should be pursued. In most countries of the Third World, whether we would prefer it or not, such key organizations are apt to be public rather than private and central rather than local. Unless and until institutional development has taken place in the public sector and at the center, its prospects are poor in the private sector and locally.

2. Recognize realistically the problem of cultural diversity. Public management, particularly in its cross-national dimension, has become increasingly aware of the importance of cultural factors, without having succeeded in devising accurate means of identifying these factors or measuring their impact.

Culture as a concept has various dimensions. Anthropologists and sociologists use it to refer to patterns of behavior, cognition, and emotion in whole societies. Political scientists have evolved a more limited concept of "political culture". Nachmias and Rosenbloom have explored what they call "bureaucratic culture" as a specific unit of political systems. Rogerio Pinto foresees the emergence of what he refers to as the field of "cross-cultural

organizational socio-psychology" as the vehicle for offering a technology for organizational change intervention across cultures.

These diversities in conceptual approach are matched by diversities in the grounding of statements about the consequences of cultural differences on prospects for transfers across cultures. Some are based on personal experiences as a technical assistance expert in particular countries. A recent example is what Garth Jones has to say after extended periods in Pakistan, Indonesia, and Taiwan. These countries are representative of three of the six main cultural variations in the Third World, being case illustrations of the Islamic, Malay-Javanese, and Confucian variations, respectively. Jones finds the record of technical assistance programs and progress toward socio-economic development least impressive in the Islamic cultural setting, mixed in the Malay-Javanese setting, and quite gratifying in the Confucian setting. Having had no experience in countries with the remaining cultural variations—Hindu, Christian, and African—he does not attempt to place them on a continuum with the first three.

These admittedly impressionistic and partial generalizations are typical of what is available; we do not now have useful applications of more systematic models. "Political culture" has been applied by political scientists for other purposes; Nachmias and Rosenbloom have utilized their "bureaucratic culture" model only in a study of Israel and for the primary purpose of relating bureaucratic culture to democracy in that country. Pinto concluded that his suggested approach has not yet provided an adequate set of tools for practitioners engaged in cross-cultural change activities. We are left with the good but vague advice to be as realistic as possible in taking cultural factors into account. Experience has proved that transfer of administrative technology from one culture to another is an uncertain business. We do not know what to anticipate beyond an awareness that such interactions will be easier or more feasible when the cultures are similar and more difficult or even impossible when they are dissimilar.

3. Identify and take into account political linkages. Public management is primarily oriented toward management in governmental entities, which operate within boundaries set by the political leadership of the country concerned. One clear lesson from technical assistance experience is that donor agencies too often fail to take these political linkages into account, and have had unrealistic expectations of success for technical assistance projects which lacked support from - or might even be actively opposed by - politicians possessing the ultimate power to determine their fate. We have frequently overestimated the leverage actually available to aid-giving sources for external inducement of domestic reforms in recipient countries.

Under these circumstances, the preferred basic strategy appears to be to encourage what might be called a global policy of "free-trade" in matters of administrative technology and institutional development, relying primarily on internal national decision makers to determine what might be useful for fulfillment of national goals as to public policy. It seems to Heady that concern about unanticipated consequences should not deter a response based on such a strategy, provided that as careful an assessment as possible is made of the consequences which can be anticipated. While recognizing that over-riding foreign policy considerations may lead to an across-the-board cutoff of links with another country, he questions insistence on a systematic tie-in between acceptance of our policy preference and availability of our administrative expertise.

At the minimum, aid-giving specialists should be better prepared to deal with the political dimension in the management of development. In a 1981 book Marc Lindenberg and Benjamin Crosby assert, based on case studies, that "all too often program failures are not due to a manager's technical incompetence so much as insensitivity to critical features of the political environment." The problem of administrative development intervention needs more explicit examination than in the past.

4. Take advantage of recent initiatives on techniques for project implementation. As the emphasis has shifted in recent years from what Esman calls the "Point IV mode" and Islam and Henault refer to as the Model I mode of thinking about development administration, toward a Model II or "basic needs" approach, much attention has been directed to devising new management strategies for Model II-type projects. George Honadle surveys much of this literature in a book review essay published in the March/April 1982 issue of Public Administration Review. Leading contributors have been Honadle himself, Dennis A. Rondinelli, Marcus D. Ingle, Jon Moris, and David C. Korten, among others.

These efforts share some attributes, such as stress on decentralization, participation, creation of new intermediary organizations, and major environmental changes in socio-political conditions. They also generally agree as to the elements most crucial as predictors of success probabilities. The most important of these is an adequate local or community base, in terms of both people and organizations; another is governmental encouragement and support, which is not enough to guarantee the needed local strength, but which must be present to sustain it over time. There is also confidence that decision-makers can benefit from a knowledge or information base contributed by social and management science.

The most pronounced contrast among these initiatives is the degree of confidence placed on systematic pre-planning and programmed step-by-step implementation actions. For example, Rondinelli and Ingle formulate a strategic implementation approach of six elements, reflecting a brief that management technology now permits "a more generic...approach to development administration," stemming primarily from first principles. On the other hand, Korten is skeptical of the "blueprint approach" which emphasizes pre-planning, definite goals, a definite time-frame, and carefully specified resource requirements; he prefers a "learning process approach" in which implementing organizations are not valued for their ability to adhere to detailed plans, but for having a "capacity for responsive and anticipatory adaptation" and which evolve through time over three stages: effectiveness, efficiency, and expansion.

As a result of reappraisals of earlier development administration experience, we now have available a variety of suggestions for improved performance. We need to experiment with several until an operational record is compiled which will give a clearer indication of what is more likely and what is less likely to work. The availability of alternatives which are detailed and reasoned is a distinct advantage but we probably are still a long way from a reliably scientific basis for proceeding with technical assistance or institutional development. An approach along the lines suggested by David Korten is therefore attractive. However, it appears premature to settle on a presumed "one best way."

5. Utilize more the emerging global network. Along with others, Heady has tried to describe and assess the impact of the increasing "globalization" of education and research in public management (or public administration) as a field of specialization. This growing network of teachers, researchers, institutes, professional journals, and associations - particularly as represented in countries of the Third World - is rapidly transforming the comparative dimension in public management studies, with one important spin-off being the enhancement of their relevance to institutional development in these countries. There is probably a companion or parallel network of expertise centered in Third World governmental departments or ministries which already is, or potentially could be, of great significance in fulfilling institutional development policy goals. To the extent that these global networks are being ignored or under-utilized, there is a corresponding loss in what might otherwise be accomplished.

#### The Limitations of Public Management: The Lessons Stressed.

In his presentation, Dr. Heady summarized the key points of his paper. He opened his remarks with words of caution concerning public management as a precise science with consequences of action clearly foreseen, particularly because public management decisions so often have to be made without as much information as the decision-maker would like, under time pressures, and frequently with only vague notions of consequences. He held this to be especially true in the application of public management to institutional development and stressed the high risk nature of technical assistance enterprises. However, he noted that certain points of focus which emerge from specialization in public administration may be useful in explaining some of what has happened in past development efforts as well as how to proceed in the future.

To reduce risk and enhance chances to success, Dr. Heady summarized his guidelines as follows:

Clarify key terms and concentrate on key tasks. There is a lack of common understanding of key terms. We need to pin down what we have in mind - what is included and what is not. "Development administration" is different from administrative management, but how does it differ from "administration" not modified by the adjective "development"? Certainly it includes less in scope, and certainly it has "development" as its objective.

In regard to "institutional development", Heady continued, we may be including too much in the term. We should concentrate more on the central government entities in order to provide the reinforcement and support for local and private initiatives which is essential to their success.

Recognizing cultural diversity. We are now more aware of the difficulty of transferring techniques from one culture to another. But there are no tools at hand that would provide answers as to what can or cannot be transferred successfully. One generalization is that the greater the diversity between cultures, the greater the risk of successful transfer. Such efforts require constant alertness to differing cultural modes and further learning to work with and within these modes.

Political linkages. A priority need is for public management to focus more on the importance of what Heady calls, "political linkages". We have persisted

too much in thinking that if we have the right plan, enough qualified donor experts, and local people capable of being trained, then the project will be successful. This leaves out the very important consideration of whether or not there is adequate interest in and support of the project by the concerned political leaders. Success of outside leverage is too often exaggerated; by itself it is not enough.

Techniques for project implementation. It is very encouraging that various techniques and approaches to project development have been developed. It is also encouraging that assessments are being made of experience with these techniques. However, we should be cautious in adopting any single approach or technique, but reserve judgment until more testing and experimenting has been done. Of the various techniques, Heady leans toward the Dave Korten approach.

Emerging global network. Comparative administration is no longer a largely American and European enterprise, but it has expanded to include Third World schools, institutes, and journals. Two examples of this type of network are the Eastern Regional Organization for Public Administration (EROPA) headquartered in Manila, and the International Association of Schools and Institutes of Administration (IASIA) with a secretariat in Brussels. Similarly, technical assistance expertise and local insight resides in individuals and institutions in the Third World. Action needs to be taken to institutionalize the tapping of these resources as well.

### Major Discussion Points

The discussion that followed focused principally on the proper role of the state in development, summarized by Dr. Heady's statement in his paper that "...unless and until institutional development has taken place in the public sector and at the center, its prospects are poor in the private sector and locally." This brought several objections: that the statement was too inclusive; that development governments often stifle local, time-honored private initiatives, and often free market activities; and that central bureaucracies have burgeoned far beyond need and are too costly to bear. Consensus was found in the statement that both are needed - public and private. Hopeful signs were noted and there is Third World leadership of movement toward decentralization and privatization although these are more likely long term payoffs. As one discussant put it, the principal goal should be "...to find a practical basis upon which a well-organized public sector can assure the conditions under which a private sector can operate."

Other points made in the discussion were:

- There is no easy formula to ascertain the firmness and dept of political support. It is a matter of judgment and experience is still the best teacher.
- Dr. Heady advocates a policy of "free trade in administrative technology." That is, unless there are overriding policy reasons to the contrary, donors should be responsive to a country's requests for technology transfer assistance.
- Over-expectations are to be avoided. A certain humility should come to those of us who look at some of the shortcomings in our own

governments at the national, state, and local level.

- Development in each country should be seen in historical perspective. Both the donor development expert and the local counterpart have to understand the realities of history, colonial legacy, technology, etc., in each situation and work together on realizable objectives within this context.
- Often hindering decentralization and delegation of authority to the local level is the reluctance of the center to give up authority - both by political leaders and the bureaucracy. Essential to good institutional development at the center is the acceptance of the idea that decentralization is a good thing and delegation of authority should take place. It is up to the discretion of the donor as to how much, and when this should be insisted on as a condition of aid.

Dr. Heady closed the discussion as follows:

"Admittedly, there are large gaps in the theories and practices of public management and development. If progress is to be made, it will be by academicians and practitioners working together. The two most important areas for concentration are political linkages and utilization of human resources. The development expert must have, in addition to technical expertise, an appreciation of the history of the location in which he is working. And he must be modest in his expectations and promises."

#### PRINCIPAL POINTS RAISED DURING THIS SEMINAR

- Early programs of U.S. technical assistance recognized the crucial need to develop host country institutional capabilities so that program work could be sustained after donors departed.
- Despite the now extensive literature on, and increasing experience in, institutional development there is yet no thoroughly reliable process for the realization of institutional goals.
- Guidelines for action:
  - clarify the meaning of key terms,
  - concentrate on the most crucial tasks,
  - recognize the problems of cultural diversity,
  - take account of political linkages,
  - consider new techniques for project implementation,
  - utilize the emerging global networks of public management expertise.
- Public management is not a precise science and "technical assistance is a high-risk enterprise".

- Both public and private institutions are needed.
- Unless and until institutional development has taken place in the public sector and at the center, its prospects are poor in the private sector and locally.
- Over-optimism and high expectations are to be avoided.
- Development in each country should be seen in historical perspective.
- Aid specialists should be better prepared to deal with the political dimension in the management of development.
- Political support is essential to institutional development, but its firmness and depth is difficult to judge and requires experience.
- Decentralization and delegation essential to effective local participation is often opposed by central authorities - both political leaders and the bureaucracy. Donors must use discretion to achieve proper balance.

## Session 5

August 28, 1984

### ANALYTICAL TOOLS FOR INSTITUTIONAL DESIGN\*

Drs. Elinor and Vincent Ostrom, a wife/husband team from the political science faculty at Indiana University, led the fifth AID/ACIPA seminar discussion of "Analytical Tools for Institutional Design". Dr. Wendell Schaeffer chaired the session and introduced the speakers.

#### Public Goods and Public Choices

Prior to the seminar, invitees were provided a copy of a recent Ostrom publication "Public Goods and Public Choices" which considered a new mode of analysis, developed in the past twenty years, for dealing with the organization and delivery of public goods and services. This mode of analysis involves the application of economic reasoning to non-market decision-making. It is based on the nature of public goods and services, which are arrayed according to characteristics pertaining to their exclusion or jointness of use, and the roles of different types of organizations, including private enterprises, in the delivery of such services. The paper emphasizes that, traditionally, the private sector has been viewed as organized through market transactions while the public sector has been viewed as organized through governmental institutions with services provided through a command structure of public employees. Recent decades have witnessed an increasing "mixing" of the public and private economies.

A public good is defined as one which is not subject to exclusion, but rather is subject to jointness in its consumption or use. Exclusion is a necessary characteristic for goods and services to be supplied under market conditions. Exclusion occurs when potential users can be denied access to a good or service unless they meet the terms of the vendor. If both agree, goods or services are supplied at a price and an exchange takes place; the buyer acquires the good and the seller acquires the value specified. Where exclusion is infeasible anyone can derive benefits from the good so long as nature or the efforts of others supply it; for example, the air we breathe is a good supplied by nature, so exclusion is difficult to attain. "Subtractibility" is an important consideration. For example, a loaf of bread consumed by one person is not available to another. Such consumption is completely "subtractible" - it is subtracted from the total available and cannot be used again. Our use of gravity to keep our feet on the ground is, however, "non-subtractible" because one person's use of it does not lessen its availability for others' use. Most joint consumption goods are partially subtractible. Jointness of use or consumption is another attribute of goods or services; such joint use is not possible when the consumption of a good by one party precludes consumption by another, again, our loaf of bread example; a weather forecast, however, is a joint consumption good which can be used by one but remains available for use also by others. Exclusion and jointness of

*\*Editor's note. A part of the tape of this session was garbled resulting in loss of some parts of Dr. Elinor Ostrom's presentation and the discussion; most of the material has been reconstructed from notes, tape phrases, etc. ACIPA regrets this unfortunate loss.*

consumption are independent attributes which can be arrayed in relation to one another. Jointness can be shown as either "joint use" or "alternative use"; depending on its continuing availability. Exclusion can be either "feasible" or "infeasible" depending on the capability of controlling access. Figure 1 illustrates four logical types of goods.

Figure 1. Types of Goods

		Alternative Use	Joint Use
E X Feasible C L U S I O N Infeasible		<u>Private Goods:</u> bread, shoes, automobiles, haircuts, books, etc.	<u>Toll Goods:</u> theaters, night clubs, telephone service, toll roads, cable TV, electric power, library, etc.
		<u>Common Pool Resources:</u> water pumped from a ground water basin, fish taken from an ocean, crude oil extracted from an oil pool.	<u>Public Goods:</u> peace and security of a community, national defense, mosquito abatement, air pollution control, fire protection, streets, weather forecasts, public TV, etc.

Market arrangements can be used to deliver either private or toll goods i.e., where exclusion is feasible. The range of governmental agencies' services may cover all types of goods and services, but most frequently are of the public good, toll good, or common pool resource types.

Two other characteristics of public goods and services relate to measurement and degree of choice. Public goods are difficult to package or to measure; performance measurement, too, is less refined than in production industry. Users of public goods often have little choice whether or not to consume, for example, congested streets, crowded schools, etc. Table 1 summarizes several key characteristics associated with public and private goods.

Table I. Public and Private Goods

Private Goods	Public Goods
Relatively easy to measure quantity and quality	Relatively difficult to measure quantity and quality
Can be consumed by only a single person	Consumed jointly and simultaneously by many people
Easy to exclude someone who doesn't pay	Difficult to exclude someone who doesn't pay
Individual generally has a choice of consuming or not	Individual generally has no choice as to consuming or not
Individual generally has a choice as to kind and quality of goods	Individual generally has little or no choice as to kind and quality of goods
Payment for goods is closely related to demand and consumption	Payment for goods is not closely related to demand or consumption
Allocation decisions are made primarily by market mechanism	Allocation decisions are made primarily by political process

While public goods and services do have joint or common access as a characteristic, they still are finite in their supply. Highways, or fire protection, are examples. Overuse can cause congestion and a corresponding erosion in the quality or supply of the good or service unless the supply is modified to meet the demand. The situation created by overuse or excessive demand is a public dilemma in which market arrangements may fail to meet individual demands for public goods.

Public goods - goods subject to joint consumption where exclusion is difficult to attain - present serious problems in human organization. "Free-riders" may take advantage of what is freely available and the joint good will deteriorate. Market institutions will fail to supply adequate public goods and services where exclusion is feasible. Therefore, to supply many public goods and services some form of collective action is necessary to assure each individual carries a proper share of the burden. This leads people to seek recourse to governmental institutions. But government is not a solution without problems.

Governments can be viewed as collective consumption units - comprised of users of public goods and services; they also can constitute potential production units concerned with the supply of public goods and services. Often they are a mix of both. The effectiveness of government as a collective consumption unit will entail many decisions involving the balancing of coercion and commonweal to insure that those deriving benefits pay proportionate shares of the associated costs. This done, the government can achieve substantial community unanimity to collectively procure a public good or service.

Several options can produce and deliver the desired public goods and services. A most obvious alternative is for the community to establish its own production unit - police force, fire department, etc. Alternatively, public officials may contract with a private vendor to supply public goods or services; the collective consumption unit would then operate as an "arranger" of the service and the private vendor as the "producer" or "supplier". A government may collect taxes to pay for a public good or service and then use vouchers to families, permitting them to procure the good or service from any authorized supplier. A further option is for the public agency to establish rules or standards of service and leave the decision to each household to contract directly with an approved private vendor for the good or service, such as private companies supplying waste collection services. In still another alternative: one community may contract with a larger public institution or community to supply the desired good or service. Also, a public agency may produce part of a good or supply a portion of a service and contract with a private unit to produce, supply, or deliver the remainder. A variety of possibilities becomes apparent. A public service economy may encompass many autonomous units of government, with substantial degrees of overlap; private enterprises and voluntary associations may function as integral parts of such an economy. The citizen served by such an array of producing units is served not by "the government" but by a variety of public service industries.

Whatever the combination of relationships is, the problems of financing, regulating patterns of use, and co-production must be solved for the coalition of public and private groups to supply goods and services efficiently and economically. The collaboration between those who supply a service and those who use a service is also essential. An awareness that bigger does not necessarily mean better should precede a search for the combinations of public and private units to produce and supply goods and services. If the potential

producers include choices between private vendors and public units, then the best and most economical choices can be made.

The paper emphasizes that "competitive pressures are the key factors in maintaining the viability of a democratic system of public administration" and argues that "private enterprises as producers of public goods and services can significantly improve the efficiency of the public sector so long as competitive pressures can be openly and publicly maintained."

### Framework for Discussion

Dr. Vincent Ostrom focused his presentation on setting the general framework for institutional analysis, design, and development. He defined institutional arrangements as "any set of rule-ordered relationships among human beings." Examples are found in associations, groups, organizations, cooperatives, firms, agencies, markets, coalitions, political parties, interest groups and units of government. The theory could be extended to include society as a whole. The importance of these institutions is that human beings - acting alone - could not accomplish very much.

In considering many different civilizations, one can observe team work, joint activity and a significant capacity of people to relate to one another. Most of the capabilities people have are derived from acting jointly with one another and from developing skills and capacities that derive from specialization. The way that people relate to one another in human societies is of fundamental importance, and institutions are the way people order their relationships so that productive, collaborative, and compatible relationships can be maintained with other people in a society.

The differences between more and less developed parts of the world can be ascribed to various factors. An obvious point is the difference in natural resources, for example, Saudi Arabia and its oil. However, there are other cases where natural resources are similar in two countries and yet there are marked differences in development, for example, the two river delta nations, the Netherlands and Bangladesh. Here natural resource endowment does not appear to account for the differences; the significant factor seems to be that of cultural development and this turns very critically on knowledge and the ways in which knowledge can be used in fashioning human development and human potential.

In dealing with institutions and their development, one is concerned with social technologies that have to do with the way human beings relate to one another and how those social technologies impact on patterns of human development. Consideration of institutional design requires, first, institutional analysis, because design assumes that alternatives are available from which a choice is made; to make such choice, one must analyze the range of possibilities available in dealing with structures of institutional arrangements, and how they enhance certain capabilities and impose certain limitations.

It is not accurate to assume that common sense dictates how institutional arrangements are ordered. All fields of professional and scientific endeavor depend on the development of knowledge about counter-intuitive relationships. By gaining counter-intuitive knowledge, one gains the capacity to discriminate and critically analyze.

There is a frequent assumption that human beings can accomplish anything if only they have the will and determination. However, will alone is not adequate in dealing with the organization of collective action. Aristotle observed 2,500 years ago that "that which is shared in common by the largest number has the least care bestowed upon it." In looking at problems of common property, pool resources, and public facilities, goods and services, it seems clear that common facilities are neglected - the "tragedy of the commons"!

Work in institutional analysis and design has proceeded slowly as compared to what might have been expected. Alexis deToqueville's Democracy in America was one of the greatest achievements in institutional analysis and it is now 150 years old. Why have we made no significant progress beyond? One reason is the myopic approach of various academic disciplines and professional fields of study. Political scientists are preoccupied with governments; economists with markets, firms, and industry; business schools with management and particularly that of firms in market systems; and public administration with agency relationships and bureaucratic organizations. Sociologists refer to the institution of the family, the church, the state, and economic institutions within the framework of the sociological period. Anthropologists have a generalized approach but are concerned predominantly with primitive societies. Some disciplines appear to be beginning to address institutional analysis from a broader perspective.

Another problem has been the extensive reliance on theory which tends to emphasize theoretical development at the expense of varied aspects that bear on institutional arrangements. Public administration's long concern with the span of control incorrectly assumed that if the control is narrow enough then the problem of loss of information and control in an organization can be solved. Herbert Simon demonstrated that this is not the case; if the span of control is narrowed, then the depth of the organization is increased, and the problem of loss of information control still must be confronted.

There are always trade-offs in dealing with both capabilities and limitations and how they relate to other areas. Many disciplines engage in word descriptions of institutions and their problem. They do not go beyond these descriptions to develop generalizations applicable from one case to another. Yet, work on institutional analysis has been accomplished by various intellectual communities in the last 20 years that represents a generalized approach to institutions. While there are differences in their foci there are also many complementary aspects to their analysis. Most of these approaches operate from a base of economic analysis and involve people who are working professionally at the margins of economic analysis.

Public choice is one tradition which applies economic reasoning to non-market decision-making, specifically in the public sector. Some important developments have resulted from the work in the public choice tradition. Dr. Ostrom noted as a particular economic production aspect of public choice, the alternatives of contracting for the desired public services either with private vendors or with other governmental entities.

There are other approaches in various disciplines which contribute to institutional analysis from an economic perspective. There is now in process the organizing of a program of advanced studies in current institutional analysis

development based on the assumption that the segments cannot be analyzed alone but rather in the context of the general configuration of problems and relationships in institutions.

### Overview of "Working Parts" of Institutional Analysis

Dr. Elinor Ostrom first addressed her comments to a model of the individual, assuming perfect information, facing a decision situation in which the key attributes of that situation can be described: how many other actors are there? what are their resources? what are the cultural mores and values? what kinds of strategies are available? what outcomes are available? what are the linkages? Such a model is used to isolate and analyze the characteristics of a situation to judge what an individual is likely to do in a given situation. This information is then used in "commons" situations to help determine the rules or bounds of what avenues are open to participants.

Using a series of charts, Dr. Ostrom defined the characteristics of a "commons" situation, principal among which are multiple participants with legal rights of access and a common facility or resource which produces a finite flow of use units per unit in time. The "commons" use of such resource depends on a set of rules which produce incentives and constraints to which individuals respond in making choices about such use. (Example: water laws regarding who can pump water, for what purposes, combined with the physical structure of a ground water basin, rain and replenishment pattern and natural flow, affect the amount of water that can be safely withdrawn each year without destroying the ground water basin.) When demand for use units is low relative to current yield, the use of the commons by each user does not interfere with the use by others. However, this commons situation becomes a commons dilemma when demand for use approaches the finite supply of use units. Resolution of the dilemma requires adoption of one of two strategies: to cooperate by some joint adjustment of use patterns or to not cooperate and continue the existing use pattern with its undesirable consequences. A simple model is:

	C	DC
C	RR	ST
DC	TS	EE

$$T > R > E > S$$

- T = Payoff for continuing use when the other cooperates
  - R = Payoff when both cooperate
  - E = Payoff when both do not cooperate
  - S = Payoff for cooperating when the other does not cooperate
  - EE = Equilibrium outcome when both choose their dominant strategy = DC;
- A stable but deficit equilibrium.

Dr. Ostrom noted that most commons dilemmas in natural settings occur where individuals repeatedly use the same facility which allows for the development of contingent strategies and for learning. She pointed to several conditions which are principal variables affecting the selection of behaviors and strategies:

- information (knowledge of key pertinent data),

- communication (dissemination of the information and discussion of alternative solutions),
- symmetry and non-symmetry (how are costs shared; how is use cutback; etc.),
- enforcement (contingent contracting as a device),
- monitoring: a self-enforcement device.

Dr. Ostrom then described the particulars of the West Basin case involving an aquifer underlying a major part of the Los Angeles metropolitan area. The safe yield was first exceeded in the 1930s and World War II accelerated the overdraft. Key steps taken to resolve the problem were:

- creation of the West Basin Association as a forum to disseminate geologic, engineering and technical information and for open discussion of alternative solutions;
- use of equity court to a) obtain accurate information on the structure of the basin and past use patterns; b) identify the users; c) enforce contingent contracting - an interim agreement signed by 80% of water right users agreeing to reduce use by one-third;
- establishment of a water district to import water;
- creation of a barrier against the sea;
- creation of a replenishment district (including the adjacent Central Basin to replenish both basins);
- evolution of a polycentric, mixed public/private decision-making system to regulate use of basin, balance use and supply, determine ways to share costs.

"An institutional solution that was evolved primarily by the participants but not through strictly voluntary means."

### Discussion Summary

Among principal points made during the wide-ranging open discussion period were the following:

- there has long been a general assumption that clarity of goals facilitates effective management; now there are some indications that the opposite is true - clarity of goals can be a basic problem because such clarity makes more difficult the agreement of all those involved whereas ambiguity of goals contributes to cooperative action.
- at times process is more important than goals in institution-building; for example, it is not necessary to know the "goal" (destination) of every driver on a highway in order to manage traffic; the "rules of the road" (process) maintain order. This also may be true in institutional arrangement: the key to effectiveness is to know what is allowed and

what is not.

- a major problem in dealing with human institutions is the manner in which human beings relate to one another and therefore relationships and institutions cannot simply be imposed from the outside. New technologies and new learning can alter people but, essentially, the human beings must themselves adopt new ways.
- resolution of major problems in Latin America requires a thoroughly critical assessment of Latin American institutions and the historical events - both in Europe and Latin America - which led to their development. From such a reassessment it should be possible to find the elements of community on which to build and then, with patience, help the people to begin to build at the margins. These same general considerations of the past must be given in all societies to assess the impacts of that past.
- in terms of dealing with problems associated with market organization we need to develop a much greater sensitivity to the wide range of diversity of markets, and a greater awareness of the resources upon which to build.
- in seeking to facilitate the progress of human development, we must approach it, not with the idea that we know the answers but that we may be able to help people, working together, to formulate answers; we must learn how to structure institutions to allow contributions and rewards in such a way that people are motivated to participate.
- two themes were suggested as adding meaning to the discussion: "Theory gives meaning to facts, facts never give meaning to theory"; "Hypocrisy is a social lubricant".
- regarding the relative advantages and disadvantages of, and variables associated with, ordering individuals by the different institutions, hierarchy, markets, and plans, it was proposed that, in cases of a classical "bureaucratic good", markets are tremendously efficient mechanisms; however, there are more than three institutional alternatives. At least seven types of rules were suggested, each of which has numerous subdivisions; with actual operation of combinations of these in different degrees, it becomes clear that any "institution" may be comprised of a vast array of rules. We must not be deterred by the complexities.

#### PRINCIPAL POINTS MADE DURING THIS SESSION

Major points raised during the fifth session were:

- In recent years, a new method of analysis, applying economic reasoning to non-market decision-making has been developed to deal with the organization and delivery of public goods and services.
- Traditionally, the private sector has been viewed as organized through market transactions while the public sector is organized through governmental institutions with services provided by a command

structure of public employees; in the past two decades there has been increasing mixing of the public and private economies.

- Public goods and services can be provided by a variety of options ranging from a government agency operation to an array of private vendor suppliers.
- Private enterprises as producers of public goods and services can significantly improve the efficiency of the public sector so long as competitive pressures can be openly and publicly maintained.
- Human beings acting alone accomplish relatively little; most of the capabilities people have are derived from acting jointly with one another. The way that people relate to one another in society is therefore of fundamental importance and institutions are the means by which these relationships are ordered to be productive, collaborative and compatible.
- The design of effective institutions requires extensive institutional analysis from a broad general perspective.
- Institutional analysis involves the initial development of a model of an individual facing a decision situation: the model requires information on how many actors are involved, their resources, environment, cultural mores and values, strategies available, outcomes available, and key linkages. This information leads to judgment as to the individual's likely action in a given situation. Such judgments help determine the rules to be established in "commons" situations to develop the most effective and participative institutions.

## Session 6

October 16, 1984

### REFORMING THE MANAGEMENT OF INTERNATIONAL AGRICULTURAL RESEARCH

Dr. Vernon W. Ruttan, Professor in the Department of Agricultural and Applied Economics and in the Department of Economics, University of Minnesota, was the guest speaker for this session. Dr. Marvin Weissman of the Inter-American Development Bank, chaired the session. In his opening remarks, the Chairman noted that the topic is very high on the current agenda of the IADB and other donor organizations and is receiving increasing attention throughout the world. Because food is the first essential for life, its production, and the effective management thereof, is of the highest priority.

#### The Existing System and Future Goals

Dr. Ruttan's paper "Toward a Global Agricultural Research System" was provided to invitees in advance of the seminar. In it he emphasizes that we are approaching the end of one of the most remarkable transitions in the history of agriculture -- from increases in agricultural production due to increased area of cultivation, to increases in agricultural production due to advanced agricultural technology. By the end of this century, there will be no significant areas where agricultural production can be expanded simply by adding more land to production. It is therefore imperative, writes Dr. Ruttan, that by the early 21st century, we complete the establishment of a global agricultural research system.

The International Agricultural Research System. Much has been accomplished in recent decades. The architects of post-World War II global institutions addressed the problem of meeting world food needs and reducing poverty in rural areas as essential elements of a world community that could assure all people of freedom from want and insecurity. They sought to achieve this by creating a set of global bureaucracies - the U.N. specialized agencies - including the U.N. Food and Agriculture Organization. Experiences of the late 1950s and early 1960s led to the establishment of a new system of international agricultural research institutes. The system operates under the oversight of the Consultative Group for International Agricultural Research and is funded by a consortium of private foundations and bilateral and multilateral assistance agencies; each institute is governed by an independent board of directors and operates as an autonomous institution. This structure combines decentralized decision-making with respect to scientific program with centralized oversight regarding funding and program direction, and is considered fundamental to the productivity of the system. While evidence regarding productivity is fragmentary and incomplete, there are numerous indications that the rate of return to the investment in the system has been high.

The international system enhances and sustains the productivity of the smaller national agricultural research efforts by providing access to the research of others through technology transfers, by conducting workshops and seminars, and by maintaining the essential professional contacts of researchers. While there have been some thoughts of eventually phasing out or turning over elements of the international system to host countries, Dr. Ruttan considers such

discussion unrealistic and foresees a continuing need for a permanent system, although program changes are to be expected. He urges some expansion of the system, particularly in the area of basic or supporting research in tropical regions where many problems are the result of environment. He argues also for the development of more effective linkages between the international and national systems to build a truly global system.

National Research Systems. Recent decades have witnessed remarkable expansion in agricultural research capacity in developing countries. The number of agricultural scientists in the developing countries of Latin America, Africa and Asia rose from approximately 14,000 in 1959 to 63,000 in 1980. However, on closer examination, it is clear that most of this growth has occurred in a relatively few countries. Even in those countries that have made substantial progress, the ratio of research expenditures to the value of production remains low - and is lowest for those commodities produced and/or consumed primarily by the poorest farmers and consumers. From his involvement in studies of agricultural research systems, conferences and consultations on agricultural research in Latin America, Asia and Africa, Dr. Ruttan has developed a number of serious concerns which he summarizes as:

- excessive investment in research facilities development relative to development of scientific staff;
- excessive administrative burdens;
- location decisions for major research facilities, often made with the advice of assistance agency consultants, have frequently failed to give adequate weight to the factors that contribute to a productive research location;
- the lack of congruence between research budgets and the economic importance of major commodities or commodity groupings;
- the lack of information and analysis that goes into establishment of research priorities and thrusts; (effective research planning requires close collaboration between natural and social scientists and among agronomists, engineers and planners);
- the apparent presumption in some national systems that it is possible to do agricultural science without scientists;
- cycles of development and erosion of capacity that have characterized a number of national agricultural research systems.

Small Country Agricultural Research. The foregoing concerns, Dr. Ruttan notes, impinge most severely on small country research efforts. There is little helpful data on the relationship of size and productivity in agricultural research and the optimum scale is affected by factors both external and internal to the research process. While early stages in the development of national research systems efforts tend to be decentralized, there appears to be a trend toward consolidation and hierarchical organization in later stages. Current U.S. experience is pointing toward a return to decentralization for greater effectiveness. Many smaller countries in the 2-10 million population range either have - or have access to donors' - resources adequate to develop over a 10-20 year

period a reasonably effective agricultural research system. However, there are some 50 small countries - many with less than 2 million population - that are unlikely to be able to support more than what would be a branch station in Minnesota. Outside guidance and assistance is necessary in the appropriate developing of these minimum "systems". Also, these systems - as is the case with many advanced systems - are unable to be entirely self-sufficient and must be able to borrow both knowledge and materials. It is therefore necessary to devise, establish, and maintain effective integrated and interdependent linkages.

One approach to this goal has been to attempt to establish cooperative regional research programs. Dr. Ruttan reports that success thus far has been more in glossy-print publication than in real research gains. This is an area requiring much further experimentation.

In spite of the limited knowledge, some generalizations about smaller agricultural research systems can be made:

- the research investment per acre will have to be higher in a small system than in a larger to achieve an equal level of effectiveness;
- the cost of developing productive farming systems for a small country with great agroclimatic variations will be greater than for a small country that is more homogeneous;
- there is no way that a small country can avoid being dependent on others - on the international agricultural research system, on the research systems of large countries in the same region, on multi-national firms - for much of its agricultural technology.

Toward a Reform of Agricultural Research Support. To replace the deficiencies that characterize support for agricultural research, extension and rural development programs in poor countries, Dr. Ruttan urges that the project approach be largely replaced by a "formula funding" or "revenue sharing" approach. The system should be reformed to provide incentives for national research system directors to redirect their entrepreneurial efforts from the donor community toward building domestic political and economic support for agricultural development. Long-term viability of agricultural research systems depends on the emergence of organized producer groups who are effective in bringing their interests to bear on legislative and executive budgetary processes. The support of finance and planning ministries for agricultural research is undependable and tends to fluctuate with perceived severity of food crises and foreign exchange demands.

While traditional program and project aid instruments can be effective for certain purposes and in certain environments neither are adequate in countries that have little financial or professional capacity for providing support for long-term institution building efforts. New methods must be sought. One approach is for a formula in which the size of donor contribution would be tied to the growth of domestic support. For such a system to be most effective, the donor community should put its resources in support of national agricultural research systems into a common fund to be administered by an existing international agency (World Bank, UNDP, FAO) or establish a consortium similar to the Consultative Group on International Agricultural Research to administer such a program.

A second alternative would form and operate a country-level Research Support Group (RSG) with attendant close liaison between the host country and aid agencies and improved levels of collaboration among donors. The group would need a long-term program for the development and operation of the national agricultural research system. In general the program should be the product of indigenous experts in agricultural science and development, focused on long-term agricultural research needs and goals and on the incremental steps required for implementation. Donors would help provide the components; the host country would assume responsibility for moving its program along the agreed-upon development path. Initial commitments might be for three to five years subject to annual review and course corrections. Donor identity could be retained by relating grants to components of the agreed-upon overall program while still genuinely complementing and supplementing one another and the national program rather than endlessly competing for "good investment opportunities." Success would require that all parties involved be open to learning by doing. Implementation is not a simple task, but the method is being used successfully in Bangladesh and several other countries.

Other options also should be examined. A dialogue on donor assistance to national agricultural research programs was initiated at a meeting called by the World Bank in 1981 and has been continued.

Opposition to these or other proposed reforms in the method of supporting national agricultural development support can be expected from a number of sources:

- policy-level opposition can be expected from the foreign affairs ministries of the developed countries which may be unhappy about the loss of discretion to direct agricultural development support to or from strategically important countries;
- bureaucratic objections to a formula funding approach can be expected from the staff of the assistance agencies as such fund transfers require less intensive demands on aid agency administrative and professional resources, university technical assistance personnel, and consulting firms (an advantage of the Research Support Group approach is that it would probably be more acceptable to the development assistance bureaucracies);
- donor legislative bodies may object that formula funding looks like an "open checkbook" with little donor control over program level of content (a regular schedule of reviews of policy, strategy and impact such as that proposed in the Research Support Group approach might remove some of this criticism);
- aid constituencies in the developed countries may oppose any reform that transfers program decisions from donors to recipients; they typically have their own reform agendas which they would like to see national agencies impose on recipient countries.

What does the reform proposal have going for it? Dr. Ruttan argues, "nothing more than the development of agricultural research institutions that

develop the capacity to achieve political and economic viability within their domestic political-economic system. And...this objective must be achieved on a global basis within the next two to three decades."

### Needs and Opportunities

Dr. Ruttan opened his remarks by noting that, as we move from increasing agricultural production by opening new land areas to increases through intensifying use of existing areas, we are making the transition from a resource based agriculture to a science and technology based agriculture within one century. This means we must have agricultural research capacity for each significant commodity in each agri-climatic region of the world. He noted that two very successful countries in terms of agricultural growth, the United States and Japan, had a rate of growth of agricultural output between 1880 and 1980 of 1.6 percent a year. Current rates of population growth, added to modest increases in income growth which result in increased demand for food, indicate that most countries will have to increase their agricultural output by about 4 percent per year for the next two and a half decades. With such required expansion largely dependent on technology, the stage is set for substantial reforms in research management. Dr. Ruttan cited remarkable progress over the last 20-plus years in institutionalizing capacity for agricultural research in the developing countries. This institutionalization of capacity to advance science and technology was an invention of the last century. Agricultural research has been a major beneficiary and much of this research has been highly productive. However, one of our current, very difficult problems is how we deal effectively with research systems in small countries. While producers of major crops in such countries are often able to evolve effective systems, the smaller farm systems on which many people rely for sustenance, are far less successful. There is much rhetoric about the gains from regional cooperation but the reality is less encouraging.

There have been high payoffs from the International Research Institutes and these should remain as permanent features of the international system with permanent international support. Initially, it was considered that after ten to twenty years they would give way to regional or national support. However, Dr. Ruttan pointed out, just because we have today a relatively mature state research system in the United States, we do not consider turning over the U.S.D.A. system to the state; the U.S. state system would be "only a bunch of fragmented, local research institutions without the Federal agricultural research system - and the Federal agricultural research system would be simply a centralized, centrally directed set of institutes if they did not have states' pressures to respond to regional issues." Just as the U.S. Federal system will have to be continually supported by the Federal government - the international system will have to be largely supported globally.

The present international system is incomplete - requiring two areas of additional investment. The existing centers are, by and large, commodity research oriented. Such centers focus the attention of each of the disciplines working on that commodity towards the common goal. It has been a very useful management device but, as we fill the niches and complete the commodity perspective, the gaps on the resource side in the areas of land, water, and human resources become more clear deficiencies. Work is going on in these resource areas and we may be in the process of filling those gaps, but whether the resource oriented institutes belong in the current system is questionable. It may

be that, as a system moves up the growth curve - perhaps close to two hundred million dollars - it is hard to get more money; it becomes too visible. It may be more fruitful to develop the research oriented centers outside of the present CGI system.

The other deficiency Dr. Ruttan considers more fundamental. A number of basic problems must be solved before effective technology development can be achieved in many tropical areas. It is unlikely that those problems will be solved by research institutions in the developed countries; the human being's intellectual effort and productivity tends to be focused largely by his environment, thus tropical area problems are most likely to be solved by people working in the tropics and interacting with those tropical environments. Some steps in that direction have been made within the international system: e.g., The International Laboratory for Research on Animal Diseases and The International Center for Insect Physiology and Ecology, but there is needed some overarching oversight institutions such as CGIAR supplies with the commodity institutes. Admittedly, there presently exists with the British, Dutch and French some excess capacity as a result of their previous colonial attachments. However, Dr. Ruttan argues, the institutions need to be located where the problems exist and, also, in the not too distant future, the developing country research institutions must have some capacity to determine where they belong in areas like molecular genetics and genetic engineering.

Dr. Ruttan voiced several major concerns:

- there appears to be excessive investment in research facility development relative to the development of scientific staffs. Many facilities are without programs; there are too many premature facility developments that will not have staff capacity to conduct the research for a decade or more by which time the facilities may be obsolete. This happens because development assistance agencies find it easier to put funds into capital rather than into support or training.
- excessive administrative burdens stifle both repeated investigation and research entrepreneurship.
- major research facilities often are located at less than desirable and productive research sites - often because the land was available, but it was not really suited to a research function.
- there is a lack of adequate information and analysis that goes into the decision about research priorities that allocate research funds and personnel. Two questions are essential in this decision-making:
  - what are the opportunities to advance knowledge or technology? (Only a few people on the leading edge of either their discipline or the area of technology can answer that question with any degree of reliability. We don't have any good "litmus paper" and yet the judgment has to be made. To the extent the decision can be decentralized so that the research manager is in direct communication with the scientific staff the chances are that decisions can be made better.)

- What would be the value to society if the new technology is produced? (The intuitive knowledge of individual scientists and science administrators in that area is not adequate, and very few research systems in developed or developing countries have learned to effectively bring those two kinds of knowledge together.)
- Some national systems seek to do agricultural science without scientists; it is easier to build a science bureaucracy than to build a system of science. Without careful nurturing a system may be built up during a period of external assistance but then good people migrate, and institutions are left with people who lack the leadership capacity which is essential.
- We haven't found a way to address ourselves effectively to how a research system becomes politically viable in its own country. The typical way we provide external support for national research systems directs the entrepreneurial effort of the managers of the national system externally - to the donors - rather than internally. Then, when the donors withdraw, the system has not developed the essential ability to forage effectively in its own political system and there is an erosion of research capability. We do not have the answers but we must begin to search rather carefully.

#### Institutional Roles in Reform

The discussion following Dr. Ruttan's presentation addressed not only agricultural research management but some of the classic issues of public administration and institutional development. Many of the remarks addressed the roles of the various institutions involved. Principal discussion centered on the following points:

- More effective linkages between the international and national research centers are needed. In the Latin American Region one network was initially started with technical support from the International Potato Center and financial support from the Swiss. It essentially sought to identify the professional and scientific resources in the region and how they might best be brought to bear on regional issues. Essentially, each country must aim for a more balanced program and be aware of and draw on what is learned in other countries; in these countries external support is essential or the director must devote much of his effort to just getting his members to pay up. Each country, as well as donors, need to provide support.
- The USDA system and the state system are generally effective in terms of promoting agricultural resources. While there are some tensions between these systems - particularly between research and training - it would be hard to visualize the system being as effective with either one of the parts absent. There is today increasing appreciation and cooperation. The same kind of thing is anticipated at the international level; some of the international institutes have been much more effective than others at working together. While some directors initially said "we don't have time for a lot of interaction" they generally suffered as a result. They have been of

less assistance to their colleagues in their region or in their commodity than they might have been and they have failed to learn some of the things they could have learned. Others have been much more effective and have pursued much more active training programs. The training programs are one mechanism to link the systems because there is an easier relationship as a result of the training. After the first two institutes began to be effective, the donor community found it more frustrating to work with the national systems. But here we have an instrument that can manage agricultural research. The strengths of the national system can provide a global system that can interact effectively between its national and international components.

- Where regional cooperation is essential, the donor community is going to have to come to some agreement that within a group of countries cooperation is going to have to occur and the donors are going to have to carry the load for a long time.
- U.S. universities have generally failed to respond adequately to the research needs discussed here - failing to integrate agricultural, sociological and management fields. Reasons for this failure appear to be: 1) The project system is not a very effective way to build institutional capacity. 2) It is unrealistic to expect state governments to take on the fiscal responsibility for the global activities of the state universities; that cannot be a national responsibility either. 3) The changing structure of the research system in the United States is seeing more of the technology development work done in the private sector.
- National research institutions should: 1) move toward more rapid training at both Masters and Ph.D. level, 2) train a cadre of people at the frontiers, 3) further integrate the social science program with agricultural research.
- By the year 2000, the CGR system should continue to exist and perhaps absorb the research data of the centers. There should be some kind of a soils research institution that focuses on soils in Africa. A limited number of basic research institutions in the tropics could emerge as a separate CG system. The strengthening of national systems deserves a very high priority; not just getting bigger but making the bigger ones perform. For the smaller countries, there are very difficult problems that we have not yet figured how to address - a number of problems for which we haven't yet found effective arrangements.
- Even in a world in which every national system was a mature system, we would still need an international system simply because even the larger systems can no longer be economic. They would evolve into somewhat different institutions but they would still be needed.

#### PRINCIPAL POINTS RAISED DURING THIS SEMINAR

Key points made during the sixth session were:

- Increased needs for food, and the necessity to rely on improved agricultural technology rather than the opening of new lands, requires greatly enhanced management of the efforts to develop that technology within the next 2-3 decades.
- Despite remarkable recent growth in agricultural research capacity there continue to be only very low level efforts in those commodity areas of primary interest to the economically poor farmers and consumers.
- Among principal concerns with regard to agricultural research management are:
  - excessive investment in research facilities in relation to staff,
  - administrative burdens' interference with research,
  - research facilities often located at less productive sites,
  - research budgets too often fail to reflect commodity output,
  - research priorities too often reflect inadequate research and analysis.
- Small country agricultural research efforts are in most dire need of attention.
- Regional research programs offer advantages but require much further experimentation.
- Long term research institution building calls for new approaches; among these are:
  - a "formula" support in which the donor contribution is related to domestic support (this can be most effective if the donor community contributes to a common fund),
  - formation of a country-level Research Support Group with attendant close liaison between the host country and aid agencies, and
  - improved levels of donor collaboration.
- The current system orients research center managers to focus on donors for resources; when donor systems disappear the managers have no experience in working their own political systems for support. This must be changed.
- The most effective results will be achieved by a global agricultural research system in which both national and international efforts are combined and integrated. Both need to be continued although roles may change somewhat over time.
- U.S. universities have generally failed to respond to research needs - failing to integrate agricultural, sociological and management fields.

## Session 7

November 9, 1984

### CULTURAL AND HUMAN RESOURCE ISSUES FOR THE EFFECTIVE USE OF TECHNOLOGY

The seventh, and final 1984 session of the AID-sponsored ACIPA seminars on institutional development featured Dr. James Taylor, a recognized authority, writer and consultant on the socio-technical system approach to institutional development. Speaking on "Cultural and Human Resource Issues for the Effective Use of Technology", he defined the socio-technical systems approach and gave examples of its successful application in both private and public sectors.

The seminar was chaired by Dwight Ink of the National Academy of Public Administration. In his introductory remarks, Mr Ink, commenting on the changing role of technology in developing countries, noted that technology is much more accessible to developing countries with limited resources than it was even four or five years ago. Thus, the cultural and human resource issues of technology are more pressing today and it is important to have a methodology with which to analyze these issues to transfer technology effectively.

A paper prepared by Dr. Taylor was provided in advance to attendees.

#### Socio-Technical View of Technology

In his paper, Dr. Taylor wrote: "New technologies and new societal possibilities are intertwined in a complex web of mutual causality. One is not the direct cause of the other...They are co-producers of each other...the forces shaping one society are not necessarily the best for shaping another, and technology should not be transferred from one society to another without consideration of both application and culture. In a similar way, the values of one period in a society can be seen to have unanticipated effects on the application of technology at later periods in that same society." Care and caution must therefore be exercised in designing organizations and utilizing technologies for societal development.

Socio-technical systems (STS) offers a new paradigm for looking at the purpose of the technology and the design of the organization where it will be introduced so that they are compatible and will work together. With STS, the emphasis is on a combination of people, purposes, organizational structures, and social and environmental conditions, as they relate to the technology and technical requirements. STS is a purpose-oriented approach for designing and redesigning work systems to make them serve more directly and effectively the stated purpose of the institution. It involves the application of an analysis methodology to understand the essential purpose of an organization within its environmental context. The organization is seen as an open system engaged in transforming inputs to achieve desired outputs in pursuit of a conscious purpose or mission. The technology is then shaped to fit systems needs rather than shaping the system to fit the technology. The resulting concept is of organization as a purposive human system, engaged in the pursuit of technical excellence, human flexibility and survival in turbulent environments.

Although socio-technical systems analysis has largely been applied to organizational systems in Western Europe and the United States, it has been used in developing countries successfully, and its principles have obvious applicability to the transfer of technology to developing countries. The problems sometimes associated with transferring technology can frequently be attributed to an insensitivity to the cultures, markets, and value systems of the country into which it is being introduced; this can particularly apply in developing countries. As a model for analysis, STS separates out some of the major components needed for the successful transfer of technology. It emphasizes the product of the work rather than either the work or the tools of production. It is a structured, flexible, participative method of designing effective institutions and is as valid in Zimbabwe as in New York or San Francisco.

In the STS system, all members can identify with a system purpose or mission and its associated product or outcome, as opposed to members' identification with either "what they do" or the machines/tools/or techniques they apply. Technology is to be understood as a system of interrelated and intercommunicating units, activities, and output. Dr. Taylor's paper emphasizes, not impersonal forces, but rather "organizational members' consciousness and understanding of appropriate social organization and technology, based on the organizational mission and human values, and most importantly, how these interrelate and evolve over time to constitute a socio-technical system." He argues that the range of choices with respect to work arrangement, reporting relationships, and scope of decision-making in any particular job or organization is much broader than has been ordinarily recognized. He notes that the early STS cases in the 1950s and 60s described a class of solutions--autonomous or semi-autonomous work groups--which although suited to the work cultures in which they were applied, unfortunately came to be the "expected" solution for all STS projects. Autonomous groups or self-managed groups originally meant groups or teams of people (sometimes as many as 50 to 60) who were responsible for a whole socio-technical system. These teams had no formal supervisors and they usually had limited contact with other groups or systems. In recent years, STS studies have resulted in successful alternative structures ranging from restructured work groups with conventional supervisors in well-defined roles to self-managed (semi-autonomous) groups with "team coordinators" instead of supervisors. The idea that autonomous groups must be the only design result of an STS study has been effectively challenged in recent years.

Dr. Taylor recalls that three industrial revolutions - 1790-1890, 1890-1950, 1950 to the present - together represent an evolving understanding of the relationship of workers to technology. From 1950 to 1980, we witnessed a period of change in institutional development. Scientific management proved to be an incomplete paradigm for complex systems and turbulent environments. The organization model springing from scientific management is the one worker in one job, reporting directly to an individual supervisor. It creates reliable but relatively rigid organizations. 1950 was a high-water mark in many ways. There were new technological advances, many of which were generated out of World War II, and new developments in science generated around the Heisenberg principle and general systems theory. STS was originally developed with the introduction of new technologies in Indian weaving sheds and British coal mines in the 1950's. It was further developed in Scandinavia in the manufacturing and continuous-process industries during the 1960's and early 1970's.

STS concepts were also used in North America as early as the 1960's in an expanding range of industries. By 1967, socio-technical systems was charac-

terized as not only a response to new technology, but also a response to the purpose toward which an organization wished to put that technology. In the 1970's STS was applied to white collar service and administrative units in addition to blue collar manufacturing and process plants. Later, it was applied to the new high tech electronics manufacturers and to professional organizations. During the 70's STS had its first applications in developing countries since the initial work in India.

The paper concludes that developing countries, rushing toward industrialization, including the "smokestack" industries of metals refining and fabrication and extractive/processing industries related to mining and forestry, must have flexible and adaptable organizations in order to survive and prosper. The more placid environments we experienced with more conventional industries before 1950 are no longer available for developing societies. They must, as we must, consider adaptation as essential to success and to survival. Socio-technical systems models are a significant step beyond Scientific Management. STS offers models and methods to deal with the problems and opportunities of the future.

### History of Technology and Some Experiences with STS

In his remarks, Dr. Taylor expanded on the views presented in his paper. With a series of slides, he reviewed the history of technology culminating in Taylorism, the scientific management era and the post-World War II period of change. He then went on to describe a number of specific company experiences in applying STS.

He emphasized the use of technology for human purposes - not only the quality of individual's working conditions but also the collective use and purpose to which technology is used and applied in larger settings, organizations, institutions. Over the years, interest has been particularly in the introduction of technology through innovations and the transition of technology from one place to another.

Dr. Taylor reviewed the transfer of technology against the background of history. The history of technology reveals an evolving understanding of technology and its relationship to the workers and the organization into which it was introduced. The understanding of how technology is viewed can be seen in the underlying philosophies of the three industrial revolutions. Socio-technical systems developed from the scientific management approach to technology which prevailed as the view of technology during the second industrial revolution.

- The first industrial revolution took place in England around 1790, with the invention of the pin factory reported by Charles Babbage. At this stage, technology was seen as the creation and development of the tools themselves - the size and number of tools and the number of people who used them. If you wanted to manufacture something, you developed a tool. If you wanted more volume, then you designed a bigger tool; if you wanted to speed up production, you made a faster tool. Those tools drew their power from water and steam. The idea of sophisticated technology was not yet imagined, but the emphasis was still on the tools and their design.

- The second industrial revolution (1900-1950) was our own industrial revolution in the United States. The emphasis shifted from the design of tools to their use. In 1910, Frederick Winslow Taylor introduced the scientific management approach. This approach focused on how tools and technology could be operated or applied to bring about their most efficient use. The industrial power of the United States had the optimal use of tools as its scientific management principle. Work was broken down into its smallest parts, and parceled out to workers in a structured and mechanized production line. Workers were responsible for completing their own individual tasks to pre-established criteria. Then, the production line took care of putting the pieces back together, and moving the manufactured goods along in a well-ordered system.

Industrial engineers valued the use of tools, the efficiency of minimum training, and simple repetitive tasks over any considerations of work satisfaction from work requiring discretion and human adaptability. Their focus was on "what workers do," and on making tasks as efficient as possible. The final phases of the second industrial revolution and the beginning of the third occurred in many work places in many countries during the 1950's. The collision between the two took place whenever new technology was introduced into old organizations.

- New production technology (primarily automated transfer and manufacturing) followed WWII breakthroughs in electronics, computers, and aircraft materials. These peacetime technologies created unpredictable outcomes, and unprecedented opportunities. One instance of this evolved in Britain with the introduction of new coal mining technology, managed with a factory style organization, introduced into an underground coal mining operation. The underground factory view of work did not fit the new technology and the requirements of mining. The concern for separated functions kept the coal miners from working together as a unit to accomplish the overall purpose of the organization. The organizational structure of the workers had to be accommodated to the task and the technology. In order to succeed, the organization changed to a purpose-driven system where the roles and tasks developed from the final work requirements.

Changes in consumer markets, labor markets, the world economy, the international political environment, and in technology itself, have put pressure upon organizations to shift their emphasis from efficiency to flexibility. As a management style, scientific management proved too cumbersome and inflexible to permit an organization to respond and adapt to changes in the world-at-large. As new technologies were introduced, it was possible to think of new ways of management and the purpose to which the organization wished to put that technology.

Organizational change to cope with the post-war turbulence can be seen from three viewpoints: problems, solutions, and purposes:

- Problems - For the most part, organizational improvement has focused on solving problems. You identify a problem and then decide what to

do about it.

- Solutions - Solutions-oriented approaches begin with solutions which can rectify anticipated and unanticipated problems. Solution-oriented approaches are to be found in such management improvement schemes and technologies as zero-based budgeting, quality circles, and office automation.
- Purpose - Purposive approaches to organizational improvement constitute a participative management style and a methodology for analyzing an institution's needs. It has structured steps for designing and redesigning an organization to make it more effective, as well as a better place to work.

As a purpose-oriented approach to change, the STS analysis permits us to take critical elements in an organization apart in a way that may be more useful than any analysis operating under prior views of technology. With STS, the technical requirements are separated from the social needs and relationships that people in an organization have for one another. Although the social and technical elements are considered to be interdependent, much like organs in the human systems, they are separated for analysis to identify the boundaries and limitations each imposes on the other.

The STS approach emphasizes the work product rather than the work itself or the tools of production. This focus helps to create a self-conscious work system in which all members can identify with the organization's purpose or mission and its associated product or outcome. The chosen technical system includes both the raw material (input) of the enterprise, plus the "core" technology (i.e., the tools, techniques, procedures, and skills) which are required to provide for the effective conversion from input to output. Effectiveness is judged by whether the technology is applied to a product directly, and in a way that is consistent with the overall purpose of the enterprise.

While much of this focus has been on the internal mechanisms in an organization, the environmental and market forces also figure into the analysis. Particularly in technology transfer to developing countries, the social, political, environmental, and value factors should be assessed before introducing the technology. Otherwise, technology can cripple rather than extend the effectiveness and productivity of an enterprise.

The STS approach is a paradigm that recognizes the interdependency of work, organizations, people, and environments. Its structured analysis can be used to make technology appropriate to a country into which it is introduced. A structured method includes several interconnected steps, fitting together to optimize both social and technical elements. The STS analyst tries to:

1. analyze the purpose and environment of the organization, including the prevailing value system;
2. identify the technical requirements necessary for delivering an output;
3. identify the control factors and the means of controlling for the technical requirements;

4. identify the critical relationships among people established to control for those requirements, how problems are handled, and how the system is maintained; and,
5. analyze the technical requirements for delivering the outputs pursuant to the purpose of the organization and assess those requirements against the social, environmental, and market conditions of a country. The aim is to optimize both the technical and the behavioral - social and psychological - elements of the system.

The benefits of the STS model can be seen in its application because the systems view provides a framework for descriptions of all institutions. When employees are conscious of the relationship of their role to the finished product, they become sensitized to the importance of quality control and their contribution to it. The range of choices with respect to work arrangement, reporting relationships, and decision-making processes is expanded. STS provides managers with a tool for substituting appropriate work team structures for the more conventional designs of workers individually reporting to supervisors. STS also allows managers to design work systems which are compatible with the existing values and cultural work ethic of a developing nation.

There are several key considerations in transferring technology to developing countries.

- First, the technology must be integrated into the environment and ecology. It cannot simply be a substitution of machinery for labor in a turbulent environment. The environment and the technical needs must be evaluated, and the technology adapted to them. Otherwise, the technology may be inappropriate.
- Second, efforts must be made to adjust technology and production to changing market conditions. The Japanese have been successful at matching manufacturing targets with projected market demands. Once the objective has been established, then points of control must be identified and monitored to keep the production or project on track toward realizing the objective.

The STS approach has the elements in its analysis to meet these management needs, not only at the time of initial analysis, but later when technology is introduced and is integrated into ongoing production. STS enables the manager to establish the internal and external boundaries, and to establish methods and points of control to insure that the organization is responsive to those boundaries.

Dr. Taylor cited a number of case histories of socio-technical systems in which he had been directly involved ranging from a pet food factory in Kansas, to a fertilizer plant in Norway, an Italian steel mill, and an Indian weaving enterprise; all basically blue-collar examples. He stated that there also are many white collar examples and noted STS applicability to service organizations, where the output is basically information and the product deliverable, or the characteristics of output, are really a satisfied customer.

He cited one case involving pension benefits in an insurance type operation where people inside the system saw themselves as authorizing benefits through

a sequence of receiving benefit requests, authorizing them, sending them out; the number of actions are counted each day and efforts are made to better paperwork or better terminal operations. In contrast, the same kind of group in a different company and different institution saw themselves as serving a customer. The resulting systems will be very different.

Referring to a slide presentation Dr. Taylor reviewed the experience of a company called Zilog - the creator and producer of an 8-bit micro-processor found in many personal computers and other applications. He described the product, the conventional production structure and product flow. This was a typical kind of production structure and process in the industry. The incentive for change came because:

- the Japanese make these products much better;
- Zilog got only about half as many circuits on one wafer as the Japanese and get only about half of the circuits to work;
- the Japanese get about 75% to work.

How could Zilog improve? They designed themselves for a purpose. With slides illustrating the "before and after", Dr. Taylor showed the process and organization changes which focus on the people involved in the process and emphasize what they do to the product rather than what they do to a machine - a basic shift in the perspectives of the workers. The organization not only got what it wanted in terms of Japanese production it actually is one of the most productive plants in the world today because it is based on what people do to the product rather than just what people do. This purposive orientation in organizational design is dramatic, enthused Dr. Taylor. He went on to cite other examples of Lucas Aerospace, an oil distribution company, the rapid transit district in Los Angeles and the Norwegian Maritime Fleet.

One interesting and successful application of STS in adapting to cultural and work ethics took place in Norway. The Norwegians prided themselves on their marine heritage, but they were having trouble with their maritime fleet. Many of the men who had been in traditional sailing families decided to stay home and find jobs on shore in the fishpacking houses, rather than to go to sea. Into this cultural context, a new automated cargo ship was introduced which required only three seaman to staff it. Maritime jobs were shrinking because of the threat of new technology in the marine industry generally. The Norwegian maritime industry was motivated by concern for continuing Norway's marine tradition and the problems of providing meaningful training to prospective sailors. If the Maritime Fleet adopted the new automated cargo ships as they were, they would have enough sea captains to man them, but they would lose the training opportunity for marine cadets. Thus, they decided to change the technology in the automated cargo ships so that eight or more crew members were required to operate each ship. By cutting down on automation, everyone had a job to do. The ships became floating schools. The traditional division between the officer class and sailors was eliminated. The new crews were comprised of certified officers and "officers in becoming" (cadets).

The Norwegian Maritime Fleet experience is an example of adapting technology and social organization to the purpose of the institution. The purposes for the ships were (1) to carry cargo, and (2) to train maritime cadets.

By changing the technology and the organizational division of labor, the Norwegians were able to accomplish both objectives.

In another illustration older workers on an Israeli Kibbutz needed lighter work to do in place of the agricultural work. The community leaders decided to set up a factory of Belgian design, manufacturing embossed table cloths. The factory was unsuccessful because it ran "against the grain" of the egalitarian and agrarian culture of the Kibbutz. The traditional jobs - designed and included as a package with the factory and its ready-made European market - were of the monotonous assembly-line type. Kibbutzniks won't tolerate these jobs. In the end, workers from outside the Kibbutz had to be brought in to do the factory work. Sufficient analysis had not been done beforehand to insure that the packaged organization and its technology fit the needs of the Kibbutz and its members.

The placid industrial environment is no longer a part of the American experience, nor is it a part of industrial development in developing countries. The socio-technical systems analysis is a significant step toward trying to bring all these disparate forces into focus. With this management tool, it is hoped that organizational changes and technological choices can be made to insure appropriate transfer of technology and successful industrial development.

#### Discussion with Participants

In the discussion which followed Dr. Taylor's presentation, the following points were made:

- Nigeria became independent in 1960. Since that time, technology has been imported in the form of tools and expertise following the traditional approach of human and natural resource development. Yet, if you ask many people in Nigeria whether they are better off now than they were 25 years ago, many would answer that they were better off 25 years ago. There is a failure to integrate this new technology into the policy-making process. It isn't a problem of models.
- In working with development, you can work towards incremental growth. You must take a situation as given. The larger policy issues tend to undermine the things you are doing in an organization. This leads back to the question, "Where is there an opportunity to improve productivity incrementally?" What kind of analysis do you do to identify those circumstances? What are the boundaries of the implementation mode, such that you can deal with those forces as given, and find ways to make the implementation approach more effective?

You need to look at the size of the intervention and the boundaries, such as the current policy issues. If we are introducing new technology or transferring technology from one place to another, we need to have some concern for policy guidance. What is the purpose to which the technology is addressed? For example, in some banks they have introduced computers just to "look good". That is the purpose of the technology there. That is the kind of question that comes first in the analysis.

- In many areas such as Sub-Saharan Africa the question of productivity has little relevance without a great deal of change in the environmental conditions first. The ecology is so fragile in Africa, it is not as much a question of productivity, as it is of survival. Whether it takes one to ten units of work to produce a certain amount of sorghum or millet really isn't important at this stage. The important thing is how to produce it. How can you find the right seeds, conditions, and fertilizer, and introduce them at the right time to take advantage of a short growing season when enough rain falls. AID introduced fertilizer without really understanding what that technology would do in that natural setting.

Relatedly, AID introduced chickens in Yemen without understanding how they relate to that culture. The chickens were introduced to the men, but the women were the ones who raised the chickens. We told the men how to feed the chickens and care for them, but it was the women who fed them and cared for them when they were sick.

While there appears to be nothing really new introduced in the STS framework, there is emphasis placed on the balance between the scientific and human elements that come into the picture. The framework has applicability in that sense, but not in the modern sense as it is used with the Maritime Fleet in Norway or the coal mining industry in the U.S.

- The STS method can be used to identify points of control once a project has been identified as having a particular focus or purpose. One project is analyzing the internal culture of a plant, trying to turn it into a marketing organization and to define the boundaries for marketing outside - how far do we have to go out to get customers? These boundary issues come up early, and they have to come up in the analysis. The problems of Africa such as the rules system are part of the environment. STS comes closer to offering the pieces needed to analyze the problem.
- What kind of analysis is made of the environment? There are many pieces of that environment and only some of them are important to the analysis. What are the key variables and how do we look at them? In talking about institutions, we mean agencies: a transforming agency - what raw materials are being transformed, and an economic agency - what is valued in exchange for the output or product. The things a society values define their purpose or the business they are in as a society. Each culture has its norms, values, hierarchies, and roles people play. Together, these make up how people are valued in that setting. Some societies are more individualistic and others more cooperative. These societal factors must be brought into the analysis.

Both the transforming agency and the economic agency have to do with the purpose. Socio-technical systems says, "Show me an output or a deliverable, and everything has to follow from that. You start with the transforming agency and ask whether the technology is delivering that output.

## PRINCIPAL POINTS RAISED DURING THIS SEMINAR

Major points made during the seventh session were:

- Technology is today much more accessible to developing countries with even limited resources than it was only a few years ago; it is therefore important to find the means to effectively transfer such technology.
- Technologies and societies are closely intertwined; technology that is effective in one society may not be successful in another. Care and caution and consideration of the receiving countries ecology and environment are therefore essential in attempting transfer.
- Socio-technical systems is a flexible, participative, purpose-oriented approach for designing work systems to make them serve more directly and effectively the stated purpose of the institution. STS has been successfully adopted in some developing countries.

Session 8

February 21, 1985

FINANCIAL MANAGEMENT IMPACTS ON  
DEVELOPING NATION'S INSTITUTIONS

The eighth seminar presented an outstanding panel of three experts to explore some of the financial aspects of institution building in developing countries. Lin Moore of the General Accounting Office, who directed the project which produced GAO's report on the subject to the AID Administrator; Wayne McKeel, Deputy Controller of AID, who has had AID field experience working in developing countries and who worked on the AID analysis of the report; and Merlyn Kettering of the U.S. Department of Agriculture's Development Program Management Center, who has worked in the field with developing countries and also with donor agencies, led a spirited exploration of financial management impacts on development. Alfred Zuck, President of ACIPA, chaired the session. As a basis for discussion, ACIPA distributed to attendees in advance a copy of the GAO Report to the AID Administrator, "Financial Management Problems in Developing Countries Reduce the Impact of Assistance" (GAO/NSIAD-85-19; November 5, 1984).

The GAO Report

The review and report are the results of GAO concern that poor accounting, budgeting, and auditing capability in developing countries is eroding the performance of development programs. The financial management problems present a dilemma to the development assistance agencies (donors) which must maintain a reasonable level of accountability in their programs and yet, for humanitarian, economic, and political reasons want to provide a high level of resource transfers to the Third World. The report seeks to determine ways in which AID and other donor assistance programs can better meet the financial management and technical assistance needs of developing countries which receive a flow of resources of several billions of dollars annually. Limitations in financial management capability affect both public and private sector in developing countries and include shortages of trained staff, inadequate accounting and auditing standards, out-of-date accounting systems and a lack of policy for developing financial management capability. The problem was discussed with officials of the major bilateral and multi-lateral donors and questionnaires were sent to developing countries' national audit agencies; responses were received from 30.

GAO found that:

- AID and other donors have not adopted policies or developed adequate coordinated programs of assistance to improve host-countries financial management systems.
- There has been no donor analysis of the constraints of financial management as they affect the main sectors of development nor have they formulated specific policies and programs to address major problem areas.

- No effective consideration of the financial management issue has taken place in established donor forums. The Club du Sahel, which includes 20 donor nations, has not addressed the financial management problem. Financial management assistance needs of developing countries have not been addressed by either the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD) or the group called Cooperation for Development in Africa.
- Some United Nations programs have financial management improvement objectives and can be helpful in donor policy formulation.
- AID has considered the financial management problem only one of many public administration needs without focusing on the financial accounting problems that affect development program performance.
- AID has been limited to providing assistance as a component of development projects; this does not systematically address the institutional development problems that limit financial controls on a sectoral and country-wide basis.

Donor experiences demonstrated the need to improve financial management systems of developing countries as an important element in the development process.

- Lack of accounting capability in the Sahelian countries of sub-Saharan Africa resulted in the misuse of donor assistance funds and a legislative requirement that AID certify the adequacy of accounting systems for development assistance projects in that region.
- World Bank reports indicated that public sector agencies in many developing countries do not establish and maintain records in accordance with sound accounting principles. Financial controls in development programs were inadequate, and the data is insufficient for formulating realistic development policies and strategies.

Developing country respondents stated in response to the questionnaire that the performance of their development assistance programs would be enhanced by improved financial management capability. Several respondents believed that their government accounting and budgeting systems lacked the capability to:

- meet donor accounting and auditing requirements for loans and project agreements;
- identify and control the costs of development projects; and,
- audit development projects, particularly for economy, efficiency, and effectiveness.

Many respondents indicated that training and technical assistance from donors would be appropriate to improve their financial management capability.

AID agreed that improving host country systems should have a higher priority and proposed building on:

- the Regional Financial Management Project in the Sahel which includes training of host country and AID project staff, the use of minimum accounting standards to certify host-country systems, and the monitoring of financial controls for development projects;
- the use of private accounting firms by overseas missions to improve project performance and host-country financial systems; and,
- the development of an AID Payment Verification Policy which requires assessments of a host country's accounting capability in selected assistance programs. (GAO noted that, except in the Sahel, there are no minimum standards for overseas missions to use in their assessment of host-country accounting capability.)

GAO recommended: that the Administrator of AID establish institutional development strategies for financial management training and technical assistance to developing countries. A long-term program should include:

- complete documentation of financial management training and technical assistance provided by AID and other donors to identify developing countries not receiving adequate assistance,
- technical assistance strategies and financial management improvement programs for countries as part of overall country development plans; each development assistance project approved as part of a plan should require as a condition for disbursement of funds a program agreed to by host-country implementing agencies for establishing improved financial planning, accounting and reporting systems.
- formal discussions initiated with other donors including OECD and regional development banks to review financial management issues and to encourage financial management training and technical assistance to improve host-country systems.

GAO stressed its belief that successful institutional development in the area of host-country financial management requires coordinated donor strategies and actions.

#### Speakers' Presentations

Lynn Moore, GAO, provided handouts including a brief overview of the GAO report and a detailed analysis of the GAO questionnaire sent to developing countries. He stated that planning for the project began in 1983 as part of work in the development assistance area to improve the efficiency and effectiveness of assistance programs. Background leading to the project included three basic points:

- A 1979 GAO report to Congress on the financial management problems of selected Latin American countries recommended that AID and other donors help developing countries improve their financial management capabilities.
- Enactment by Congress of Section 121 b of the Foreign Assistance Act required overseas AID Directors to certify that Sahel recipients of U.S. bilateral assistance have adequate accounting systems.
- World Bank surveys of developing countries' auditing and accounting capabilities expressed concern that AID recipients could not comply with Bank accounting and auditing requirements.

With these points in mind - and addressing the financial management issue from both the donor and developing country perspectives - GAO set the basic scope of the study to include:

- documenting experiences of major bilateral and multi-lateral donors with host country financial management problems and the extent to which they indicated a seriously limited institutional capability to manage development programs;
- a comparison of the strengths and weaknesses of donor cooperation programs as they related to the improvement of AID recipients' financial management capabilities;
- identification of mechanisms for formal donor coordination in formulating complementary approaches to solving financial management problems in developing countries and specifically in those countries with the most serious deficiencies;
- a determination and findings about an expanded AID role in financial management areas; and
- obtaining the viewpoints of developing country national auditing agencies on financial management problems with donors.

GAO found that financial management problems were prevalent throughout the developing world at this time and that AID and other donors had not systematically analyzed and addressed financial management problems as they affected main sectors of development on a country basis. The reasons for donor interest - or lack thereof - in financial management are varied. While not covered in the report, Moore's own opinion is that there were five key reasons:

- Donors have not recognized financial management capability as an important element in project and program success.
- Many donors believe that developing countries for cultural, political, and other reasons are not receptive to Western concepts of financial control and accountability, preferring to receive aid with the "fewest strings attached."

- Visibility provided to donors by financial management projects is not as great as that provided by other traditional development assistance projects, such as building hospitals and roads.
- The donor-sponsored training programs in existence were generally designed, not so much to help countries with financial management deficiencies, but rather were tailored to more general areas of public administration.
- AID's Regional Financial Management Project, in response to Section 121 b of the Foreign Assistance Act, currently covered only Sahel program funds, rather than addressing the financial management issue as an overall AID effort.

The key point made in the report was that, as a matter of institutional development strategy, AID had not systematically addressed the financial management training needs in developing countries. GAO's basic recommendation was that AID establish a long-term program for financial management assistance. AID stated that it agreed with the basic recommendation that financial management should be given more attention by the Agency. In its official response, AID outlined seven specific agency actions to improve financial management. The three most significant steps were:

- developing minimum accounting standards for application world-wide in review host-country institutions;
- developing a database for reviewing host-country training needs; and,
- establishing a working group to develop financial management policy and assistance.

In AID's response to Congress, as required by 31 U.S.C. 720, they indicated that they were in the process of collecting information on the state of accounting and its development in those countries where the agency had programs. They had received assessments of institutions in some of those countries and were refining that information and including annual assessments based on their experiences. AID indicated that the overseas missions would be provided with additional guidance on how the agency expects to use the results of assessments, in coordination with other donors, to improve financial management. Once these steps are taken, others are planned. It remains to be determined how these agreements can be translated into concrete actions.

Wayne McKeel, Deputy Controller, AID, opened his presentation by questioning whether the state of financial management institutions and standards is really worse today than it was ten years ago, and whether financial management really represents a bottleneck for development assistance. He noted that the furnishing of so much money into the Sahel had strained the capacity of institutions there but he questioned whether, in general, the domestic U.S. political scene - influenced by integrated systems, debt collection, cash management and the whole gamut of financial reforms - has not changed and focused our perceptions of financial management. Reforms are worthwhile and it is good to see financial management receiving more time and attention, but has financial management been so bad or is it largely our changing perception?

In December, 1983, AID established a policy requiring controllers to do an annual assessment of the state of accountancy in host-country institutions, the methods of financing, how adequate the voucher review is in a host-country, and the state of their auditing capability. The policy has not proven as effective as hoped. It appears to have resulted in people's filling out more forms, but not really addressing the substance of the financial management problem and improving the state of accountancy.

He next outlined the differences between the Anglo-American understanding of the public accounting role and the developing country perception of accounting. In the U.S. public accounting provides an 'attestation' function forming the basis of financial statements produced both in the public and private sectors of the economy, as well as by Wall Street. In North American institutions financial management functions are regarded as somewhat independent watchdog functions performing in a separate check and balance role. The agency believes that part of our role is to buy credibility with the Congress and with the people. In the average developing country, the situation is very different.

McKeel advocates establishing minimum accounting standards and believes that the donor community should do this collectively. He recalled that, in the mid-70s, it was debated whether an accordion file folder holding receipts for part of a Sahelian project constituted minimum accounting standards. GAO criticized AID for advocating single entry accounting methods which is where they started; but completely integrated planning-budgeting-accounting-reporting systems are very sophisticated. They are not generally done well even in the U.S. and would be too ambitious for a developing country. However, the agency and the donor community collectively can do more to improve financial management in development projects. He suggests:

- The agency and donor community collectively should move in the direction of common accounting standards consistently enforced. "But if our perceptions are allowed to cloud our perspective, standards may be raised so high that failure is guaranteed."
- Integrate financial management more into the mainstream of project planning and design and address problems up front.
- Be more realistic when programs are designed in terms of what is expected from our institutions, specifically in the area of financial management. When an institution is performing a valid social function in a country however rudimentary, and donors urge program expansion - often taking the organization into waters it never expected to be in, the donor must ask itself if it is prepared to support the recurring policy, provide the technical assistance to the organization, and stay with it for 10 years.
- Do a better job of educating the agency's own non-financial staff in accounting and financial management skills to enable them to analyze how an institution is functioning in the accounting area.
- Build on the nucleus of the accounting profession in most developing countries.
- Deal more with the auditor generals in the developing world. AID has

had good experiences with those in Latin America, the World Bank is doing much more; we should do more with auditor generals worldwide.

Merlyn Kettering of the Department of Agriculture's Management Center began his presentation by asking whether financial management is the same in developed, developing or less developed countries. Usually the responses to this question break out in a 50-50 split with half saying that financial management is the same and half saying it is different.

- Some see the goals and general principles of financial management as the same because the purpose of financial management is to see that resources are used effectively.
- Others who emphasize the basic differences are those who view financial management as being made up of systems, procedures, and specific practices which vary with the culture and the organizational structure - private or government or para-statal.

The Sahel financial management project is part of the financial management improvement of the Sahel regional program. In the Sahel, it is important to understand that at one level - the purpose and general principles level - there is much similarity and transferability. But at the level of procedures and practices there are many differences. Thus, to be successful, one must start with the principles and systems rather than with the practices. If practices are imposed on a project, they likely will stay in place only as long as money is being fed into the project.

U.S. Department of Agriculture's (USDA) involvement with the financial improvement of the Sahel regional program began in 1981 when USDA was asked to participate with AID in a reconnaissance of the problem. It became clear that it was an organization problem as much as or more than an accounting problem: directors and project managers had to become more involved. It is also something of a culture problem; receipts may not be there because they are not given in the market place. The Sahel project has two basic objectives - accountability and institutionalization. Accountability has been very narrowly defined as certification, and certification is a donor requirement. Institutionalization represents host-country ownership, an ongoing, maintained, and valued use of financial management in a host country. How can that shift be made?

What is the best strategy for long-term institutionalization? In the Sahel project model there is a series of steps from felt need to problem identification, goal setting, alternatives, priorities, action planning, action and evaluation. The beginning point is - whose felt need? If it is simply AID's felt need and problem identification, it is very difficult to obtain host-country collaboration and ownership. To gain the collaboration and ownership essential to institutionalization, there must be a joint needs determination, collaborative planning and development, etc., with host-country interest and participation at every step. Sometimes, and in some countries, this has been done well - sometimes not. Too frequently teams in the Sahel have been very busy going through the steps of the model, but the host people were not a part of the needs identification and when the donor is no longer there to enforce-the program will die. Some other teams who at first appeared to be giving too few workshops,

meeting too few donor needs, went through the model steps in concert with host people - but they were achieving greater host-country commitment. There is always a tension between meeting certification requirements and building institutionalization. This tension begs the question, "What are we there for?". If we are serious about institution building a mental shift is needed in moving:

- from problem-solving to developing the capacity for people to solve their own problems;
- from consulting to being a part of the organization;
- from a project mentality to a program mentality; and,
- from focusing on accountability to trying to increase institutionalization.

Donors must ask themselves whether their practices are really the essential? Are they designed for accounting or program and project management - for host-country or donor needs? In the Sahel, the host-countries have very little of the project money to manage and little of the project information. If the donors only take an accounting perspective, they may miss one of the best opportunities to create linkages back to the purposes these people have for their own development projects.

Kettering recommends that donors:

- establish guidelines, but make them simple and minimal;
- build on existing practices, giving them credit for what is being done already;
- create multi-level involvement: go beyond focusing on the accountants to involve the leaders and a slice of the whole organization in the financial management process;
- focus on real projects to obtain immediate results and have feedback on what is useful rather than use a highly theoretical model; and
- provide support over a long period of time.

#### Roundtable discussion

Key points made by the participants were:

- Most problems are management problems. If better institutions are built, then financial management will improve, but this is a long term effort.
- In the Sahel, financial management is a donor requirement. Financial management must be recognized as an integral part of development projects in developing countries.

- Having good financial data may not contribute directly to the success of projects, institutional development, or the development of a country, but lack of good financial data in an organization of any size guarantees that it will not be successful. Resources will dry up, and the institution will lose the respect and credibility of the public. If an organization is to grow and enter into the rational business of management, it must have good financial data.
- Financial management is necessary, but not sufficient for good management. Good management of development projects depends on a coordinated effort by project officers and controllers. Project officers are to achieve program goals - controllers are to defend the organization. Both are essential. Each needs to focus efforts on their respective roles rather than fighting each other.
- In any strategy of institutional development financial management will always be one - but only one - of many priorities, all of which should be well defined. Financial management may not be first among the priorities, but it cannot be eliminated: it is an essential part of the overall management system.
- In many cases developing countries are not so much resisting adoption of good financial management practice as they are frustrated by how to do it. There are three causes. There is:
  - a problem in mastering the technologies required to go from a hand bookkeeping system to a national cash register system and then to a computerized system.
  - a continuing problem of trained personnel being drawn away from government work in developing countries to higher paying businesses and banks.
  - the difficulty in the simple initiating of institutional practices.
- The International Monetary Fund (IMF) found that it is best to train personnel as part of a broader effort. They place technical people on site on projects to train people there.
- Accounting is different in private business and in government. Hiring people from private business is not as useful as hiring experts from governmental systems - particularly, those associated with development projects.
- Institutionalizing the process of change in a developing country is a principal objective. It does not make sense to deal with projects in an isolated form. Donors all have different standards and different types of technical assistance. Assistance should fit a pattern within a country; donor agencies should work together to develop standards that should be meaningful in strengthening the components and whole structure of a government in a country.

- There also is the problem of one generation dealing with another within the country: we train one group while another group of a different generation has the power. There is conflict with little or no effort to bring about coherence.
- To put AID accounting in the right perspective, a higher proportion of AID funds go for local costs and expenditures in the Sahel, than is normally the case. Most of AID's assistance is in the form of services, equipment, and resources. The accounting for all of these resources is systematic and well controlled.
- Certification does not help developing countries strengthen their capacity but it sustains donor public and Congressional support and therefore is essential.
- In the Sahel, U.S. experts have prescribed a sophisticated U.S. accounting system for countries with already complicated French systems. This is totally unrealistic. Sahel officials appear to be not so much opposed to accountability but they would like something more practicably applicable to their needs.
- Host country ownership is important. AID is giving the host country more control of money, thereby making a commitment to long-term institutionalization by allowing people the experience of developing mechanisms to manage that currency.
- Financial management is more than a just a financial information system; much of the information needed for financial management is required for effective program management in order to identify problems in time to take corrective action. In developing countries this database is not available, making it difficult to monitor whether projects are achieving their objectives or whether staff and resources are introduced at the right time.
- A declining U.S. AID staff will dictate less certification because there just won't be time for it.
- Financial management has the important value that it most clearly denotes that money is a scarce resource; it therefore helps make clear the viability and sustainability of a project.
- Conclusions drawn during the Marshall Plan were that the U.S. cannot use aid to change significantly the nature of societies with which we are dealing. We must take them the way they are and make the best of them.
- In the U.S. there is a general principle that the relative transparency of public transaction is appropriate for a society. In some countries, there is no such commitment. "Without that commitment, you get cosmetics, not reality." There is a related culture/value clash between two societies' views on financial management in which the donor may desire transparency to public view but the local political culture considers the rights of economic opportunity of the in-power group. If there is a practical financial management approach in such

a culture it is closer to the micro-, local projects, level - not at the national level.

#### PRINCIPAL POINTS RAISED DURING THIS SEMINAR

The major points made during this eighth session were:

- A basic purpose of the GAO review and report was to stimulate donor interest and donor cooperation in the vital area of financial management.
- Donor agencies have generally not given joint attention to, adopted policies, or developed adequately coordinated programs of assistance, to improve host-countries financial management systems.
- Donor agencies want to provide a high level of resource transfers to developing countries, but weak financial management lessens the accountability required to continue to obtain funds from their policy-makers/legislatures.
- Host countries indicate interest in receiving more financial management improvement assistance from donors.
- A long-term program for financial management training and assistance to developing countries should be established by AID.
- AID should work with other donors to develop cohesive financial management improvement programs in keeping with the individual needs of host countries.
- While financial management improvement is needed in developing countries a part of the current problem may be at least in part the changing political perception by the beholders.
- Anglo-American views favoring open public accountability are not shared in all developing countries. Transparency of public transactions is often not subscribed to in developing countries.
- The donor community should establish, and consistently enforce, common accounting standards in host country projects.
- Standards should be relatively simple, rather than unrealistically sophisticated which is self-defeating.
- Utilize all that is practicable in existing systems rather than import whole new systems.
- Incorporate cooperation of multi-levels of authority in donor efforts to develop financial management improvements in host countries.
- Similarity and transferability at the general principles level may not be practicable at the project implementation level.

- Institutionalization is seldom successful when imposed from without; it requires collaborative effort between donor and host from the identification of "felt need" through the action and evaluation stages.
- It is important to keep always in mind the purpose of donor effort - certification or institutionalization.
- Financial management will always be a priority of any assistance program although not always the highest priority.

Session 9

April 18, 1985

GOVERNMENT AND THE SEARCH FOR EFFICIENCY

The ninth seminar was the first of three sessions focusing, at AID's request, on the increased utilization of the private sector in development efforts. The World Bank's World Development Report 1983, particularly Part II, Management in Development, which was sent in advance to seminar invitees, provided a basis for deliberations. Making presentations and leading the group's discussion were Geoffrey Lamb and John Nellis of the World Bank Public Sector Management Staff. Al Zuck, President of ACIPA, chaired the session. Dr. Donald Stone, a world recognized authority in the field of institutional development and public administration and an early President of ACIPA, was introduced by President Zuck as a special guest participant for this seminar.

Management in Development

Part I of the World Bank's World Development Report - 1983 addressed the principal economic difficulties facing most developing countries. Part II of the Report - Management in Development - is chiefly concerned with longer-term development and focused on some of the key measures required to improve performance in these countries. The report noted that, in recent decades, governments of most developing countries have been very active in that development - in building infrastructure, often engaging directly in productive activities, and playing a critical role in determining the environment in which the private sector operates. While this activism has resulted in generally improved growth rates "progress in many countries has been unsatisfactory". To achieve a reasonable level of performance government is held to be responsible for ensuring:

- a stable macro-economic environment by adopting sustainable monetary, fiscal and foreign exchange policies;
- a system of incentives that encourages resources to be allocated efficiently and used optimally; and
- a pattern of growth whereby benefits are widely shared.

Governments must be flexible to respond to unforeseen events and to resolve conflicts between competing groups.

While anxious to make rapid progress most developing countries' governments are constrained by weak institutions and management. These constraints vary greatly among countries and the capacity to deal with them reflects the many natural and societal differences between countries. A generally common immediate need is to use existing resources more effectively and economically.

The report stresses that "The search for efficiency is not merely a matter of finding technically optimal solutions; it is also a political process. Governments seeking change have to start with existing institutions.... The process of reform therefore involves negotiation and compromise, accepting 'second-best'

solutions that are politically feasible."

Efficiency everywhere has two distinct but related critical aspects: efficient resource allocation - through prices, markets and administrative intervention, and operational efficiency - maximizing the use of labor and capital through sound management of both the public and private sectors.

Recent decades have witnessed heavy investments in developing countries to expand their agriculture, industry, infrastructure and essential services. Due to a variety of causes, however, annual growth and productivity have generally not responded favorably. As some of the causes of this lessened productivity are better addressed good management can contribute to much greater gains. Areas considered most fruitful for attention include: macro-economic policies, distorted incentives, low-yielding investments, investment delays, low capacity utilization and poor maintenance.

Government plays a pivotal role in both the policy and institutional aspects of efficiency. The role of the state is examined in some depth, ranging from those economic activities which are universally recognized as the sole responsibility of the state to those generally acknowledged to be best left to private initiative. "The key factor determining the efficiency of an enterprise is not whether it is publicly or privately owned but how it is managed."

The report points out that the appropriate role for the state changes as the economy does. Generally, in the least developed countries, only the government may have the resources and purpose to promote development, but as economics advance there is greater potential for the private sector. The report cautions that "government interventions can result in large losses of efficiency and should therefore be selective." It concludes that "In the face of compelling political and social pressures, governments will always be tempted to do more than can be accomplished efficiently. Yet today's widespread reexamination of the role of the state is evidence of a new realism. In the search for greater cost-effectiveness in the provision of services governments are exploring ways of tapping private initiative and simulating competitive conditions."

### Reform of the Public Sector

Geoffrey Lamb, referring to the 1983 World Development Report, placed the concerns of the report in the wider context of what is happening in the world economy and in light of the importance of institutional and public sector management issues in economic policy choices. He observed that, in grappling with the scale and severity of problems of developing countries particularly in recent years, it is very easy to lose sight of the growth and development which has taken place over the last two decades even while the problems mounted in severity. He noted some indicators of this growth over the last 20 years are:

- an average GDP growth rate of 6 percent per annum for developing countries as a whole, sustained by some countries even during the 1980's when there were severe constraints;
- an increase in life expectancy from 42 years to 59 or 60 years - a phenomenal improvement and reflecting also a halting in the rate of infant mortality;

- an increase in primary school attendance from 50 percent to over 90 percent;

altogether quite remarkable gains - so its not all "gloom and doom".

Many developing countries have a record of considerable achievement in spite of severe difficulties in management. Recently, public sector reform has received considerable attention - not just as a corollary of the rising conservative tide but also in countries which run the full gamut of social, political, and economic systems. There has been no consistent ideological or political movement, nor has there been a strong insistence on efficiency; such reform has become the focus of attention primarily because of the fiscal imbalance of payments pressures which became unsustainable in the early 1980's as a result of the second oil shock.

Three key reasons why the public sector has been affected by this fiscal crisis are:

- macro-economic management - it is the government's responsibility to manage the overall national economy;
- rise in the rate of public investment in developing countries - the high rate of public investment was a large factor in causing the balance of payment problems and fiscal deficits;
- high rate of growth of public services - there has been an expansion of public services in the area of education, health and agriculture, although not in welfare.

From 1970 to 1984, the outstanding medium and long-term debt of developing countries increased about ten times in nominal terms to just under \$700 billion and this increase took place in spite of declining capital flows after 1981. The rate of debt GNP in developing countries as a whole more than doubled from about 14 percent to around 29 or 30 percent. The debt and debt service obligations increased because of inflation and interest rates so that in developing countries interest payments as a proportion of GNP have increased about six times between 1970 and 1984 - much of it contracted or guaranteed by the public sector. Concurrently, public services have grown increasing the recurrent fiscal obligations, and service areas are usually politically sensitive because they involve public employment. Many developing countries were simply unable to make policy changes. This dual "squeeze" led to the calls for governments to look for policy and institutional reform in the public sector.

The policy instruments which many governments can bring to bear to increase public resource mobilization are extremely limited. The tax structure has limited strength in raising public revenues. In many countries, state enterprise investment represents essentially international debt obligations, and thus it is hard to repudiate or finance through an expansion of domestic credit and other standard methods. There are strong political and social constraints on cutting expenditures in the public sector. In most developing countries the public sector occupies such a large piece in the economy that cutting expenditures in this area would have significant effects on public employment.

The first reactions of many developing countries to this fiscal and financial crisis were to take steps to achieve deflationary stabilization, public investment cutbacks and fiscal measures. These steps were taken unwillingly, given their costs in terms of future growth of the economy and their political implications. It was only after several years that developing countries began to approach the problem by systematically scrutinizing the public sector efficiency in a serious way.

The international development institutions like the World Bank and other national organizations have been trying to support efforts to improve public sector efficiency through various initiatives and approaches.

- The first focus of the Bank has been on formulating better economic policies. A major problem is trying to differentiate between what appears to be a sensible policy package and how those policies are going to be implemented at the macro-level in a particular social and institutional context of a developing country. In the past, the World Bank has focused much more on the policy content than on the policy implementation, policy analysis and generation.
- The second area of concern is an examination of what enterprises the public sector owns and why it owns them. There is a spectrum of options to be considered ranging from divestiture liquidation to the very complex movements for economic reform and restructuring in more advanced countries like Mexico or Hungary.
- A third area of concern is improving the performance of enterprises in the public sector. (The substantial movements in this area by many countries will be discussed by the next speaker.)
- The fourth area is the productivity of the public sector itself. Apart from trying to stem the growth of public employment and civil service jobs, there is not much evidence of radically new ideas on how to improve civil service productivity.
- The final set of concerns centers around the whole incentive structure produced by government regulation and intervention. The incentive structure is particularly important in the agricultural sector and in areas of trade where pricing and non-priced interventions are of critical importance. Administering a trade regime is as much a case of ensuring that customs agents and licensing bureaucrats act in appropriate ways as it is of establishing correct border pricing procedures for major products and imports. There tend to be many theories in this area and a shortage of finely tuned policies and instruments for addressing these micro-level problems.

These are some of the key institutional and policy issues which developing countries are beginning to tackle in their efforts to improve public sector efficiency. It is becoming apparent that the adjustment problem is medium or long-term in nature. Even with optimistic assumptions about world trade growth, it is highly questionable that it will continue to grow at a rate of 3.5

percent as it has during the last two years. Medium to long-term adjustment efforts are essential to move institutions in the policy directions required and to finance the process over the medium term because most countries lack the institutional resilience and financial capability to maintain policy or institutional reform over the five to fifteen years required. Substantial international transfers will be needed to sustain these efforts.

### Public Enterprise Efficiency

John Nellis reported on the progress and findings to date of two studies being conducted by the World Bank in the area of public enterprise productivity.

One study, now underway for some time, analyzes public enterprises in Sub-Sahara Africa. The purposes of the study are: to collect basic information to form a statistical picture of the public enterprise sector in the Sub-Sahara region, assess the financial and economic performance of these enterprises, ascertain why governments in this area rely so heavily on public enterprises, and identify a range of reforms from rehabilitation to liquidation and privatization.

There are a very large number of public enterprises in Africa. The study conservatively estimates that there are over 3,000 public enterprises of an industrial and commercial nature alone in Africa, excluding statutory boards, administrative units, hospitals and universities.

The study examines the performance of enterprises which are legally separate, with their own accounting systems, and which are structured to recoup some of their variable costs from the sale of goods and services. The general finding - somewhat anticipated - is that they yield a very low rate of return on the extraordinary amount of resources invested in them. This is a rather guarded statement because the accounting and auditing systems in African public sectors are so weak as to make it almost impossible to determine their actual financial performance. The Director General of Public Enterprises in one country embarrassedly admitted that he did not even know the number of public enterprises in his country.

The universally low rate of return on investments has caused some of the African governments that have been firmly committed to state intervention to express concern. Others have been far more harsh in their assessment. Across the continent public enterprises, measured by standard financial economic criteria, have performed poorly or not as well as they reasonably could have been expected to have done. Their opportunity costs ratios have been extremely low. Even their contributions to employment generation, income distribution, technology transfer and regional equity, have failed to meet expectations. Although there are claims of significant non-financial contributions the figures do not bear them out. In several countries which claim positive results in these non-financial areas there has been little or no assessment of the costs involved in producing such results and no consideration of whether similar or better results were obtainable by other avenues at lower costs.

If earnings are low and deficits are high then public enterprises tend to be a net financial drain on national budgets. They tend to have special access to credit which crowds out other portions of both the public and private sectors, especially the private sectors seeking official credit. Public enterprises tend to

have cumulative arrears resulting in an extraordinarily complex web of difficult and wasteful cross debt. For example, in some countries, the government has fallen in arrears of its payments to the national electricity board, and the electricity board in retaliation, refuses to pay its taxes. Amounts in some countries have reached staggering proportions. In this kind of situation, it is extremely difficult to find reliable measurements. Different countries have different definitions of what a public enterprise is and of what they consider profitability to be.

The figure which the study now considers has the most meaning is the percentage of cumulative losses in the public enterprise sector as a proportion of GDP. This figure does exist and, in some African countries, may be as high as 4 to 8 percent. This means that the cumulative net losses of public enterprises is equal to a substantial portion of the gross domestic product.

From a macro-management economic standpoint, the causes of these high losses, or at least contributing factors, are the poor pricing and investment policies. Governments often set prices and force public enterprises to market their products below the world market price and, not infrequently, below the cost of production. For example, in Togo two cement plants appear to have been internally run in an efficient manner, yet the costs of the inputs have steadily risen while the price of the product has been frozen. The result is a staggering loss of over a billion francs a year that is continuing to mount.

Even where mechanisms exist for adjusting prices to account for inflation or changing market conditions, the bureaucratic procedures have been so slow that there is no hope of achieving a reasonable balance between costs and prices. In Sierra Leone the National Transport Company asked for a fare hike in 1975 and was granted their original request six years later, during a period in which the annual inflation rate was 12 percent. Pricing policies, controlled prices, and regulated prices have contributed heavily to the losses and deficits of public enterprises.

Another area of concern has been extremely poor investment policy. Little or no thought has been given to the profitability of enterprises taken over by governments. Often they are taken over simply to prevent unemployment rates from increasing. There are few feasibility studies and market surveys to guide investment. The result has been the building of plants with capacities far beyond what the local market or international export market can support. Underutilized capacity because of poor investment accounts for much of the public enterprise deficit.

Management issues are reasons that public enterprises all over the world are found wanting. There are discussions everywhere on how to reform them or divest governments of them. A number of specific problem areas can be pinpointed which are not unique to Africa, although they seem to occur there with greater frequency and with a particularly high degree of intensity:

- Conflicting or unclear objectives (produce at a profit; provide social benefits; maintain low price but make a reasonable rate of return on investment). Managers often become confused in the attempt to fulfill all objectives, so that they have difficulty in meeting even the most important. Also, they can use the conflicting objectives to hide

their inefficiencies and incompetence. Clarification of objectives is a difficult issue to convey to governments and a difficult problem to solve.

- A shortage of skilled and trained managers. Africa has a relatively poor human resource base in terms of managers. Good ones are in high demand and are often rotated from enterprise to enterprise to solve crises or respond to political pressures. Thus, enterprises lack the durability of top leadership which is an extremely important aspect of good performance. Additionally, the bad managers are moved around even more rapidly to minimize their damage. The "musical chair" solution does not supply the needed leadership and expertise.
- Incompatibility of bureaucratic procedures with profit-making organizations. Management positions are used as rewards for retiring army officers or other public officials who lack the requisite managerial experience and expertise. Also bureaucratic procedures are so cumbersome and time-consuming that it often takes six months or longer to have an idea funded or receive authority to authorize expenditures.

While these problems have been identified during the study in Africa, and appear to be unusually intense there, they are not peculiar to African public management. If the problems were more analytically distinct, they would be easier to address. The World Bank is now involved in public enterprise rehabilitation and reform. There are more than 20 special intervention projects going on in Sub-Saharan Africa at present in an attempt to improve the database and management information systems so that African governments have some perception of the performance of their public enterprise sectors. Some officials who appear sincere are surprised when they hear of cases where the performance is poor.

As a second objective the Bank is trying to provide these governments with assistance by diagnosing the status and classification of these enterprises so that countries can make decisions about whether to keep the strategic ones, sell off portions of others to partners, fully privatize them, or in extreme cases, liquidate them entirely. Classification schemes and extensive negotiations on classifications are presently underway. Other projects are attempting to help supervisory government agencies with their internal organization and monitoring capacity and to find potential international buyers.

There are few or no examples to cite of successful privatization efforts in Africa, though there have been some leasing arrangements. Investment bankers are showing more and more interest and there are a number of people who sense that profits are possible to make. Despite the obvious and substantial political risks of selling the "national heritage" to foreigners and the fear of bringing about a condition of neo-colonialism, many African governments have had their fill of loss-making operations and are realizing that the time has come to take dramatic actions.

## Major Points of Discussion

In the ensuing participant discussion, the following key issues were identified:

- Are private sectors more efficient than public sectors? Evidence is extremely limited; economic theory neither provides arguments for or against public production. The experiences of African nations have led them to take action themselves; in many cases they are ahead, not behind, the donor community. They are taking leaps into markets which are extremely weak. It may be that the inefficiencies of the public sector will be replicated by the private sector. At the very minimum shifting these enterprises will mean that they are off the government budget.
- Most public enterprise projects have been in West Africa. It is hard to generalize over such a large region, but in Francophone Africa there is the excessive formal weight of the public law which constitutes an added burden on efficient performance. Without discussing southern Africa, there is concern in West Africa about reintroducing French capital or opening up investment to another alien group such as the Lebanese. The same is true for the Asian community in East Africa. People who have access to capital and the necessary entrepreneurial skills to make an operation work often have a special political liability.
- The focus is on privatization now, but at issue is whether the productivity of the enterprise is improved by moving it from the public to the private sector. The real question is whether the enterprise will work and often whether it should be liquidated instead of privatized. Whether it is private or public, the constraints on operation are the same. The role of the African Development Bank and also of the World Bank is to educate unsophisticated governments about whether an entity is a private or public enterprise and what the necessary elements are for production such as inputs, outputs, pricing, and trade that cannot be hidden long by the public nature of the enterprise. Once these elements are clear, other issues can determine whether or not it is sensible to move an enterprise into the private sector.
- There is a lot of effort taking place to make a public enterprise more marketable, but the particular risk that governments recognize is that enterprises must be rehabilitated both in terms of management and finances. Then when the rehabilitation is accomplished, governments feel that they have put money into an enterprise and should try to make a go of it. Thus, this effort deters governments from moving on to the next stage of privatizing the enterprise.
- The notion of privatization in the British sense is extremely unlikely except in a small number of cases. More often privatization takes place through the government and private investors coming to an arrangement where the government retains a percentage, for example 25 percent, and the private investor puts in some rehabilitating capital, and provides management expertise to make the operation profitable. Rarely will privatization be a 100 percent transfer of ownership to the private sector.

- The creation of the large public sector in some of these developing countries can be traced perhaps to the strong desire to control, which can be equated with their notion of independence. Most governments are perhaps ready to pay the price of these losses just to retain that control. Perhaps it is lip-service when governments say they have plans to privatize.
- There has not been a change of heart on this issue, it is more a change of necessity. Many of these countries are going through debt rescheduling. The fiscal burden of the enterprises is so great that they have no alternatives. The interest is real because the pressure for adjustment is so great; if an economic boom occurred they would lose interest.
- Is privatization more of a political than an economic issue? and are there better approaches to improving the efficiency of these enterprises? Probably. Even if all the logical candidate public enterprises in Sub-Sahara Africa were privatized, there would still be a large public enterprise sector. That sector would still be in need of fundamental rehabilitation and management improvement, not only at the level of the firm but also in its relationships with the state, in its basic accounting, and composition of upper management and the board of directors.
- The assumption is that privatization has the advantage of its greater ability to attract managerial talent, and international experience bears this out. But the resource base of these countries is sparse; average quality management and even the labor force are problems in themselves.
- What kind of training and education can be put together to build the essential skills for economic success? It is a long-term program to breed the cadre of people who can generate ventures and the improved level of management in both the public and private sectors over the next two decades. The Bank is investing a lot of money in education and training of this kind but people who specialize in this field are not at all sure what the models should be, what criteria should be used, or what the objectives are. It is somewhat of a vicious circle. There were in existence management institutes and public administration institutes which declined and are now being revived. But they often have a poorly developed capacity for training that is related to on-the-job experience. Training and structural changes to public enterprises should be coordinated. Otherwise, training is not effective. There needs to be a better development of the administrative and business culture that allows new management techniques to emerge.
- In looking at patterns of performance in different parastatals, signals given from the state are very important. In one country the public enterprises were given the message that they had better perform or they would be booted out; they performed quite well. In looking at parastatals in rural development there were two kinds - those oriented

toward production and those toward services. The signals given to the production parastatals were different and the two types were performing very differently. The production parastatals were given the signal that they should produce because of the need for foreign exchange, but the service delivery parastatals were judged more on whether they satisfied their employees and they performed much less efficiently. Ownership was not the key determinant. Rather it was the set of signals that was very important. Ownership may actually be a myth that allows one to see things that are not really there.

- With regard to the risk sharing of the government with the private investors, it appears that when the government's share in the venture is less than 51 percent, the enterprise seems to be more successful in financial terms than when the state has a majority participation in the firm. As long as states own enterprises they are going to impose non-commercial objectives on them which carry with them a cost burden. If these objectives could be costed out, and the enterprise could respond to the government that to achieve such objectives would require an additional subsidy, then the efficiency of the overall operation could be judged apart from the added objectives.
- In Africa it is very difficult to find people who want to take risks. Most entrepreneurs want non-risk propositions. They want management agreements which are cost plus or leasing agreements rather than purchase arrangements.
- With regard to performance evaluation systems, the Pakistan signalling system, which is the brainchild of Professor Lee Jones of the Boston Public Enterprise Group, has been extremely successful in Pakistan in turning around performance. The system demands a rigorous and accurate accounting system which may be too sophisticated for African public enterprises, but it works well in more developed countries like Korea or Pakistan. The system gives clear cut signals as well as incentives and rewards to managers who fulfill their targets.
- In some of the developing countries, the only way to move upward is to stay in the public sector because the private sector is so small that a career could peak out very early. There is political and social pressure from managers to keep the parastatals because they represent viable avenues for upward mobility. There is also an internal competition for good managers.
- One problem of the World Bank is that it deals with the public sector almost exclusively. Often the private sector is very small and in some cases the local businessmen do not even speak the same language of Bank bureaucrats or even the country's bureaucrats. The Bank is at a disadvantage because of the way things have been handled in the past.

#### PRINCIPAL POINTS RAISED DURING THIS SEMINAR

The essential points emerging from the ninth session were:

- despite the many problems in developing countries there have been

remarkable gains over the past 20 years - in growth rate, life expectancy, infant mortality, school attendance, etc.

- public sector management reform has become a focus of attention primarily because of fiscal imbalance of payments pressures - not because of general insistence on efficiency.
- World Bank efforts to improve public sector efficiency have had five main thrusts:
  - formulating better economic policies,
  - analysis of public sector enterprises; what is owned and why,
  - improving performance of public enterprises,
  - improving public sector productivity,
  - developing improved incentive structures.
- improvement of public sector efficiency in most developing countries will require long-term external assistance - at least five to fifteen years.
- Current studies of the public enterprise sector in Sub-Saharan Africa indicate a generally very low rate of return on extremely high resource investments. This means heavy net financial drains on national budgets. Reasons are many and varied and there are no simple solutions.
- Among principal problems are:
  - poor pricing and investment policies,
  - slow and ineffective bureaucratic procedures,
  - poor management issues including conflicting or unclear objectives, shortage of skilled managers, incompatibility of bureaucratic procedures with profit-making organization.
- There are no clear answers as to whether private sectors are more efficient than public.
- State owned enterprises are very likely to impose non-commercial objectives which carry a cost burden; efforts should be made to cost out such objectives and seek appropriate additional subsidy.
- Clear cut privatization - 100 percent transfer of ownership - is unlikely in most African nations.
- Substantial Bank resources are going into management training and education.
- In Africa, very few entrepreneurs want to take risks.

Session 10

May 24, 1985

PRIVATIZATION IN PRACTICE

The tenth seminar of the AID-sponsored ACIPA series, and the second session to focus on an increasing role for the private sector, turned to an examination of some of the practical aspects of privatization. Dwight Ink, past President of ACIPA, chaired the session. The featured speakers were Dr. Elliott Berg and Dr. L. Gray Cowan. Both speakers have had outstanding careers in the academic community and are much sought-after consultants to governments, foundations and international organizations.

Progress Report on Privatization in Asia

A brief summary of privatizing activities in South East and East Asian countries, prepared by Dr. Cowan, was provided to invitees in advance of the seminar. In his paper, Dr. Cowan noted that "Privatization is appearing in the most unlikely places":

- the Peoples Republic of China was taking several important steps toward privatization, particularly in the agricultural field.
- Japan was moving to privatize railroads and certain major industries.
- The Viet Nam government approved the appearance of private traders.
- Private business is being given a greater role in a number of other Asian countries.

The reasons for these actions, wrote Dr. Cowan, "are not hard to discern. Public investment funds are becoming increasingly short everywhere and the wastage factor in public enterprises as opposed to that in the private sector is more and more evident.... The examples of Japan, South Korea, Taiwan and Singapore have not been lost on the rest of Asia. The countries with the highest growth rates are basically those that have turned to private enterprise for pragmatic, if not ideological, reasons." Dr. Cowan cautioned that public enterprises are not to be expected to disappear from the Asian scene in the near future.

There continues to be a substantial belief that government regulation is needed to ensure fairness in distribution of essential goods and services. However "...governments are increasingly becoming aware that subsidies are too costly and that productive facilities cannot always be sacrificed for social goals."

Following is a summary of privatization activities in key Asian countries.

## China

Over the past five years Chinese agriculture has, to all intents and purposes been de-collectivized as has industry to a lesser degree. The new Chinese system has been described as "private enterprise without capitalism". The former commune system has been decollectivized; family members are free to work when they wish and to grow what they can best market. Certain quantities of produce must be delivered to government procurement stations so the village can fulfill its agricultural tax commitment but beyond this any surplus grown by the peasant farmer may be consumed or sold on the open market. A family now can hire agricultural labor and buy machinery for specialized farming. Former marketing cooperatives and communal rice mills have been transformed into private companies functioning on a normal profit and loss basis. Land is still collectively owned, in theory, but unofficially thirty-year rights of tenancy have been granted with the assumption that the land, with any improvements made by the tenant, can be passed on to his children.

The industrial sector is still state owned, but service functions are performed by over two million small entrepreneurs with an annual turnover of \$5 billion. One source claims that over 7 million are currently employed in the private sector--the equivalent of the entire working population of Australia. Some of the former large industrial families are being encouraged to resume their activities and there is even talk of establishing a Shanghai stock exchange. An American firm has recently been awarded a contract to manufacture and distribute a new form of solid baby food for one entire province of China. External investors are still struggling with the ramifications of Chinese bureaucracy but Chinese economists have recently made visits abroad to study how decision-making can be put in the hands of the managers of state owned firms.

## Japan

Japan has long been the supreme example of private enterprise in Asia and the public sector has been reasonably small. However, the need to cut public spending has pushed the government to greater divestment. The synthetic rubber industry has been turned over to the private sector and the government has agreed to return the Japan National Railways and Nippon Telegraph and Telephone to private hands.

## Indonesia

Government difficulties in funding large capital projects in development has led to reallocation of them to the private sector and under the fourth five year plan private entrepreneurs will be expected to fund about half of the contemplated investment for development. Efforts to encourage private investment in plantation expansion have been hampered by official insistence that new plantations be handed over to small holders at the end of a given period of years.

## Thailand

The Thai leadership has increasingly placed more reliance on the private sector. In 1983, the decision was made to privatize ten ports and some fifty

unprofitable or marginal SOE's were recommended for privatization. In a new national corporation for large projects, the major equity is held by private sources, although the government retains a minority interest to see that the company conforms to official development policy.

### Malaysia

Malaysia's earlier emphasis on the public sector was a conscious effort to place greater control of the country's economy in the hands of Malays as opposed to those of the Chinese minority. As a result, government holdings grew at a rapid rate covering everything from hotels to plantations. But as government development money decreased, the private sector began to play a more prominent role. Privatization has been under discussion for ports, railways, hospitals and even for the national airline. The municipal rapid transit system for the capital is to be partially built with private financing and telecommunications and electric power facilities will be turned over to the private sector. The first company privately owned by Malays offered its shares to the public in 1983 and government has made clear that it expects future development to depend largely on the private sector.

### Philippines

The picture has been confused in the Philippines because of pressures on the government to rescue failing private enterprises and to bail out friends of the government from imprudent investment enterprises. However, the trend is slowly changing and the government is now attempting to sell to the private sector some of the assets now held by the Development Bank.

### Viet Nam

Among the most unlikely candidates for privatization efforts, even the Vietnamese government is moving in this direction. Official ideology now admits to a place for private interests and it is reported that 70% of the goods in circulation in North Vietnam is in private hands. Peasant farmers are allowed to sell surplus products on the free market with the result that the rice harvest has risen by 50%.

### Pakistan

Under the new sixth five-year plan, 85% of manufacturing will be in private hands and some of the firms expropriated by the former Bhutto government are being returned to their owners. The owners are now free to enter into joint ventures with overseas investors.

### India

India has traditionally had an economy which has had a heavy emphasis on the private sector; peasant farming has always been private and some 70% of Indian industry is privately owned. At the present time, 20% of the economy is in the public sector; the experience has not been a happy one. The National Textile Corporation loses \$85 million a year but this has not deterred the government from nationalizing 12 more mills with an accumulated loss of \$151 million, as a result of pressures from the labor unions who fear the loss of 40,000 jobs if these mills fail.

Indian intellectuals have always been strongly influenced by the London School of Economics doctrines stemming from Lasky and others but the current Ghandi government has stepped back from this influence to adopt a more pragmatic position in regard to free enterprise. Large private entrepreneurs have been encouraged to expand and, more recently, the public sector monopolies of nuclear power and space research have been ended. Professor Subotro Roy argues: "There is no economic reason why the government of India should be engaged in industries ranging from steel and shipbuilding to wrist watches and beer....Large scale privatization would be supported by private citizens in general and would also draw out the reputedly vast private funds which circulate in the untaxable underground economy."

Taiwan, South Korea, Singapore

These three have been the stars of privatization for a long time and need little further comment.

### Privatization: An Overview

The initial speaker, Dr. Berg, first noted the need to more clearly define terms and to distinguish between different kinds of privatization efforts. Current progress in privatization is primarily in industrial countries such as the United Kingdom which is a very different situation than that faced in developing countries. In its basic sense, Dr. Berg stated, privatization is an activity aimed at changing the mix between private and public sectors with the aim of shrinking the latter and increasing the scope of the private sector. There are several ways to do this, he pointed out. One way is to change the ownership of assets by shifting state-owned enterprises or assets to private ownership - by so-called "divestiture". He then examined other ways to privatize an economy without changing ownership. One can privatize management, make management contracts, or complete leases. Ownership patterns can be left untouched; simply transfer the rights to use assets to a different, private set of players. Theory is not clearly spelled out, and practice is extremely varied. Fundamentally, there is a continuum between a state-owned enterprise in which management has absolute direct control over an organization's major decisions to a status where government officials make only infrequent incursions into management's operations. Contracting for private operation of state-owned enterprise has been a fairly frequent option with an increasing amount of experience being developed. A widely seen example is the contracting of communities for trash and garbage collection.

A second option has to do with privatizing the financing of an activity. Assets are left untouched, equity is left alone, but through the device of user charges instead of having budget subsidies, the users pay more for a given service. An example is in the field of agricultural processing. If in order to keep a tomato cannery in operation, a below cost of processing charge is made the taxpayer winds up paying. By adopting a user charge payment, the burden is shifted from the taxpayer.

A third format is by deregulation. Here privatization is achieved by indirection and erosion of the state's role unless the state activity can compete successfully with deregulated competitors.

In practice, privatization has meant primarily the change in the ownership of assets; this is what has happened particularly in the industrial countries of Britain, Italy and Canada. Such a change in ownership is more difficult in most developing countries. Many of the enterprises in the public sector should never have been there. They are there generally as the result of decisions based on insufficient analysis or on optimistic assumptions; they are usually uneconomic enterprises by market standards. Exceptions are those enterprises which entered the public sector as a direct result of a political spasm. In Chile, 300 to 400 enterprises entered the public sector in a three year period as a result of the political situation; in Bangladesh, the military coup forced Hindus and Pakistanis to abandon their enterprises which then came under state control. In both Bangladesh and Chile, the privatization which is occurring - return of equity and ownership to the private sector - is really reprivatization.

The problem of handling non-viable enterprises faces many nations. These enterprises are hard to sell. Political acceptance is necessary before the enterprise assets can be lowered to a level which is the market value or one appropriate for a sale. For example, Kenya had assessed a sugar processing plant at one billion shillings and when they put out inquiries for bids, the highest bid they received was 50 million shillings, which amounted to 5 percent of the investment cost. In such a situation it is difficult, and probably impossible, for a government to transfer the assets to a private party.

Disemployment is another reason militating against privatization. When a considerable rate of unemployment exists already, most governments are reluctant to see more people out of work which tends to support continued state operation of inefficient activities. Many of these enterprises also are very debt-ridden and the exact nature of the debt is poorly documented; this uncertain financial condition adds further obstacles to privatization efforts.

There are promising approaches to the problem of privatization, one of which may be labeled "selective privatization". If several operations of an industry or sector are not viable and a few are, it may be possible to shut down those that are losing money and consolidate efforts in the viable enterprises. A portion of an operation can be sold to private parties leaving the government with the part that is more important strategically or more viable economically.

An innovative program is being tried in Costa Rica by which the USA has established a large ESF grant of \$160 million to be used to buy up state enterprises from the major state financial development corporation, rehabilitate them and ready them for resale to private parties in Costa Rica. Here, an outside donor is financing an operation intended to lead to purchase and then resale of state enterprises.

Most of the privatization of assets needs to occur in the poorer countries. The World Bank is reviewing the problem and has discovered 100 cases of divestiture other than in Chile and Bangladesh, with another 900 enterprises which have been transformed. These numbers are very small. The most striking discovery is that enterprises simply fade away. They continue to exist legally, but the workforce leaves and there is usually a caretaker left to oversee a shell. This is tantamount to an informal closure, but they are not liquidated in any formal sense. The next five years may see more of this squeezing out by indirection.

A new and interesting phenomenon has been occurring recently in response to the monetary crises of countries. The International Monetary Fund has imposed credit ceilings on certain countries seeking assistance with their debt. These ceilings have forced countries to make dramatic decisions concerning parastatals and which ones they can afford to sustain. If the present trend continues with the economies of developing countries many governments will simply have to cut off credit and the enterprise must then close or have its assets bought out or transferred to private owners.

### Some Examples of Advances in Privatization

Dr. Cowan agreed with Dr. Berg's general assessment that there is currently more rhetoric than action in the privatization field. However, he pointed out, there are some encouraging examples. He noted that the Treasury Department recently sent out a request to foreign embassies inquiring about the status of privatization in each country. Of the 57 replies which were received, only four indicated no interest in privatization (Syria, Ethiopia, Burma, and Laos were predictable with regard to their positions). The overwhelming majority reported that they were either entertaining discussion, undertaking some kind of action - even if minor, or contemplating what actions needed to be taken to divest themselves of some part of the public sector.

Many of the Southeast Asian countries are reaching a point that they can no longer be regarded as less developed countries or as developing countries. If one were to compare their financial systems with those of many African countries, their development would be apparent. The interest in privatization is strong in this area.

The Prime Minister of Malaysia, for example, is firmly convinced that privatization is the answer to many of his country's problems. He has literally issued orders that everything is to be privatized. They have privatized most of the municipal operations like parking lots by contracting them out, they are considering privatizing health services and education, although the latter is a remote prospect. One of the reasons for serious consideration of health services is that many of the government doctors are leaving government employment to set up private practice to make more money. Either government must pay more or turn to privatized service. Malaysia also has entered into a joint venture operation with Lockheed to have a private company managed by Lockheed maintain the Malaysian airports. Plans are in place for the Malaysian airlines to be privatized by the end of 1985; it already is to some degree private. Privatizing of telecommunications also appears likely in the next couple of years. One problem in this privatization trend is with the internal ethnic question; Malaysia, for example, does not want the Chinese to take over the Malaysian airlines. There is no objection to foreign investment, but foreign control is a different matter. In selling off publicly held enterprises, it has been the practice to reserve a certain percentage of the share for employees and for citizens of Malaysia. Foreign investors are allowed to invest up to roughly 30 percent of the value of the enterprise.

The Malaysian Telecommunications situation is interesting. The present system is largely outdated and modernization will be extremely costly. However, failure to modernize will find the growing Malaysian business community

bypassing use of the system and going to use of satellites - something the government very much wants to avoid. So the Malaysian government is privatizing selected parts of the total system - much of the construction activity, for example - but retaining the actual operation. They also are facing the potential problem of how to turn a government ministry - Telecommunications - into a private business (how would the U.S. turn Commerce Department into a private business?) The transformation process is underway, with an optimistic timetable of several years, by putting shares in the company into the stock market on a phased basis. This approach appears practicable in Malaysia because people there have grown accustomed to the idea that (a) one can buy shares in a company, and (b) money can be made out of buying such shares. Not only does Malaysia have an active stock market but also a whole set of corollary institutions with over a million subscribers to what amounts to almost a money market fund. A holding company has been established to buy up government owned enterprises which have shown a profit for a minimum of three years. The holding company makes shares available for private citizens to purchase in the form of savings certificates. The return on these certificates was between 18 and 19 percent in 1985. A limit is set on the number of shares which a person can buy - currently \$50,000 Malaysian dollars. A lot of people are participating in this investment scheme with the result that the idea of buying a company or shares of a company is becoming acceptable.

Thailand is making similar efforts. Bangkok authorities have been trying to divest themselves of the bus service which has been unprofitable, though many private bus companies which service the back streets are operating in the black. If authorities wait too long the bus service may simply fade away as smaller local operators cut into their routes.

Privatization is not a process which can be carried on in a vacuum. There has to be a genuine commitment on the part of the government to start the whole process, and the political will to pursue it. There is always a considerable amount of opposition. In addition to the retired politicians and generals, there are also the labor unions and the boards of the state owned enterprises who will offer resistance.

Fundamentally, privatization requires an environment where;

- there has been a general development of capital markets and lending institutions, both private and public, so that the private sector can take advantage of the possibilities of privatization;
- commercial banks will engage in long-term credit rather than purely short-term;
- the stock markets are healthy;
- the investing public is open to stock ownership;
- there must be a stable foreign exchange rate and some availability of foreign exchange to the private sector for development purposes;
- the multi-lateral and regional development banks must have a role in privatization by lending to intermediate financial institutions with the guarantee of the government.

In connection with this last point, the Asian Development Bank is supporting privatization more than others. They had a conference on privatization in January 1985 and the governors came out in favor of some effort on the part of the Bank to encourage privatization. The African Development Bank has been far more hesitant in encouraging lending to the private sector. It may take pressure to avoid more serious problems with increasing subsidies before more is done with privatization.

Privatization is not a panacea, nor is it a final answer to the great debt problem. It is an extremely complex and difficult process to carry out. It may help with some aspects of the debt problem, but cannot solve it. Governments often embrace it-at least as far as the rhetoric-without really understanding what problems spring from privatization.

### Major Discussion Points

An extremely active discussion followed the speaker's remarks. Principal points made included:

- What has occasioned the increased interest in privatization? Reasons are numerous and varied. An ideological or political change usually precedes action. The impetus often comes from budget and fiscal pressures that limit the expansion or even continued operation of public services

Often there is a misperception on the part of political leaders as to what is involved in privatization. Typically, numerous state-owned enterprises may require budget subsidies to remain in operation, and the government lacks sufficient resources to continue the subsidies at previous rates. Privatization appears very attractive, but many of the enterprises are not saleable, so they really need to be closed and liquidated. But, politicians perceive the privatization process as one of selling off these assets with a minimum effect on employment and on structures of national industrial symbols. All of this presumes that there are buyers for these enterprises.

Additionally, in some countries, there has been a change of generations in the ruling class. In the 1960's many African leaders were reacting against colonial capitalism, but it has become clear now to some of today's leaders that socialism doesn't work. AID is often dealing with a new generation of African leaders who are very apt to have MBA's from Harvard. Given the current mission philosophy, present leaders may create a more fertile ground than was the case in earlier years.

- Sometimes privatization becomes a psycho-political issue. This was the case with a government owned pharmaceutical company which was scheduled to be bought by Abbott Labs at a reduced asset value. What would have been a good deal had it been worked out quietly, was picked up by the press and others and made into a political and psychological issue with statements such as, "You're selling out the birthrights of the country." The move was dropped because of this resistance.

When a poor country lacks its own resources and management capabilities, these have to be brought in from outside. When the host country politicians are used to being in charge, it is hard to allow foreigners to come in with prominent roles.

- A 60/40 formula has been used with the government owning 60 percent and private investors owning 40 percent; for example, this arrangement was worked out with Firestone and found to be very acceptable. The government had a sufficient share in the enterprise to support it, and Firestone was given managerial control. Such arrangements tend to calm concern over foreign control and takeover yet bring in foreign capital and management so that an enterprise can be made profitable.
- The French have worked out a scheme called a contract plan arrangement which assures a degree of management accountability. The government negotiates a contract with a firm for a set period of time stating that in that time period the firm must produce or meet specified objectives. If the firm does not meet its obligations presumably they are held responsible. This arrangement has been effective for France.
- AID was ending a project in Zaire when they decided to turn it over to a private company under Belgian control. The problem was that the project involved providing a number of public services like roads and education. The solution was that the company was given powers to tax for use of services or facilities. The tax was used to build roads. This type of privatization is an example of the public and private sectors being brought together to work as a team.
- Governments' establishing of fair market value of assets in the privatization process can usually be accomplished only by governments which are fairly well structured. The process involves someone coming in and valuing the assets by putting a minimum price on them and then putting the enterprise out for bids. If the bids are under the minimum price, the government doesn't sell.

In the Philippines, the government was forced into acquiring a number of failing firms which range from nickel mines to shoe factories. These companies are being held by a holding company and the Philippines is faced with the prospect of marketing failing companies which no banker would be able to sell. They have had to call in outside specialists to do marketing analyses to determine whether continuing the companies individually makes any sense in light of the domestic or international market. This is important to know before privatizing of industries can proceed.

- The area of establishing fair market value is of key importance and it is difficult. There are very few countries where an operation involving public assets or public money on a large scale can be run without many people getting involved at the political level and some exhibiting corrupt behavior. In one recent case in Togo, a foreign entrepreneur is leasing a \$35 million steel rolling mill for \$175,000 a year. He is creating a flurry of activity and a lot of good press but he is bribing government officials, driving out all competition, and making himself

a lot of money. Too often, an entrepreneur uses an asset indiscriminately; he does some positive things, but may do a lot of harm to both the host country and to future relationships.

- One way to handle non-viable parastatals is to encourage the private sector to produce the same or better product more efficiently and cheaply. The consumer will buy from the private producer and the competition will cause the government owned enterprise to disappear. Sometimes, however, these publicly owned enterprises have patronage behind their existence - or a rationale such as "national security" - so that the government continues to operate them even at a loss.
- In some countries under privatization, there has been a ruling out of any selling to foreign interests rather than to domestic ones. Central and South American countries belonging to the Andean Pact, are by treaty not allowed to privatize with multi-nationals. Many countries by political choice rule out selling to foreign interests. Some ethnically sensitive countries, such as Kenya and Malaysia, rule out sales to minority groups.
- Divestiture is posed as a response to debt. What is the relationship between development and debt reduction and privatizing publicly owned enterprises? A country like Liberia is pouring \$20, \$30, or even \$40 million a year into subsidies for failing industries; this is a tremendous drain on resources which could be better used for development purposes such as public education. There is the opportunity for a different use of resources but there is strong political opposition to stopping subsidies and allowing state enterprises to fail.
- The Organization of American States recently brought together all the directors of privatization programs in Latin America to share with other participants information on what they were doing in divestment efforts. Interestingly, the actual agenda changed; no one had much to say. Except for the Chileans who reported successes in selling off government corporations very little had been sold. The focus shifted to discussion of reprivatization and deregulation; one point of agreement was that it is a very good thing to avoid getting in the position of having to sell off these corporations. The preliminary conclusion of the meeting was that privatization is not real and is not happening; rather, measures should be taken to decelerate the acquisition of these corporations, by changing the policies of the national development banks which have been foreclosing on these failing corporations when they default on government loans, thereby bringing about government acquisition.
- Over a period of time, Mexico has sought to streamline the ballooning bureaucracies of parastatals. The effort has been largely unsuccessful, and now more drastic efforts are being made toward divestiture.
- What is currently happening in China is more rationalization than privatization, but it is something from which many LDC's can learn. It involves joint partnerships with western funding. For example, one

man has been building essentially prefabricated hotels in China; China provides the site and the American entrepreneur ships in virtually everything including the silverware. "He has more business than he knows what to do with."

- A major factor inhibiting governments from doing more with privatization is the disemployment that it may cause. In Bangladesh, the government handled this problem by forcing the new owners to sign a contract guaranteeing that they would employ the same number of people at the same rate for one year. At the end of the year, with attrition and the elimination of phantom workers from the books, employment was slightly below the level they began with. But the trade unions were placated because no one was technically fired and the poor were not exploited in the transfer.
- The key issue with parastatals should not be so much to change the ownership of their assets as to upgrade their management and increase the enterprises' profitability. There are some well managed parastatals around the world. The pressures against privatization - political, social, and bureaucratic - are so great that it would appear wiser to think of the essential job of how to improve management and performance. In actual practice, the great bulk of donor community efforts are directed to public sector rehabilitation with relatively little actual effort going into divestiture. Whether there are resounding successes or failures is hard to say. Some say contract plans have worked, but most people are against them. Rehabilitation of industry is an area where there is a great opportunity for outsiders to come in with management contracts or other arrangements. However, as soon as the enterprises reach the break-even-point or some degree of profitability, privatization becomes unlikely.

#### PRINCIPAL POINTS RAISED DURING THIS SEMINAR

The key points to surface from the paper, presentations and discussion of this tenth session were:

- Privatization is appearing in some very unlikely places in Asia including the Peoples Republic of China and in Viet Nam.
- In its basic sense privatization is an activity aimed at changing the mix between private and public sectors with the aim of shrinking the latter and expanding the former.
- There are numerous ways to privatize an economy, from divestiture which changes ownership, to methods leaving ownership untouched such as contracting for private operation, user charges instead of budgeting subsidies, and deregulation with competition.
- Privatization is very difficult, particularly in most developing countries!
  - many state enterprises are uneconomic by market standards,

- disemployment is feared as a result,
- it is politically hazardous to divest a state of what may be a great source of pride and/or cost a great amount of national resources.
- Some debt-ridden countries are being forced to divest by creditors who refuse to extend further assistance unless losing parastatals are eliminated.
- There is currently more rhetoric than action in the privatization field.
- Malaysia has developed an interesting pattern for divestiture in which a phased transformation of telecommunications is underway, moving from a government ministry to a privately-held company in which stock is held by over a million subscribers.
- Successful privatization requires certain favorable environmental conditions.
- Privatization is not a panacea nor final answer to the debt problems of developing countries.
- The increasing interest in privatization arises from a variety of reasons chief among which are the budget and financial pressures that often limit the needed expansion or even continued operation of many public services in developing countries.
- Effecting successful privatization frequently requires innovative efforts to market, finance, achieve political acceptance, avoid corrupt influences, and achieve improved management.

## Session 11

June 10, 1985

### THE REQUISITE ENVIRONMENT FOR PRIVATIZATION

The eleventh ACIPA seminar in the series on institution building in developing countries - and the third session to focus on increased use of the private sector - brought together three outstanding experts to discuss some of the environmental characteristics essential for effective privatization. Professor Theodore Lowi of Cornell University directed his remarks to "The Public Character of Private Markets" or, less formally, "things that governments really have to do before you can have a private market." Dr. James Thompson, a prominent consultant to various organizations with a 17 year concentration in Africa, primarily in the field of natural resources management, focused particularly on the environment for privatization in a threatened environment where much greater private control of resources appears essential. Dr. Rogerio Pinto, Coordinator of Technical Assistance in the Department of Economic Affairs at the Organization of American States, reported the principal results of a recent conference which he had organized in Brasilia focusing on privatization and divestiture. Alfred M. Zuck, President of ACIPA chaired the meeting.

#### The Public Character of Private Markets

Dr. Lowi opened his remarks by addressing the question of what developing countries can learn from the experiences of the liberal West - U.S., England, France, etc. - about the environments of private markets and what learning can be transferred to developing countries. The government is one aspect of that environment; there also are cultural, ideological, and religious aspects. There are variations, too, on the private market environment. Simply, privatization means to take a more publicly involved market such as may be found in China or under a military junta in Latin America, and begin to relinquish the public hold. By studying experiences of this liberal West, it is possible to determine what governments really must provide and therefore what they should continue to provide as they relinquish control of enterprises. On the private side are the similar questions regarding those actions that only entrepreneurs, or bankers, can and must take.

Privatization is too often thought to mean just getting rid of publicly owned enterprises by turning them over to private corporate owners. Although it is often a good idea to do this, private markets cannot be expected to flourish merely by the inactivity of the government. There is nothing natural about privatization and private markets that assures their survival. Certain activities have been and are essential in the development of private markets and therefore, of capitalism in the U.S., England, and France; these must be learned and applied if we are to realize the hope of stimulating privatization and creating healthy, vigorous, productive, net growth of national product associated historically with high privatization. Dr. Lowi identified eight categories of governmental functions that private entrepreneurs would expect to exist before they would undertake to develop and/or operate in the sophisticated private market which could extend over lengthy time periods and over broad areas where people don't know each other and frequently do not know the goods. Adam Smith would say that if you have capital and want to exchange it for something of higher value to you, you are not likely to do so unless you can make certain

essential assumptions about the environment in which your activity will take place. The eight functions are:

- The maintenance of law and order. An essential requirement is for a minimum amount of violence in a society. Max Weber characterizes this condition as "calculability" - the ability of individuals to predict the behavior of others within reason: "If I do this, they're likely to do that." Also, law has to be calculable, and the activities of governments have to be reasonably consistent and predictable. Even in an authoritarian system without the Western concept of liberal rule of law, the king or the dictator has to be consistent and predictable or the tendency to private ventures will be suppressed. For example, a major deterrent to private venture in Mexico has been the lack of calculability in terms of the government abiding by the terms of their own contracts. The effects of this type of unpredictability are felt and talked about at the basic working level.
- Provisions for Property. Property is not a purely private matter; property can be understood only in terms of all the laws that forbid trespass and other authoritative actions that permit a person to consume or enjoy the private property or personal possession. It is the sum total of all the public services, rules, and laws which increase the probability that what a person owns at the present time, he will continue to own in the future. If an entrepreneur cannot assume certain laws of trespass, then he will probably not engage in activities that constitute a market, defined as a place where people exchange goods for services. Privatization involves the sum total of all activities and transactions which are conducted in the private market.
- Provision for contract enforcement. In moving from the primitive form of a market to today's more sophisticated kind, there is a heavy state or public involvement in creating a structure which deals with breach of contracts so that the breaching of contracts becomes more expensive than their observance. The modern market is a complex concept which involves various kinds of behaviors where people never see each other, never inspect the goods or services before they buy them, much less haggle over prices; they often contract to buy based only on specifications and catalogues. Before a person behaves like an entrepreneur, he or she must know that the structure exists to deal with any breach of contract terms.
- Provisions for exchange. Standardization is an essential part of the conceptual framework for the exchange of property, goods, and services, through contracts. Without standardization it would be impossible to specify in contracts the obligations concerning goods and services. A vocabulary must be developed which can be used to specify precisely what is desired against certain standards. To the extent that contracts become more self executing, there will be less of a need for litigation to assure that the terms of contracts are observed. Standardization is a tremendously advanced art in the West. Besides the government's part in the standardization operation involving basic weights and measures, trade unions and other sector groups also provide standards for their own areas of specialization.

The actual standards are developed and agreed upon through a consensus of members of the industry and then are authorized by the government. These provisions for exchange are vital to a private market.

- Provision for the conveyance of the public domain to private ownership. This transfer can also be termed privatization. In the early history of the pre-United States colonies, or France, or Italy, most of the wealth and wealth-producing materials were controlled by the king or ruler; these countries all have gone through a privatization process - conveying property to private ownership. No other country has gone as far as the United States in making things private, yet always the public has retained certain rights of access to that which has been made private. When a publicly owned tract of land is conveyed to a private corporation, certain mineral, air, and development rights are retained by the public. There has been a variety of ways in which public land or public domain was conveyed, restricted, etc., and these differences depend largely on the kind of private market that exists or is desired. In the U.S., we often have difficulty with zoning laws, etc., that work poorly. In many developing countries, there still exists the opportunity to structure these laws of conveyance so that the public can retain some control and access. These provisions are important considerations for effective privatization.
- Provision of social overhead capital/public goods. In addition to the huge public works projects like highways and dams, there are other significant public elements in private capital systems. The provision for media of exchange, the media of communication, the media of transportation of goods are all provided for by governments. Without these public goods provided by the government, it is extremely difficult or impossible for private entrepreneurs to function or for individuals to provide them on their own without restricting others from free access.
- Provisions for meeting the requirements of work. Historically, governments have contributed to private capitalism, private markets, and development by serving the occupational needs of the time through laws of apprenticeship, universal compulsory public education, etc. Functional equivalents of education extend back into pre-Elizabethan times; even welfare and charity were controlled by certain statutes in early times. Welfare, education and charity have often been tied very directly to work or to a status of being deserving. By systematizing these functions, a lot of the stigma has been removed, but modern governments are at peril in disregarding the relationship between work and welfare.
- Provisions for the allocation of responsibility for injury or dependency. From tribal or neighborhood economies to regional and national ones, every society requires legalized provisions for allocation of responsibility for injury or dependency - today's interactions between strangers, and mechanization. Tort law covers these relationships and this law developed in the 1830's and 1840's with railroads, industrialization, and urbanization. There have been several phases of policy development in these relationships culminating in the social-

ization of responsibility in Workmen's Compensation and Social Security. Many legal historians agree that there might not be such an elaborate industrial private capital economy in the West had the problem of allocating responsibility for injury not been solved for each generation.

There are implications for what AID and other organizations should be doing to be drawn from the history of privatization in the West. But there is no one lesson to be learned about advice to give, or the basis for agreement or disagreement on a particular action. Perhaps those who are most knowledgeable about developing countries can identify certain lessons which can be applied to a particular situation.

In China, the government has started privatizing certain activities and it is interesting to note that they are improvisationally reproducing legal structures for public provisions. The sequence for this development is not predictable, but nevertheless it is happening. Just recently, certain economic crimes such as embezzlement, bribery, and misrepresentation of credit were made into capital punishments. In this country, punishment would be limited to 4 or 5 years for similar crimes. However, the provision for an orderly society is a prerequisite for a private economy to develop without rampant inflation which would wipe out any increase in productivity that accompanies privatization. The developments in China are interesting because they constitute case studies of how public provisions are established in a developing country.

#### Natural Resource Management and the Environment for Privatization

Dr. Jamie Thompson led off his comments by noting that, particularly in a threatened environment, where there is a move to privatize, there are some important reasons for much greater private control of natural resources. For example, in terms of renewable natural resources a case can be made for shifting to private control of water, soils, pastures, and trees in the Sahel. The policies inherited from the French colonial regime involved considerable state control of the environment. Were it not for the present environmental crisis these policies would continue.

in the area of forestry, the colonial forestry code asserts government control over most of the valuable species of trees wherever they grow - in your fields, or in unclaimed bushland. To consume these trees or their products, people must obtain authorization from the forestry service which involves high transaction costs. This situation became an issue when the drought caused a considerable shortfall of wood products and people realized that the environment had to be managed more aggressively. It was not sufficient to simply not abuse the resources; an investment stage was needed to reproduce these resources in order to assure a continued supply. Three or four different experiments ensued. First, the state preempted land as industrial plantations and planted a fast-growing species of tree on this land. This experiment failed because they lacked the institutional capacity to carry through their extensive plans and to manage common resources at the village level. Next a micro-level effort was tried to run village wood lots with several variances; this, too failed mainly because of a lack of institutional capability.

Presently, family woodlots are being encouraged where individuals and families raise the trees primarily to meet their own consumption needs with some for market consumption as well. This approach has some promise but also some problems. To some extent, there is a partial redefinition of the original problem. As the population has grown, people have occupied more and more of the marginal lands. This clearing of lands, coupled with recent droughts, has resulted in insufficient ground cover and critical erosion. The focus now is on how to recover these lands or at least manage them in a way that will provide for soil conservation and maintain micro-climates needed for soil moisture retention and agricultural production potential. Trees are needed in large numbers but must be organized carefully. However, the forestry code continues to be an obstacle because many of the trees most desirable for planting would be subject to the control of the foresters. Suggestions range from modifying to scrapping the forestry code.

This particular case illustrates the point that many functions managed at the national level cannot be appropriately directed to solve local conditions. It is difficult to create an environment in which it will be worthwhile for farm families to become wood production entrepreneurs. The French colonial regime exercised very tight control over local governments, and the reaction has been to strip these powers away beginning in the post-colonial era after 1960. Now local governments in the Sahel often have no power to tax or make rules, and their power to enforce rules is within very strict parameters set by national legislation. Control of land use is very weak and while people recognize the severity of the environmental crisis, the local governments are hamstrung to take action.

The problem that faces many politicians is whether they want local people to make decisions and have the power to enforce those decisions against one another realizing that that power implies the potential for other activities which may or may not be politically relevant. There is a sense that the environmental problem is so pressing that they must yield some of the power and proceed in the direction of solving this crisis at the local level. Assuming that the droughts continue in the next five years considerable privatization over environmental resources may ensue.

#### OAS Conference on Privatization

Dr. Pinto stated that the purpose of the conference in Brasilia was to discuss approaches and strategies, and to confirm the record thus far of actual efforts in the area of divestiture of state holdings in the countries of the conference participants. These countries were Brazil, Argentina, Chile, Peru, Columbia, and Venezuela. The focus of the conference initially was to be on actual progress in selling off public corporations. It quickly became clear that divestiture had to be discussed in the context of other measures which constituted pre-conditions for divestiture. In some instances the pre-conditions were accorded a higher priority than divestiture of public corporations. These issues were:

- how to stop or limit the creation of new government corporations;
- how to control the existing holdings, especially in light of their substantial role in the generation of international debt, (which suggested greater concern with controlling government corporations than with determining who owned them);

- how to differentiate between those corporations amenable to privatization from those that should be left alone or even protected, using basic market-like operational criteria;
- how to debureaucratize public corporations so that they are not mirror extensions of the line ministries to which they are accountable;
- how to force state corporations to get rid of their subsidiaries and holdings;
- how to deregulate the private sector so that fair competition could exist between the state corporations and private companies; and,
- how to reprivatize by turning back to the private sector holdings that were acquired by the government and stop governments from acquiring new holdings through such avenues as companies defaulting on government guaranteed loans.

In discussing approaches and strategies to privatize public corporations, five major issues arose:

- The sale and transfer of public corporations to the private sector.
- Giveaways - public corporations transferred to private groups with the understanding that the new owners would accept all existing liabilities.
- Mergers among public corporations or with private corporations.
- Extinction of the corporations.
- Avoidance of denationalization; what ground-rules could prevent holdings from being bought off by foreign interests. (The director of financial affairs of the Italian state holding company proposed a model represented to reconcile the advantages of the market system with protection of the public interest).

Principal areas of agreement among the conference participants were:

- Ownership per se is not necessarily the important issue because ownership does not determine how corporations are run. Privatization does not replace controls over the public corporate sector. A logical sequence of control can evolve with privatization, but privatization does not assure a direct replacement of control. Privatization is resorted to when all means of exercising control to bring about the desired patterns of corporate behavior have been exhausted. The shift of ownership does not simply cause this change to occur.
- The proportion of public assets which could be divested was very small.
- Privatization should be selectively focused based on national security criteria, sectoral criteria, and a determination of how it affects the public interest.

Very little of the discussion was concerned with the fiscal advantages of divesting governments of deficit producing corporations. The representative from Brazil highlighted the Brazilian experience with privatization. Their privatization program is under the Ministry of Planning. In the first year of existence, they have identified a universe of 510 corporations of which 140 were deemed subject to privatization and of those 11 corporations were actually sold off to the private sector.

#### Major Comments During the Discussion

- With regard to the Italian reconciliation of public interest and market system, it is noted that the Italians are somewhat famous for buying and bailing out industries by making them into mixed public/private corporations. However, some very experienced Italian economists look with considerable skepticism on this "Italian solution" as being an effective one.
- In Chile, reprivatization involved the sale of a number of public enterprises which created a lot of links between the banking system and the industrial sector. When the issue was raised that these links could be unhealthy, the answer was that "the market should take care of that." But, in practice, the bankers and the entrepreneurs were not accustomed to working in such a competitive market and did not have the attitudes and experience which contributed to the market function; also, the regulatory environment was not operating fully, and, finally, the market did not take care of the problem.
- In - economic collectives - bureaucracies - both private and public - a form of conservatism called risk aversion tends to develop. This is not peculiar to government but is essentially a product of bureaucracy. One criticism of U.S. corporations that have gone into Latin America to buy or establish companies, is that very often they make local companies into subsidiaries without the risk taking and profit incentives which are needed for success. The large multinational corporations contribute to risk aversion unintentionally by internalizing decisions through a controlled management operation.
- The empirical basis for assessing the preconditions for privatization has come primarily from Anglo-Saxon experience. There has been no really systematic study in this or in other cultural traditions. Some additional understanding has come from the French and Italian history and presently China is providing interesting cases. The growing experiences in the larger Latin American countries and the South Asian countries can yield many more lessons. Some more schematic accumulation of these experiences is needed.
- In China it is fascinating to observe what the government is doing without being a capitalist government. They are still using the anticapitalist vocabulary. However, innumerable instances in the Chinese system demonstrate that they are improvising and inventing structural conditions which insure calculability, consistency, and credibility in their behavior. But the Chinese government with its Mandarin history is a lot more honorable and less incalculable than many other governments, so they are less likely to be overcome from

that standpoint.

The relationship of China and Hong Kong poses some interesting questions with regard to the two systems coexisting. China could take over Hong Kong and leave it with all the guarantees and freedom of operation it has had. A communist China needs a capitalist Hong Kong to be a source of foreign capital. Internal capitalism may be a difficult case to handle, but Hong Kong provides a perfectly good way to engage in capitalism without conflicting with the internal logic of the revolution. However, the more realistic approach is that the economic changes in China probably resulted from cultural and policy decisions taken entirely independent of the value or burden of Hong Kong. China can be viewed as returning to a system consistent with their history over several centuries and Maoism can be considered the aberration.

- Will there be more-or less-chaos in a situation in which a government that is providing services in an essentially public rather than private economy, moves toward a privatization without the "8 Lowi prerequisites" in place?

Chaos is not the right word. Chaos can come from a highly regulated, a government owned, or from a private market; no one sector has a monopoly on chaos. The chaos is not the important aspect; productivity is the key - not whether government is stronger or weaker. Such a key to productivity is whether people are venturesome and will go out and try to create added value - something more than was there before - whether they are public bureaucrats or private entrepreneurs. Then the challenge is to find the proper channels or arrangements that will best assure that the added value in fact takes place.

- Lowi's first prerequisite "conquest - the maintenance of law and order" was pointed to by one participant as the general environment of most Western nations and this was held to have encouraged private sector development. The generous physical environment of North America also was noted as an asset. A question was then posed with regard to many parts of the world where basic value systems are different, relationships between public and private sectors differ, etc.; whether it is feasible for a private sector to develop in such environments?

It was pointed out that during the period of early settlement of North America the physical environment was an extremely threatening one which, coupled with its great isolation, resulted in a great and long term threat to survival. However, there is a very interesting and perhaps valid question as to whether private markets - and even the concept of public/private relationships as we know them in the West - are phenomena peculiar to Western civilization.

Clearly, the cultural and religious aspects are related. More analysis is needed of the countries which are Protestant, Catholic, Muslim and perhaps Hebrew. The Catholic countries have had a much poorer history in terms of private, capital development than Protestant or non-Catholic countries have had. The intermixture of Islam may

complicate things immensely given their cultural heritage. One major consideration is always the basic law and order issue and the property and calculability aspects.

#### PRINCIPAL POINTS RAISED DURING THIS SEMINAR

The main thoughts to emerge from the eleventh session were:

- Governments may relinquish ownership and/or operating control of enterprises but certain governmental activities must be carried on as essential to the development and functioning of a private market.
- Establishment and survival of a private market requires government provision for:
  - maintenance of law and order,
  - possession of property,
  - contract enforcement,
  - exchange (standardization),
  - the conveyance of public domain to private ownership,
  - social overhead capital/public goods (transportation, communication, etc.),
  - meeting the requirements of work (apprenticeship, welfare, etc.),
  - allocation of responsibility for injury or dependency.
- Moves to privatize, particularly in a country with a threatened environment, should include increased private control of natural resources.
- Many functions administered at the national level cannot be effectively directed to solve local conditions.
- Ownership per se is not necessarily the chief issue in determining controls over how corporations are run.
- A careful review by Latin American countries found only a very small proportion of public assets which could be divested.
- Many bankers and entrepreneurs accustomed to dealing in a public enterprise system are ill-equipped to function in a competitive market.
- A systematic study of privatization experience is needed, particularly in other than Anglo-Saxon countries; China is currently providing some very interesting and useful insights.

- Productivity is the most useful measure of the effectiveness of an enterprise - public or private.
- Cultural and religious aspects, as well as physical environment, all relate importantly to the development of a private economy.

## Session 12

January 8, 1986

### A SUMMING UP AND FINAL THOUGHTS

The twelfth and final seminar of the series was lengthier than its predecessors, continuing throughout the afternoon. For background, prior to the session summaries of the first eleven seminars were sent to each of the specially invited guests, many of whom had made presentations during the course of the series. The afternoon was divided into two periods. The first part of the session, chaired by Dwight Ink, AID Associate Administrator for Latin America and the Caribbean and Past President of ACIPA, focused on the more general subject matter of institutional development and where it should be headed. The second half of the session, chaired by Wendell Schaeffer, a long-time teacher, practitioner and authority in the field, gave particular attention to what the "privatization" movement may hold for institutional development and also addressed the subject of donor coordination.

#### Part 1 - Whither Institutional Development?

In his opening remarks, Chairman Ink noted that, while the subject of "good public management" normally excites little interest among most government leaders, the current severe debt problems have made the reduction of public expenditures a major interest of these leaders paralleling their interest in their own political survival and the survival of their governments. The essential reducing of public expenditures has led to renewed focus on methods to improve the management of government. He observed that donor institutions, and their representatives, have more often aimed at building new, larger, and more complex, institutions but are now increasingly locking to the downsizing - or limiting the size and complexity - of institutions to more affordable systems. He raised the question of how realistic the expectations are for institutional development in developing countries and he addressed the issue of the different kinds of accountability - ranging from accountability within the host country to the accountability of donors, including the special aspects of AID accountability to the U.S. Congress. He then called for the views, comments and "best advice" of the participants. Principal points of the ensuing discussion were:

- The perspective of time is essential; transitions of economies and societies take time. Fundamental rearrangement of structures in a number of Latin American countries has taken place over the last 30-40 years; population explosions and transitions from rural to urban populations have created entirely different circumstances today from those problems for which assistance was initially sought in the early post-WWII years. Donors tend to think in terms of relatively short term - 5 to 10 year - problems, solutions, actions and assessments of results. Often the real solution - truly effective change - is a long and difficult process involving changes in the values on which existing systems are based. Both hosts and donors must learn to think in terms of longer term change. With such a perspective progress over the past few decades is much more encouraging. In this connection, it was pointed out that many of the institutions with which donors are today working in LDCs - universities, banking systems, ministry structures, etc. - were largely created as an outgrowth of donor efforts at primary institutional development in an earlier assistance phase.

"...we unfortunately have lost track of some of the very major successes we've had and their impact on development in the countries."

- Too comprehensive efforts - undertaking too broad scale attempts - may prove less effective than narrower, more focused, efforts, particularly for relatively short-time periods. The longer term time perspective is much more essential in undertakings of a more comprehensive nature.

- The stage of development of a country is of key importance in determining the most appropriate kind of institutional development to initiate and/or support. There is increasing differentiation among the countries of the world and it is essential that donors recognize these differences and establish interrelationships with each country appropriate to the stage of that country's development. A critical complication today is that donors are being caught up in many short-term crises that demand priority attention and traditional institutional development is often given short shrift to the detriment of countries' long-term interests.

- Management is key and should be elevated in the list of priorities. The recent emphasis on policy reform too frequently overlooks the fact that the institutional process - and effective management - are essential to achieve practical policy change.

- People are key to any effective institution-building. In constructing or strengthening any institution, it is of fundamental importance to identify the actors principally involved: the managers and their three key interest groups - the political authorities who decide the fate of the institution, the customers or clients of the institution, and the bureaucracy or members of the internal organization of the institution itself.

- Legal institutions underlie the entire fabric of institution-building in any country, but are very often accorded little or no attention by those intent on institutional development. For example, the property system of a country is a vital factor in any rural or agricultural development undertaking, yet little attention is normally accorded the workings of that system.

- Public management and administration programs received lessened emphasis by AID after 1967. The systemic perspective of how institutions must work together to get a job done and the whole set of resource mobilization and allocation, budgetary and accountability questions, now re-emerging as critical to both local and national development, have been virtually repudiated or ignored since that time.

From some recent studies and assessments, it appears that much more emphasis should now be given to helping governments in some of the traditional fields of public administration - in planning, organizing, allocating resources, coordinating program activities, and financial management. Donors are, in fact, again beginning to emphasize these areas and are seeking a variety of suitable instruments for institutional development for the longer time frame to parallel the essential efforts in project assistance. There is an increasing recognition that many of the assistance programs will not be carried forward to their planned full developmental stages without major alteration to the current process. One suggested avenue for institutional development is to devise in the

public administration field an instrument akin to the Consultative Group for International Agricultural Research which operates in the agriculture field - a consortium of management institutes to perform research and to provide training aimed at the management problems of specific developing regions or countries.

- Finding the effective field worker is the key to most successful assistance efforts. While capacity-building, problem-solving, processes must be built into every country capability, technical assistance is not what is most needed in public administration in most countries. Both project implementation and institutional development are needed, but, most of all, there is needed an ability to identify effective field workers who can mobilize people and "get things going" in a situation of stalemate, which so often happens in developing country situations.

- Three problem areas vital to implementation occur again and again: accounting, personnel and credit. It is essential that a country:

- keep track of where its money comes from, and where it goes,
- have a system that matches people to jobs and creates incentives for careers and performance,
- have the credit which is necessary to any realistic kind of national or institutional development.

- Politics is elementary. It is important to recognize that a manager in a developing country is a powerbase; working with such is working in politics and with a manager of the distribution of power and resources in their country. As one practicing consultant put it: "We preferred to be technical assistants in public administration, but were in there manipulating power and resources."

- Lack of continuity - the high level of turnover in the people who provide advice and assistance is a major obstacle to effective management. Donors must provide for a reasonable degree of continuity of assistance personnel or be prepared for very serious problems. (A number of specific examples were provided.) Continuity must be provided for in both host country personnel and in donor personnel - both in the field and at headquarters - or a very high price is paid in loss of experience and a consequent relearning process.

Dealing effectively with this requires dealing with political turnover, promotion, pay and incentives, and desires to move on to different locales - all of them practical and critical problems. Solutions must be found if the problems of effective assistance are to be resolved because program and project success depend on knowledgeable and experienced people.

- Successes are too quickly forgotten or overlooked in the enthusiasm of pursuing some new approach. There is a very real need to carefully review what has been done and realistically assess the benefits, the failures and the in-betweens. Without such a thoughtful and practical assessment, we fail to really utilize the experience we've gained.

- Political feasibility is a measure which is too often overlooked by donors but which is an essential evaluation which host country leaders must apply before supporting donor proposals.

- Documentation is generally lacking for either successes or failures - particularly the successes. There are far better - and more readily accepted - stories of failure than success and there is much more ready acceptance of failure reports than of reported successes. Even with the most earnest effort and extensive file information, it is difficult to establish not only that "a" and "b" happened but that "b" occurred as a result of "a". The relationships are hard to prove.

- Objectives of the key figures in any project vary widely. The goals of donors, contractors, host country politicians and local interests often differ widely and these variations in goals sharply impact on the development efforts. In addition to these differences in objectives, there are very wide variations in the perception of the efforts - perceptions by the Congress, the donor agency, the host country, the several constituencies involved, etc. There is a question as to whether there has been adequate communication and effective portrayal of goals and objectives to achieve the essential favorable perceptions.

## Part 2 - Privatization: An Old Wine in New Bottles?

Wendell Schaeffer introduced the second section of the day's agenda by noting that one of the speakers at an earlier session had defined privatization as "changing the mix between the private and public sectors with the aim of shrinking the latter and increasing the scope of the private sector." He noted that there has been much recent discussion of privatization as largely a reaction to the post-WWII decolonization and efforts of newly established countries to build their economies and social structures principally through governmental effort. Many of these governments became overextended and the fiscal burdens too great for the treasury to bear. Privatization was offered as an answer. Dr. Schaeffer recalled that, in earlier history, many regions of the world were developed by the private sector: the British East India Company, not the British Crown, developed India; Dutch trading companies developed Java, Sumatra and South Africa; the Catholic Church, as well as numerous Spanish enterprise associations, carried on much of the developmental effort in Latin America. This approach of private enterprise managing the collection of revenues, it was believed, produced larger income for the crown than was possible by the government itself collecting the money. Corruption and changing views led to increasing governmental operations and extended debate as to the values and disadvantages of private versus public management of economic activities. So the issue is not new, and not confined to the United States; it is an issue emerging in an increasing number of countries throughout the world. He challenged the participants with the questions: Why is privatization sought? What are its purposes - ideological or pragmatic? What are the appropriate roles for the private and the public sectors? Do these roles vary at different stages of development? What kind of environment is essential to successful privatization? How does the entrepreneurial spirit begin?

Following are the principal responses:

- Emphasize the functions to be performed rather than the instruments: analyze what is needed to be done and which instrument - a public or a private entity - can best perform the function. Relatedly, there may be alternatives to the traditional view of continuity of personnel; such alternatives should be

sought to provide the "memory bank" that makes continuity important. Also, there is inadequate understanding on the part of many in the public sector as to the real dynamics that drive the private sector.

- Many governments are increasingly recognizing the burdens imposed by public enterprises on the nation's financial system according to World Bank experience. Generally, this recognition of intolerable burden, rather than ideological bandwagons, is the motive behind the interest in privatization.

- What privatization means to most of these governments is to sell to a suitable non-foreign buyer at a suitable price - book value or the buyer to assume all debt. Usually, such sale is not realistic: neither the suitable buyer nor suitable price prove practicable. In some countries, the political suitability of the buyer is not a factor but offers and actual sales are still very uncommon. Management contracts or leasing are having some successes, particularly in the hotel sector, and in some heavy industry operations. (One advantage in the hotel sector is the standard management contract operation "red book" which blueprints a model that is easily followed and has extensive precedent.) Some participants believe that management contracting holds great promise for expanded use. These have been, to date, mostly stop-gap measures; the practical choices appear to be-not between public sector operation and private sector operation-but between public sector operation and liquidation. Governments are loathe to face these hard facts. However, the increasing number of governments recognizing that the public enterprise past cannot continue, indicates that "many bullets must be bit, and a lot of losses written down."

- A very cautious approach to privatization is being taken by the World Bank trying to provide governments not simply with the impetus to privatize but also with the means, such as investment banker assistance, to see that many negotiated deals that are good enough will be consummated to mutual advantage. Even with very extensive privatization, there would remain a very significant public enterprise sector which is in desperate need of rehabilitation.

- Determining the appropriate roles of the two sectors is of key importance. Such determination should be based on the developmental goals of the country as established by the country's political leaders rather than from the outside - World Bank, U.S. A.I.D., etc.

- The definition of privatization was proposed to be broadened to include several factors:

- conversion from public to private;
- stimulation/assistance to the private vs. the public sector (a conscious policy of shifting by donors of a portion of resources from development of the public sector to development of the private sector);
- whether development issues are donor-to-government or donor-directly- to-private sector;

- whether, in designing development projects, public vs. private incentives are built into the design - in terms of completion, implementation, and continued operation of the project.
- The OAS has not so much provided technical assistance for privatization as it has sought to direct the debate to the development of the private sector (as distinguished from "privatization" which to Latin American audiences often reads "multi-national" or U.S. takeover) and the priorities of assistance to the private or public sectors. With this shift to the development of an indigenous private sector there has been a growing interest on the part of Latin American nations. There is a dramatic growth particularly in the "informal sector", or microenterprises, which is simply private enterprise - in everything from manufacture to services - that exists outside the law. Progress might be greater if the term "privatization" were dropped and "support of indigenous private sectors" were substituted.
- The recognition by governments of the cost burdens of public enterprises is the fundamental issue. Such recognition opens up alternative opportunities ranging from divestiture, and management contract, to the more effective and competitive operation of the government enterprise.
- The Pan American Development Corporation has completed a series of studies in Central America that will add measurably to the broader body of knowledge in the field.
- The acceptance or rejection of multinationals in some part depends on the level of development of the country concerned as well as on the likely alternatives, particularly in some countries where problems of ethnic control are priority issues.
- One reason why many public enterprises lose money is the priority of political objectives which emphasize other than the goal of financial profit. Enterprises, whether public or private, require a favorable policy environment if they are to operate at a profit.
- There is growing experience to help identify those enterprises which are particularly unsuited to the public sector, those particularly unsuited to the private sector, and other types in which it makes no real difference. There are few, if any, clear cut solutions in practice. Analysis, and art, is required to identify the alternatives - the "second-bests" - and to probe in some depth the full costs of alternatives: in terms of flight of money, unemployment, public, debt, etc., as well as the political dimensions.
- Leveraged buy outs. The IFC element of the World Bank has had relatively little experience with the private sector but, in a few instances, has provided financial assistance to the management or workforce of a public enterprise to support a leveraged buy out, purchasing an institution from the public or state under the assumption that endowing the workers and managers with ownership would increase productivity. These are part of new initiatives to galvanize the IFC into more fruitful avenues.
- In concluding the discussion of privatization, the view was expressed that much of the discussion has been leading to a disaggregation of the subject,

that there is not really "a private sector" but, rather, that there are numerous dimensions to the private sector with very different groups of people operating under widely varying policy rules. Some typology of context - institutional objectives and performance - is necessary to progress in analysis.

It was also stressed that cases will arise where donors will be pushed into projects with multiple, and sometimes contradictory, objectives because principal opposition will have to be "bought off". The path to successful institutional development - and particularly to privatization - is not a direct path and disaggregation is a first step toward practical understanding and mapping of the road to success.

### Part 3 - Donor Coordination: How Much?

Chairman Schaeffer, in opening this section of the discussion, noted that one authority in the field has asserted that coordination among donors and between donors and recipients is likely to prove the Achilles heel of assistance in the 1980s. He raised the questions of how much donor coordination there is, how much is practicable, and what steps should be taken now. He believes that donor coordination activities at headquarters levels will have little or no impact and that effective donor coordination will occur only in carefully planned field operations with specific programs, projects or targets. Discussion brought out the following:

- Cooperation between donors is extremely difficult, partly because of the differences in goals. There also is often a sense of competition between donors. OAS and AID have developed good working relationships. AID provides financing and OAS provides certain technical commitment components and programs reflect an understanding of what both are going to do together; accommodation has been based on specifics and related to particular activities in a country in which the two organizations have parallel interests with the host government. However, a long term effort to work out a master plan of understanding has been quite unproductive. Coordination is more likely in terms of a specific country and specific projects.

- Donors will coordinate efforts only when the host country can do the coordinating. GAO has urged AID to devote some of its resources to helping host countries build the capability to coordinate more for the donor.

- Countries with a weak institutional base, exposed to multiple donors' institutional development efforts - sometimes contradictory - and presenting conflicting guidance, face a potential nightmare. This must be avoided. Not only is there need for inter-agency coordination but also there is often a requirement for more effective intra-agency coordination as different elements of a donor organization may be undertaking separate and different assistance efforts - possibly even conflicting - leading to a very serious potential problem of fragmentation.

- Coordination has many aspects:

- coordination can be a bureaucratic impediment to getting things done,

- host countries frequently obstruct donor coordination as being opposed to host country interests of playing off one donor against another,
  - donor coordination implies common donor objectives - probably built around development - but often donor objectives are political, not developmental. For example, U.S. aid is primarily to support U.S. foreign policy.
- The U.S. government is relatively uncoordinated on foreign aid with assistance scattered throughout the agencies and parts thereof.
  - One hopeful approach to coordination is in the preinvestment phase with a multidonors study of a project or program, approved by the government, and the various donors selecting phases for support.
  - Improved and increased communication among the donor agencies, especially on institutional development, could be extremely useful. Of particular value would be the establishment of a systematic forum for exchanging information; a place where donor representatives can periodically sit down together, talk with each other about some of the things they are doing, and perhaps look jointly at some common problems. This would offer a better "feel of what's going on" than a multiplicity of reports. It would be useful to have sessions focus on exchanging information on specific cases, on current issues, projects, priorities, areas of interest. Country missions must become involved in the exchange process if it is to be effective.

#### PRINCIPAL POINTS RAISED DURING THIS SEMINAR

The key ideas featured during the final session were:

(Institution-building: general)

- Improving public management is receiving new interest in the current period of severe national indebtedness.
- Truly effective change in developing countries generally requires a longer time perspective than donors normally consider; this is particularly true of more comprehensive undertakings.
- The stage of development of a country is of basic importance in determining the appropriate kind of development assistance.
- People are the keys to institution-building and they must be carefully identified and understood; effective field workers are particularly important.
- The legal institutions of a country are fundamental to effective institution-building and are generally accorded too little attention.
- Much more emphasis needs to be given public management/admini-  
stration programs.

- Politics is a vital part of any institution-building effort and must be recognized and utilized; a political feasibility assessment must be a part of any institutional development effort.
- Better documentation is needed of both successes and failures of institutional development efforts.
- Objectives of the key figures in any institutional development project vary widely; they must be understood if development is to succeed.

(Privatization)

- Privatization has a lengthy history and is not just a new phenomenon.
- Emphasis should be on the functions to be performed and how best to achieve them effectively rather than on the instrument to use-public or private.
- Many governments have an oversimplified approach to privatization, failing to recognize many of the practicalities.
- Political objectives of public enterprises often overshadow the financial objectives.
- Disaggregation is needed - a recognition of the numerous dimensions of "the private sector".

(Donor Coordination)

- Cooperation among donors is difficult particularly because of the different goals of the various donors.
- Effective coordination is most likely to depend on the host country capacity to coordinate donor activities.
- There is often a lack of coordination within donor organizations as well as between donors.
- Improved communication between donors is an essential first step toward more effective coordination.

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