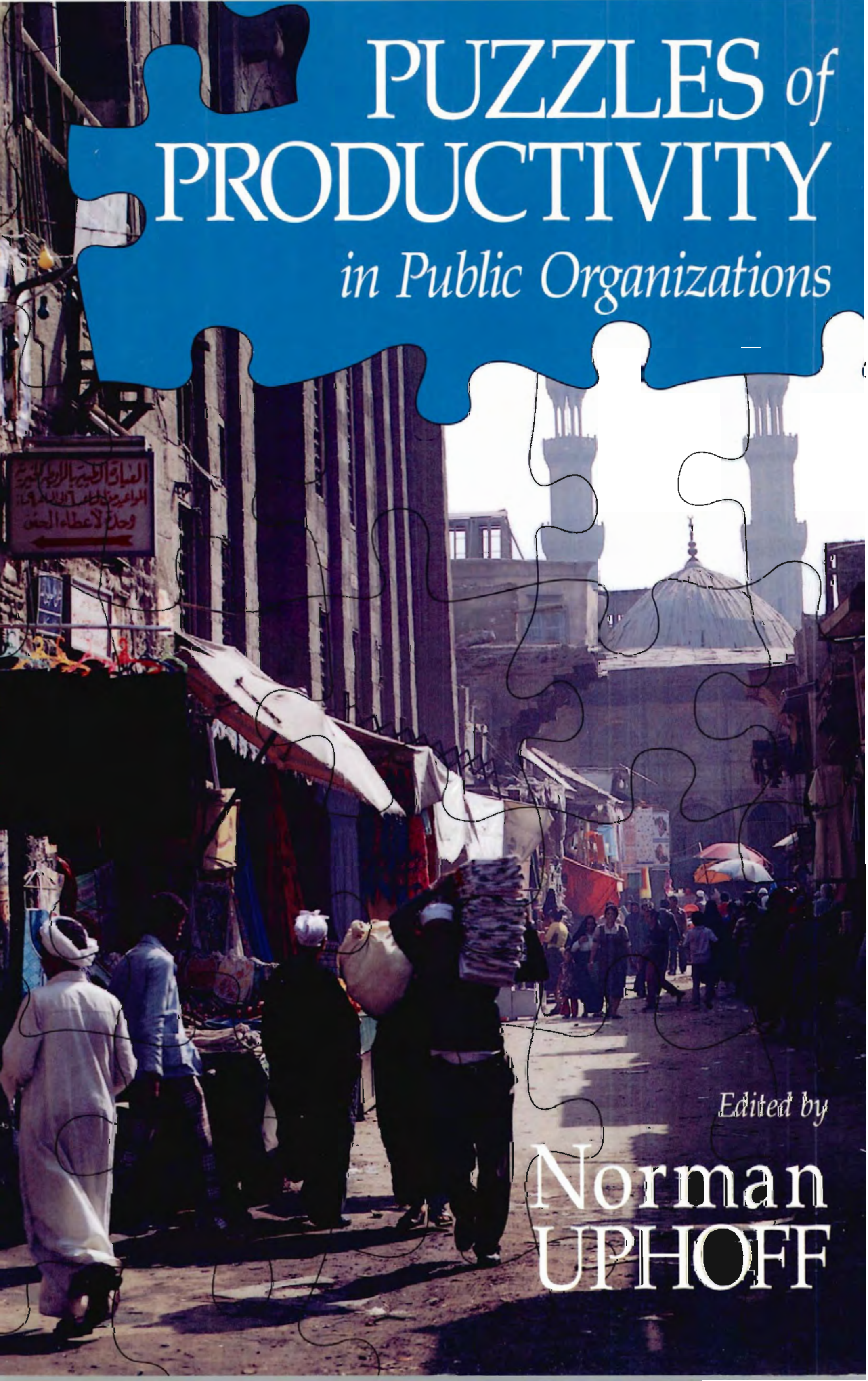
PUZZLES of PRODUCTIVITY

in Public Organizations



Edited by

Norman UPHOFF

Puzzles of Productivity in Public Organizations

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ICSG
720 Market Street
San Francisco, CA 94102 USA
(415) 981-5353

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Dedicated to our esteemed
colleague and teacher,
Milton J. Esman

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Foreword

Like almost everything else in the world today, both the theory and the practice of public administration are in a state of change. Our old theories provide little guidance. The old assumptions of public administration—of command and control, and top-down prescription of universal solutions—have proved to be inadequate in the face of pervasive change. That is, the mechanistic model of productivity—reliably converting inputs to outputs—no longer holds up in the complex world of public affairs.

The challenge all students of public administration face is an intellectual crisis now made clear by the increasing puzzles in productivity. So our task is to begin crafting new theoretical tools that can be used to design new institutions that have a greater chance of success, and that will advance society on more human and organic terms. In every crisis there is also opportunity, which offers all students of public administration an exciting challenge.

In *Puzzles of Productivity in Public Organizations*, Norman Uphoff presents incisive examples of the most current thought on how to address the gap between the potential and actual performance of public organizations in developing countries. The essays examine the problems of administrative productivity from a variety of viewpoints, including those of organization theory, strategic management, public choice theory, and institution building.

Especially in the developing countries, a shift in perspective is imperative. Responding to a changing world will require a new orientation for the public sector. Instead of merely providing and producing services, public organizations must become enablers, or catalysts, in meeting demand for goods and services. Education, health, safety, agricultural development, and other benefits once thought to be the domain of the public sector will be created jointly by citizens, communities, and a rich array of organizations—configurations that will defy the neat distinctions of public and private.

Public administration also faces a set of moral questions as we hopefully enter an era of democracy and self-government. The key role that citizens play in the production of all services is evident. It is a time in which citizens must be treated as ends in win-win strategies, rather than as means in large-scale programs. As public administration begins to see its role in nurturing and developing the capacities of citizens and communities to become self-governing and entrepreneurial, exciting moral, intellectual, and organizational tasks await.

The International Center for Self-Governance believes that the wide range of perspectives as well as the blend of theory and field experience in *Puzzles of Productivity in Public Organizations* will make this book an unusually valuable resource for those who seek to broaden their understanding of administrative productivity, particularly in developing countries.

Robert B. Hawkins, Jr.
President
Institute for Contemporary Studies

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Reassessing Development Administration: Puzzles of Productivity

Norman Uphoff

This volume explores sources of, explanations for, and solutions to the ubiquitous gap between public bureaucracies' *potential* levels of performance and the *actual* levels observed. What accounts for this differential? And what can be done about it? These are some of the most important puzzles for students of public administration as we reach the end of a century that has seen the growing power of public organizations around the world, and a growing disillusionment of the public with their performance.

At present, despite decades of research and analysis, the questions we can frame are more satisfactory than our answers. Had this book been written ten years ago, it might have suggested that public organizations were a diminishing if not vanishing species, and that the main issue is how to contract the public sector and expand the private one. But enthusiasms for pure privatization appear to have peaked, and we have reason to examine how public organizations can best play their many roles in contributing to public well-being and progress, particularly in the less-developed countries.

A Retrospective View of the Twentieth Century

This century, despite some paroxysms of totalitarianism, has been most marked in political and administrative terms by the pervasive growth of the *welfare state*, at least into the 1980s, and by the ascendancy of the *security state*, at least into the 1990s. These constructions, which vastly expanded the public sector, were first evident in Europe and North America. But aspiring welfare states, providing education, health, agricultural, transportation, commercial, and other services emerged throughout Asia, Africa, and Latin America, accompanied by expanding and often dominating military establishments.

Public sector management by the middle of the twentieth century was a confident, well-endowed enterprise, professionally and intellectually, and it enjoyed several decades of preeminence. But few if any trends in this world are linear and continuous. Starting in the mid-1970s, critical voices grew in number and volume, as taxpayers' revolts spread across Europe and North America, cramping and often curtailing the operations of their respective welfare states. The fiscal capabilities of many of the more prosperous nation-states were eviscerated by a combination of conservative fiscal policies and economic deceleration in the 1980s.

In the poorer countries of the world, where development administration concerns are focused, the dominant policy thrust throughout the 1980s, promoted by international actors, was "structural adjustment." This required major retrenchments of the public sectors in Asia, Africa, and Latin America. "Privatization" became a watchword for solving many if not all of the deficiencies in countries' performance for meeting economic and social needs.[1] At the close of the 1980s, people in the Soviet bloc scuttled the political and economic systems that had helped to create and accelerate the worldwide arms race. This unexpected event made it possible to contemplate a post–Cold War world without massive security apparatuses.

Judging by events and trends of the 1980s, one might have expected the task of public administration theorists and practitioners in the 1990s to be retracting and redeploying public sector capacities in favor of private enterprise operations. Indeed, the only category of public sector organizations not seriously set back seems to be the military establishments in poorer countries, and even many of these have had to give way recently to civilian governments. A worldwide movement for democratization has been gaining momentum alongside private sector expansion under the banner of "free markets and free societies." However, we are dealing not just with two sectors, public and private, but rather with three. As discussed later in this essay, a variously named third or "middle" sector has expanded vigorously in recent years.[2]

It is almost everywhere acknowledged that active, effective public sectors are needed to promote and maintain free markets, to countervail monopolistic tendencies, to operate legal systems, to enforce contracts, to invest in basic infrastructure, and to provide needed public goods. While cutting taxes continues to be popular, a point of diminishing returns is reached when producing popular satisfaction is balanced against the need for a certain range and depth of public services. Though the World Bank through most of the 1980s was aggressively downsizing developing countries' government apparatuses in line with the goals of structural adjustment, by the end of the decade, its president, Barber Conable, observed:

> A root cause of weak economic performance in the past has been the failure of public institutions. Private sector initiative and market mechanisms are important, but they must go hand-in-hand with good governance—a public service that is efficient, a judicial system that is reliable, and an administration that is accountable to the public. (World Bank 1989: xii)

Similarly, strong, even-handed governments are recognized as essential to sustain free societies, to protect minority rights, to ensure widespread access to the essential public goods of education and information, and to mitigate extremes in socioeconomic inequality. This need has become more obvious as names like Sarajevo, Mogadishu, and Ayodhya have seared the world's consciousness and conscience. The organized expressions of "civil society"—associations, cooperatives, universities, foundations, trade unions, etc.—are needed to ensure individual and group freedom. But their capabilities as intermediaries are truncated without governmental institutions to relate to.

The economic successes of Japan, South Korea, Taiwan, and Singapore, followed by Thailand, Indonesia, and Malaysia, were interpreted for a while as demonstrating the superiority of private sector-led development. But more thorough assessments showed state sector policies and institutions to have been critical for realizing the potential of private initiatives.[3] Even the advantages claimed for delegating government functions to private contractors have proved less attractive than expected.[4]

All this means that as the twentieth century draws to a close, the pursuit of individual and collective goals will not be undertaken exclusively or even predominantly through private organizations, especially not in developing countries where the private sector is weaker than in more prosperous countries. To be sure, that prosperity is attributable in considerable part to the number and productivity of private enterprises. Economic and social progress in Asia, Africa, and Latin America will require a multi-fold expansion of nongovernmental organizations, both for-profit and not-for-profit. But there is likely to be a more level playing field among sectors than imagined just a few years ago. Hierarchy and bureaucratic forms of organization may decline (Kantor 1991), but not necessarily the public sector.

Any government claims to preeminence or dominance will not be accepted as readily as in the past. There is now a greater burden of proof for expanding or even often for maintaining their functions. But there is no need to be apologetic when seeking to improve the performance of public sector organizations, partly because it is recognized that these can and should contribute to the more productive functioning of private entities. There are complementarities and synergies to be achieved among all three sectors—public (governmental), private (for-profit), and nongovernmental (private but not-for-profit).

For this end, we need to rethink the role, functions, and capabilities of public organizations, attempting to "reinvent" development administration—to borrow a trenchant term from Osborne and Gaebler (1992), who have made important contributions to this debate in America. Less attention has been given to these questions for developing countries, but the issues involved in such a reorientation are being addressed.[5]

Many ideas and lessons can be shared between the wealthier and poorer countries. In both there is need for more effective and efficient use of resources through public sector channels, for smarter and less routine operations, for more creative and less conservative governments which can reduce multiple economic, social, and political detriments, so that private individual and collective action can be more effective (Mars 1992).

Achieving greater productivity is important not just for the sake of greater output. Without "expanding the pie," there is likely to be little improvement in the condition of those persons and families who are currently most disadvantaged. And unless we learn how to produce goods and services with fewer inputs, our detrimental impact on the environment will grow apace. A concern with productivity serves not just efficiency, but also equity and ecological goals.

Unfortunately, the concept of productivity usually connotes a mechanistic process, one of converting inputs to outputs. This perception is consistent with the machine-like imagery offered in the writings of Max Weber, who attributed the productivity of bureaucracy to its having regular operations, well-defined and interchangeable parts, that is, roles, fixed boundaries, and predictable outputs.[6]

In many ways the model for bureaucracies has been the military.[7] Basic to both organizational models was the image of the machine, which has reflected enthusiasm for the successes of both Newtonian mechanics and the industrial revolution (Hirschman 1977). If public administration is to be reinvented, with new approaches to increasing productivity, the underlying concept that has structured and animated the organizations charged with carrying out public sector programs needs to be reexamined (Morgan 1986).

The machine has contributed immensely to most of the economic and social advances of the twentieth century, though it also has been associated with some of its horrors and pathologies. Reconsidering development administration is not a task for neo-Luddites. The debate here is not over whether benefits can be derived from mechanical processes. The issue is more the intellectual one of considering how reductionist, mechanistic thinking has kept us from possible benefits that could and need to be attained.

In the case of administration, it is increasingly evident that productivity and human potential have been diminished by regarding organizations in essentially mechanical terms rather than exploring their manifestations in more human, social, and organic terms. In the spirit of contemporary times, we find that models of hierarchy are giving way to ones based more on networks (Thompson 1991).[8]

Too often new ways of thinking are proposed as alternatives to previous ones. Critics of reductionist oversimplifications should themselves avoid this in their own formulations. Any serious examination of puzzles of productivity must use the concepts of inputs and outputs. These concepts are strongly associated not only with mechanical processes and analysis, but also with organic ones. No choice should be forced between hierarchies and networks, because hierarchies usually include and subsume some networks, just as networks are seldom without any superordination. We will try to avoid simple either/or formulations, moving instead toward models that reflect the complexities, ambiguities, and perplexities of the world of public affairs.

New Thinking in Development Administration

Recognizing that this subdiscipline has become somewhat becalmed in recent years, a number of colleagues, friends, and former students of Milton J. Esman decided to draw on their experiences and perspectives in this subject area to address the questions which opened this chapter. What accounts for the gap in the productivity of public organizations between their *potential* levels of performance and the *actual* levels observed? What new perspectives and approaches, building on what has been done before, can narrow this gap? These questions apply to public administration generally, but they are most urgent and acute for developing countries. What can be said about them on the basis of stocktaking by researchers who have had much practical engagement with these problems across Asia, Africa, and Latin America?

Milton Esman has been a valuable contributor on this subject over the past thirty years. In the early 1960s he was one of the pioneers who shaped the concept and content of the field of development administration. He gave leadership to the study of institution building, heading in its initial years the interuniversity consortium that combined empirical and theoretical inquiry to develop a framework which, its limitations notwithstanding, achieved considerable acceptance and influence during the 1960s and 1970s—especially in schools and institutes of public administration in developing countries and in a number of development assistance agencies. This framework, presented concisely in Esman (1972a and 1972b), is revisited in Chapter 11. It stimulated much thought about the goals and processes of development and about the roles of agents of social change. A particular contribution was to stress that enhancing sustainable indigenous capacities for improving people's productivity and well-being was a more important task for development administration than simply and directly increasing instrumental efficiency.

Starting in the 1970s, often with this author, Milton Esman focused on the administrative and policy requirements of broad-based rural development. This focus helped to shift attention from capital accumulation, technology transfer, and trickle-down economics toward participatory approaches and more equitable distribution of benefits (e.g., Uphoff and Esman 1974; Esman 1977 and 1983; and Esman and Uphoff 1984). Esman (1991) reconceptualizes development administration by analyzing the pluralistic nature of state bureaucracies and of third world publics. The book emphasizes the importance of networking not only among agencies of government but also between them, private enterprises, and NGOs, to shape and provide a broad range of development services. Such arrangements should enhance the responsiveness of public and private organizations to diverse needs, capabilities, and preferences of publics.[9] Throughout his career, Esman also provided practical advice to many agencies and governments, some of it described in John Montgomery's essay in this volume. Esman's work has helped shape a generation of inquiry into how to help public organizations better serve the needs of their multiple publics, especially the more remote and less advantaged.

The contributors to this volume have taken up the challenge to illuminate the problem of the productivity gap and to suggest ways it could be closed. Most of the authors approach problems of public administration from the disciplinary base of political science, so it is not surprising that most find issues of leadership and accountability central to their discussion. Such conclusions are congruent with the heightened attention to issues of governance and democratization that are now of concern to agencies such as the World Bank, staffed mostly with economists.

The original plan for the volume was to have some essays that probed the administrative experience of developing countries that the authors knew well first-hand to extract empirical clues to solving the puzzles of raising productivity. Others would delve into the literature for more theoretically-constructed answers. Such a separation into inductive and deductive approaches was not tenable, however. Instead, we offer a progression from country-focused approaches to more conceptual treatments, with intermediate perspectives of how donors can make improvements in administrative productivity. All the essays deal with the subject analytically but in different ways.

In her 1987 book, *Creating Opportunities for Change: Approaches to Managing Development Programs*, Louise White mapped out six major analytical approaches in the development administration literature. For this volume, she elaborates that framework in terms that shed light on performance gaps. The six approaches actually represent three complementary focuses—on *organizations*, on their *managers*, and on their *environments*. The three essays in this volume that focus most directly on national administrations—for Bangladesh (Blair), Kenya (Leonard), and Nicaragua (Colburn)—stress respectively:

1. procedures and pressures that can induce *accountability* within organizations, so as to countervail influences from the environment and modify managers' behavior
2. how the initiative of managers can influence their environment as well as their organization through *leadership* and political skills
3. the effect that environments can have on productivity in organizations and on managers' options through the influence of prevailing *ideas*, values, attitudes, and expectations

We see from these case studies that the three focuses singled out analytically by White are definitely interactive and interdependent, but possible improvements in performance may be identified and dealt with in terms of any one of them: organizational reforms, managerial initiatives, or environmental factors.

The validity of White's three-fold focus of analysis and remediation is reinforced by the other essays in this volume. The reasons for success or failure of World Bank institutional development efforts in borrowing countries, as reported by Israel, range across all three categories (see Chapter 6). Schmidt's assessment of United States Agency for International Development (USAID) efforts in Peru to improve decentralized administrative capacities emphasizes organizational variables, while Montgomery's reflections on external initiatives to strengthen administrative performance in Malaysia and Nepal highlight the importance of the environment—what he calls "strategic settings." Both Montgomery and Schmidt appreciate, to be sure, the contribution which all three sets of factors—managerial, organizational, and contextual—can make to good (or poor) performance, but they illuminate respectively environmental and organizational variables. The following essays of Goldsmith, Nicholson, and this author similarly are concerned with all three sets of factors, but respectively focus on managerial, organizational, and environmental relationships. Productive possibilities can be enhanced from any one of these perspectives, but more from a combination of approaches.

This way of understanding development administration makes it less amenable to machine-like metaphors. The organization itself, the "machine" that is to be made more efficient, is only one of three focuses of concern and remediation. Moreover, organizations are regarded as connected to their environments in multiple ways that are more organic than mechanical. The role of managers is seen more as molding and motivating organizations rather than just operating them, as one would a machine. These are important reconceptualizations, based on more appropriate images of what the enterprise of development administration entails.

Productivity in Public Organizations

Why is the standard model of organization—as a machine converting inputs into outputs in predictable ways such as Weber described—not sufficient for our purposes? A concern with productivity, closely associated with machine metaphors, calls this model into question. The theory of *mechanical advantage* tells us that a machine—as simple as a level, a ramp, or a screw—increases some quantum of input into a greater output. Organizations are expected to convert their inputs (materials, funds, personpower) into outputs (goods and/or services) that are of greater value than the inputs. A positive-sum process is supposed to make the total greater than the sum of its parts. Through organization, one should be able to create a margin of value, thereby getting something (if not for nothing) for the cost of constructing this social version of a machine.

As with so many things, there is a countervailing disadvantage, however, which can be characterized as *friction*. This impedes the conversion of inputs into outputs and is a negative-sum factor affecting all mechanical operations. Friction may not cancel out all the benefits of mechanical advantage, but it diminishes them, possibly severely. In organizations, one can identify many sources of friction, such as:

- processes of communication, negotiation, and enforcement, which get grouped under the heading of "transaction costs," as discussed by Nicholson later in this volume
- staff members' unwillingness or inability to do what is expected of them, due to self-interest, incompetence, laziness, corruption, or other causes
- interrupted or inappropriate inputs, and faulty throughput or distribution, slowing production processes and causing backlogs

Organizational operations get further compromised by the need to expend resources on "redundancy" to assure that performance will be effective even if it is not necessarily efficient.[10] Indeed, an advantage of organizations, as machines, is often not so much their efficiency as their ability to produce, as machines do, relatively standardized and predictable outputs.

A major puzzle of productivity in public organizations, which is somewhat more obvious for them than for other types of organization, is why outputs are not more clearly, explicably, and reliably *proportional* to inputs. There is little linear correlation between the *resources* expended through a unit of bureaucracy and the *results* produced, as should occur with mechanical processes. The accomplishments of bureaucracies are supposed to be greater than the cost of operating them, but especially in developing countries, this is sadly not the rule. Lapses in performance can be explained in terms of friction, which appears to be greater in human organizations than Weber described. Transaction costs, staff commitment to extra-organizational interests (e.g., family or ethnic affiliations), and uncertainties in input-to-output conversion processes are arguably greater in LDCs. But there are also some contrary examples of (a few) administrative units producing great value with limited resources, not just overcoming sources of friction but also achieving more than ordinary "mechanical advantage" would account for.[11]

The machine model of organization holds up empirically to the extent that those outputs which can be readily measured usually bear some relation to the resources expended, either in positive or negative proportion to inputs—number of clients served, number of pupils taught, number of miles of road constructed. But if one takes a more encompassing view of productivity, looking at the possible transformation of clients' lives, at the potential multiplier effects of education, or at the economic stimulus of new roads, one finds that results can be several orders of magnitude greater than what was spent through public organizations—or can be a pitiful fraction of the cost of creating those services. The relationship between inputs and outputs, viewed comprehensively, is not only hard to predict, but also not very *linear*, as is expected of mechanical processes.

It is puzzling why public organizations so often fall short of plans and expectations, given the resources devoted to them. There is a large literature on various sources of friction that impede administrative performance—inefficient internal organization, inappropriate procedures, faulty communication, diverted efforts through corruption, bureaucratic inertia, etc. This is well known and need not be cited here. What is more challenging is to figure out what to do to ensure that outputs are greater than inputs, formulating models of organization that enable us to comprehend as well as to promote the achievement of not just additive but of multiplicative gains.

Blair in his essay looks at the Bangladesh civil service, notorious as a whole which produces less than the sum of its parts. After considering remedies based respectively on Marxian and neoclassical economic analysis, he endorses political solutions that would improve the performance of public organizations by linking managers to their environment through processes of accountability. He concludes this by comparing rural development experience in Bangladesh with that in the more successful Maharashtra state of India.

In Bangladesh, one does not look for miraculous advances, since even tolerable survival is as much as most people there can hope for. Yet there are some remarkable examples of transformative organizations in the NGO sector, if not often in the public sector. The Grameen Bank is now widely recognized as a remarkable success, started experimentally on a small scale by an economics lecturer at a local university and now serving over a million members from among Bangladesh's poorest stratum. What is little noted is the multiplicity of benefits produced through the organization of poor borrowers, such as restricting child marriage and ending dowry payments that impoverish and degrade poor families (IFAD 1984). The Bangladesh Rural Advancement Committee (Korten 1980; Lovell 1992; Howes and Sattar 1992) and Proshika (Wood and Palmer-Jones 1990) are additional examples of programs mobilizing what Hirschman (1984) has characterized as "social energy" to produce results out of proportion to the material inputs invested.

The Kenya Tea Development Authority has transformed a sector previously reserved for expatriate production on grounds that smallholding African farmers could not manage as demanding a crop as tea. Within a few years, the farms and factories associated with KTDA were dramatically outperforming the large European estate sector, producing higher quality tea and doing so more efficiently. Some of the gains can be explained by innovative incentive and organizational schemes, consistent with standard organization theory, including provisions for accountability (Lamb and Mueller 1982). But as Leonard shows, some of the benefits are achieved in quite disproportional and unmechanistic ways through the initiative, skill, leadership, and courage of a few public sector managers. While the origin of such personal qualities is not easy to explain, this does not make them any less significant for understanding public sector productivity.[12]

The advent of a post-revolutionary Sandinista government in Nicaragua brought excited expectations of improved public sector performance since that of its predecessor was so dismal and disgraceful. The Somoza regime used public organizations essentially for private enrichment; they were quite productive for the ruler and his family and cronies. The high expectations, however, themselves created problems and impeded productivity, as Colburn explains. In his case study, reinforced with similar experience reported from Ethiopia and Mozambique, we see the overarching significance of *ideas*. Nonmaterial constructs—"mental representations," as Gardner (1985) calls them—we can see have large and measurable material effects.[13]

Employment of incentives, appropriate for machine-model thinking because they are expected to have linear and predictable effects, could not countervail the larger influence of ideas and expectations, as Nicaraguan peasants and workers acted against their apparent self-interest—that of keeping a sympathetic government in authority through its economic success. Colburn's study directs attention toward the productivity implications of morale and political culture, something discussed more in my concluding chapter. Such considerations raise the question how—if demoralization can depress productivity—"remoralization" can have the opposite and more desirable outcome.

Some very different experience with public organization productivity in Latin America is analyzed by Schmidt, who deals with the government apparatus in Peru, which is characterized as highly centralized and "control-oriented." The conventional wisdom has been that donor agencies wishing to accelerate economic and social development in Peru must work through its central administration, despite its abundant limitations (friction). Schmidt documents, however, some unusual success of two USAID-funded projects that operated at regional levels and below.

The productivity of this approach was made possible by the initiative and innovation elicited from staff in the hinterlands, often young, inexperienced, undertrained, and poorly paid. They got considerable satisfaction from the authority, status, and results associated with a decentralized approach. Schmidt outlines the conditions for such a reversal. One of these conditions was the provision of effective technical assistance to regional organizations from central government agencies, itself something unusual, but supported by certain structural and normative innovations. More benefits per unit of investment resulted than from other donor projects similarly funded but having more centralized organization, less managerial discretion, and weaker links to their environment (intended beneficiaries).

The World Bank has the largest involvement in institutional development of any donor agency. As Israel notes, the Bank has become engaged with such matters somewhat reluctantly, initially expecting that technology and capital investment were the most important investments. But experience has shown that such inputs have highly variable outputs depending on the effectiveness and efficiency of public organizations in the borrowing countries. A lending agency which seeks to know the benefits associated with its costs, however, faces real difficulties when trying to measure the contribution of public organizations, since their productivity can be not just additive (or subtractive) but potentially multiplicative. Israel finds that the state of knowledge for assessing and promoting such productivity is quite deficient and unsystematic, but when based on Bank experience, it is possible to identify various means that can be used.

Montgomery's thoughts on his efforts to introduce administrative reforms in two Asian countries, with Milton Esman as a co-adviser, emphasize the political context of reform. The Malaysian and Nepalese bureaucracies operated with a degree of self-containment and autonomous action, so that one would think them good candidates for a mechanistic interpretation of collective performance. But Montgomery finds biological metaphor more illuminating, comparing organizations to cells. Changing the internal codes and metabolism of a bureaucratic organism requires penetrating the protective membrane around it, and being accepted as a benign rather than hostile agent.

In the Malaysian instance, high-level political sponsorship enabled outside advice to pass through the administration's defenses. In Nepal, on the other hand, the advice was perceived as adverse; it aroused an "immune response" and was rejected—even though the advice had been requested to help implement what the highest level said it wanted. The productivity of a bureaucracy is not a function just of what it does, as we would assess a machine, but rather depends on its fit with its environment, which calls more ecological and biological relationships to mind.

White's analysis of different ways to improve bureaucratic productivity has been introduced sufficiently already, framing as it does the major alternatives for making productivity gains. The one most in favor in the private sector—strategic management—is elaborated by Goldsmith, whose research has included countries in Africa, Asia, and Latin America. Having started from a base in political science and public administration, he has moved into the field of business administration and management and brings such perspectives to bear on our subject. The main lesson to be drawn from strategic management analysis is the need for public organizations to be more client-driven and responsive to their environment to succeed in today's resource-poor conditions.

Nicholson draws on the literature inspired by neoclassical economics to explain organizational performance, examining the contributions and impediments which *hierarchy* is understood to make to the productivity of any organization, public or private. Some economists are not as hostile to hierarchy as usually heard. There are some efficiency gains that it can facilitate, but whether it is beneficial or not is an empirical question. Nicholson examines specific functions which public organizations are expected to perform to raise private sector productivity in agriculture—agricultural inputs, credit, and irrigation. It is seen that hierarchical decision making is in many ways poorly suited to the most efficient performance.[14] This conclusion suggests that public sector productivity can be raised by working more closely with clients and user groups as well as with private sector organizations. A "division of labor" among sectors is suggested for raising overall institutional performance for economic and social development. In such a strategy, the appropriate role for public organizations is more likely to be facilitative and managerial than engaged in direct production or delivery of services to improve the public's welfare.

As a further examination of organization theory as it can clarify the factors affecting productivity, I take up some of the issues raised in the institution building literature which Esman helped launch almost thirty years ago. This work has been one of the contributions to the development administration literature most attended to, but of late it has been eclipsed by concerns for institutional development or institutional sustainability (Goldsmith 1992). More thought should be given to the difference between organizations and institutions to appreciate what each contributes to productivity in the public sector. For this, one needs a broader view of productivity, in terms of satisfying people's needs and wants, than that conveyed in the limited economic conception of the term (Uphoff and Ilchman 1972).

To be concerned with puzzles of productivity in public organizations is not to assert any primacy or supremacy of such organizations. It has already been noted that state institutions are now compared not only with private, for-profit organizations but also with nongovernmental, not-for-profit organizations as alternative channels for service delivery or even goal-setting. As we conclude this century, the public sector cannot claim the kind of preeminence that was its right at the beginning of the era. The very concept of sovereignty is losing ground, because of centrifugal ethnic and political forces within nation-states and because of the spread of global economic interests and decision making which can supersede national government authority.

Such trends, however, have only changed, not eliminated, the role which public sector agents need to play. Neither for-profit nor not-for-profit agents can satisfy all human needs most efficiently, reliably, and sustainably. Their performance benefits from some complementary support and countervailing power from decision makers who are charged with promoting and preserving an overarching public realm, where partial interests are to be reconciled and elevated. In the era we are entering, public organizations' productivity will be judged more as catalysts and guarantors than as direct producers, with the concept of coproduction (Ostrom and Ostrom 1991) enlarged by that of coresponsibility.

In any case, we need to change our thinking from the kind of mechanistic, closed-system formulations that have guided decision making and evaluation for public administration in the past and to appreciate more purposeful, open-system models for the public sector. The contributors to this volume, all in part responding to the impetus which Milton Esman has given to our ideas over the years, address this changed but still important question of public sector productivity from multiple vantage points. We hope these analyses can help others better approach the ideals of public service. These ideals are in danger of diminution through the divisive pulls of private interests but also from a lack of new and better ideas. Public organizations need to become more capable of meeting contemporary needs and expectations. Regaining intellectual and institutional momentum in the public sector is essential to maintain advances in societal productivity.

Notes

1. Three forms of privatization need to be kept distinct: (a) the contracting out of public duties to private business organizations, (b) the denationalization of state-owned enterprises, and (c) the import of market incentives into public sector programs to give beneficiaries a choice among service providers. The second, for example, was a primary element of structural adjustment programs in less-developed countries, while the first and third have been more common in Europe and North America (e.g., Barnekov et al. 1989).

2. Various names have been suggested for this sector—nongovernmental, nonprofit, voluntary, membership, collective action, self-help, civic society (see Uphoff 1993, also Korten 1990, McCarthy et al. 1992, and Streeten 1992: 20–21). This sector has expanded vigorously in LDCs, as documented by Fisher-Peck (1993) and Edwards and Hulme (1992). It is developing some of its own institutions to promote development of grassroots capabilities (Carroll 1992; Edwards and Hulme 1992; Farrington et al. 1993). On shifts in political opinion between favoring private initiative and liberties, on one hand, and collective activity and responsibilities, on the other, see Hirschman (1982).

3. See the studies on Taiwan and South Korea by Wade (1990) and Amsden (1985 and 1989); also Amsden's essay and others in Putterman and Reuschemeyer (1992). When Japan's Foundation for Advanced Studies of International Development held an international symposium on Asian experience with institutional development in Tokyo, December 1992, while the papers from donor agencies stressed private sector and NGO institutions, the papers by participants from South Korea, Singapore, Indonesia, Malaysia, and Thailand focused on the contributions of their public sector organizations, ministries, planning commissions, etc. (FASID 1993).

4. A report of the Office of Management and Budget, a leading proponent of "privatization" in the United States, had to concede by the end of the Bush administration that billions of dollars had been wasted through inefficiency and fraud when work was contracted out (OMB 1992). The *New York Times* called the report an "incisive critique . . . of a central philosophical tenet of the Reagan-Bush era: the idea that private companies can do the Federal Government's work better and for less money." Investigators found "unsettling evidence that the problem is endemic across all the civilian agencies. In almost every instance where auditors took a close look at contracting they found problems." December 2, 1992, A1, D24.

5. See special issue of the *IDS Bulletin* (Murray 1992), on "New Forms of Public Administration." The Institute of Development Studies at the University of Sussex, UK, decided to put together this issue of its *Bulletin* about the same time that contributors began to plan this volume.

6. In his immensely influential work, *Economy and Society* (1922), Weber wrote: "The decisive reason for the advance of bureaucratic organization has always been its purely technical superiority over every other form of organization. The fully developed bureaucratic mechanism compares with other organizations exactly as

does the machine with the nonmechanical modes of production. Precision, speed, unambiguity, knowledge of the files, continuity, uniformity, strict subordination, reduction of friction, and of material and personal costs—these are raised to the optimum in the strictly bureaucratic administration. . ." The negative implications of mechanistic operations were only footnoted: "Here we cannot discuss in detail how the bureaucratic apparatus may, and actually does, produce definite obstacles in the discharge of business in a manner suitable for the single case." See Gerth and Mills (1958: 214–215) and discussions in Morgan (1986: Ch. 1) and Moore (1992: 67–69).

7. Of which Weber was a proud member, according to Gerth and Mills (1958: 26).

8. This shift in mental orientation is supported by the most advanced work on human cognition, which is finding that mental processes, previously understood as analogous to the digital computer, are better modeled as complexes of *networks*. Rather than operating sequentially, in linear and mechanical fashion, these processes are more parallel, ambiguous, and associational. Work on "neural networks" is rapidly expanding, challenging previous approaches to artificial intelligence which employed algorithms that were hierarchical, sequential, and reductionist (Jubak 1992).

9. During this period, though this aspect of his scholarship is not reflected in this book, Esman was also writing incisively on ethnic politics. He was one of the first political scientists to anticipate the global importance of this phenomenon. He brought the two subjects, ethnicity and development administration, together in his 1972 book on Malaysia.

10. Moore (1992: 68) writes of "the simple mechanical imagery which so fascinated Weber and many other nineteenth century social theorists. . . . Few complex systems, whether in the fields of engineering, biology, language, or human organization, operate according to the Weberian image of the finely tuned machine, with each agency or office precisely oriented to a particular function without duplication or overlap. Rather, *redundancy*—the provision of duplicate elements in any system which will not normally be called into operation, but are available when problems occur—is a central and indispensable element of virtually all complex systems." He cites Landau (1969) on this point.

11. Leonard in his contribution to this volume presents the case of the Kenya Tea Development Authority, documented along with some other good examples of remarkable success by Paul (1982). I observed similar experience with establishing water user associations in Sri Lanka (Uphoff 1992). As impressive as the productivity of a highly motivated cadre of organizers who accomplished transformations nobody (including their supervisors) thought possible, was the increased productivity of the Irrigation Department which had few if any additional inputs but which was energized by the operation of the water user associations and the organizers.

12. Leonard (1991) makes one of the few systematic and empirical efforts in the public administration literature to come to grips with this elusive but important phenomenon of leadership in an LDC context.

13. As Popper (1972: 228–229) says, we need to explain how "non-physical things such as *purposes*, *deliberations*, *plans*, *discussions*, *theories*, *intentions* and *values* can play a part in bringing about physical changes in the physical world."

14. Here as elsewhere, the productivity of public organizations is assessed not just in terms of what they produce themselves but in terms of what they help accomplish. Nicholson discusses the very useful concept of *coproduction*, which is uniquely important when considering public sector activities.

2

Analyzing and Closing the Performance Gap in Bangladesh: Three Approaches

Harry W. Blair

In Bangladesh there has been a persistent gap between its rural development potential and actual progress over the past two decades since its independence. The country's meager advances are attributable in large part, though not wholly, to shortcomings in the performance of its public organizations. The analysis here seeks to account for this gap, beginning with a brief review of the advantages which the country's bureaucracy has nominally had for promoting rural development. It then considers three explanations of why public sector contributions to development have fallen so far short of what was expected, and how, if at all, bureaucratic productivity could be raised through the prescriptions offered by each approach.

The first explanation focuses on political economy issues, attending to the interplay of class and group interests. The second is a public choice perspective which focuses on incentive structures. Finally, the bureaucratic gap will be analyzed as a problem in political accountability, which relates to the development community's recently resurrected concerns with democratization as a factor in development. Each perspective suggests its own solution to the problem of inadequate bureaucratic performance, and these remedies will be considered. In the end, the accountability approach will be suggested as the most promising of the three, proposing a preferred approach to raising bureaucratic productivity.

Given its resource endowments and population pressures, Bangladesh was not likely under any circumstances to emerge as a "high mass-consumption society" of the sort that Rostow (1960) foresaw several decades ago as the endpoint of the development process for all countries. But like so many underperforming LDCs, Bangladesh has considerable resources of various kinds and should be doing much better in advancing its citizens' well-being than it has in fact been doing since becoming independent from Pakistan in 1971. Certainly Bangladesh need not be an "international basket case," to use a description reportedly conferred on it by Henry Kissinger on the eve of its independence.

Bangladesh's disappointing performance is grossly indicated by comparative statistics. In 1989 it ranked fifth from the bottom of a list of 124 developing economies, with an estimated per capita GNP of US$180, about half the US$300 level for identifying the forty-one "lowest-income countries" according to the World Bank (World Bank 1991: 204). Among even this group of low performers, Bangladesh has done badly with a per capita GNP growth rate of just 0.4 percent over the last quarter century, less than one-third the overall average of 1.4 percent for the poorest forty-one countries. Adult illiteracy at 67 percent is far worse than the average of 51 percent for these lowest performers. Life expectancy, while not far from the mean of fifty-five years for this worst-off group, is only fifty-one years.[1]

Why has Bangladesh done so poorly? Any number of explanations have been advanced to explain the large gap between promise and reality in the country's performance: the combination of two hundred years of British colonial domination followed by twenty-four years of Pakistani control sucked the country dry; a semifeudal political economy severely constrains development; its independent governments have been too often corrupt dictatorships; Bengali culture values the arts more than entrepreneurial skills; its climate produces frequent and often devastating floods and cyclones; its giant neighbor India seems bent on subverting Bangladesh by such means as meddling with the natural river flow of the Gangetic basin, supporting terrorist tribal insurgents on the country's periphery, and condoning (if not promoting) smuggling that undermines the country's economy.

All these notions possess some truth, even if incomplete, but an additional explanation is critical when accounting for Bangladesh's failure to progress, particularly in its two decades of independent existence. The bureaucracy by any reckoning should have delivered much more than it has to promote development in Bangladesh. However much all these other factors contributed to the gap between reasonable expectation and reality, low bureaucratic productivity explains much of that gap's width.

Before proceeding further, several terms should be clarified. Strictly speaking, "bureaucracy" refers to the total central government establishment, stretching from the Cabinet Secretary at the top to peons (orderlies) at the bottom, including both "gazetted" and "non-gazetted" ranks. For the most part, however, we will be dealing with the upper echelons of government service, that is to say the Class I officers, who in 1990 numbered only about 75,000 of the almost 950,000 total government employees.[2] These are the officials who represent the interests of the bureaucracy in contending with other groups for control over the affairs of the nation, and it is they who primarily benefit as individuals from whatever resources the bureaucracy can lay claim to.

"Development" can be defined most simply as improvement in "physical quality of life" (PQLI) measures such as life expectancy, infant mortality, and literacy, all of which reflect distribution of social welfare as well as advancement of the national average. Another way to assess development is to consider reductions in the percentage of population below the poverty line,[3] though this focuses attention, possibly unduly, on the bottom end of the income spectrum, accentuating what happens to the poorest segments while ignoring what occurs with those better off. On the other hand, aggregate measures like gross domestic product (GDP) and total food grain production bias assessments in favor of the wealthier strata, since the rich get more than their share of any increments to production.

All three types of measures have their uses and will be employed at various times in this analysis. Accordingly, when the term "development" is employed, it refers to social welfare—often called "quality of life"—poverty alleviation, and economic growth, with principal emphasis on the first aspect of development. This assessment of "development" performance, it should be said, focuses particularly on the *rural* areas. Such a strategy, however, makes the most sense for a country whose population at the end of the 1980s was still reported as 84 percent rural (World Bank 1991: 264).

What Could the Bureaucracy Be Doing to Support Rural Development?

Bangladesh does have some significant bureaucratic resources to draw on in promoting rural development. Perhaps the most valuable of these assets is the top leadership of the civil service, who are the successors of the old Civil Service of Pakistan. These "CSP wallahs," as they are often called, were recruited into the elite cadre of Pakistan administrators which was modeled directly on the earlier Indian Civil Service (ICS) of the British era. As with the ICS, entrance into the CSP was by rigorous examination and each year's "batch" of entrants was kept deliberately small. Successful entrants were carefully shepherded along a career path leading from one's first position as a subdivisional officer up to a final posting as secretary in one of the ministries.[4]

After independence in 1971, many new officers were recruited through "lateral entry" from other parts of the government, and in 1980 the whole upper echelon of the civil service was restructured into a new Bangladesh Civil Service (BCS). Its Administrative cadre—the inheritor of the ICS and CSP traditions—became only one of thirty similar and officially equivalent cadres for the Forest Service, Audit and Accounts, and so on. Add to this leavening the fact that, for the ablest university students in Bangladesh today, government service has been replaced by business as the career of choice, and it becomes clear that the general quality of civil servants in the country has declined significantly. Still, at the very topmost levels—the joint secretaries and above, particularly in the most important ministries like Agriculture and Finance—the "CSP wallahs" because of their seniority remain in control. They are still a most impressive group of officers, who as a body could probably hold their own with any bureaucratic cadre in the world.[5]

A second resource to consider is the level of foreign aid coming into the country. By the end of the 1980s, net disbursement of official development assistance from all sources totalled between US$1.6–1.8 billion per year. In per capita terms such sums amounted to relatively little—about US$16 per head—but in the aggregate these disbursements to such a populous and at the same time poor country amounted to a very considerable sum, almost 9 percent of GNP.[6] To take another perspective, foreign aid disbursements in the late 1980s financed the equivalent of all of the government's development expenditures and then some.[7] Very substantial financial resources, then, were available to support developmental efforts in Bangladesh.

Third, there is the elaborate bureaucratic machinery for promoting rural development that stretches out from the center to the upazila or thana (subdistrict) level. The ambitious decentralization initiative undertaken in the 1980s by the Ershad government put a core of development officers in each of the country's 460 thanas, renamed as upazilas. All of rural Bangladesh was divided into such units, averaging around 200,000 population, so that university-trained experts in fields such as agriculture, animal husbandry, civil engineering, and public health were available to meet the developmental needs of the rural population.

To help ensure that these officers would in fact meet popular needs, a political structure was also created at upazila level. Its directly-elected chairman had administrative authority over the government development officers mentioned above, managing developmental policy at local levels in conjunction with an upazila parishad (council). This was composed of representatives elected from the next level below, the unions, of which there were eight to ten per upazila.

The new upazilas had considerable spending autonomy. In addition to funds for meeting payroll costs for all government servants, the central government awarded each upazila a modest budget, averaging US$200,000, as discretionary development money to spend as it wished on development projects (within some limits). Moreover the upazilas enjoyed some scope for raising additional funds on their own. Thus the machinery was put into place for a decentralized, locally accountable, and at least modestly supported rural development enterprise in Bangladesh.

Two other important factors conducive to good bureaucratic performance in promoting rural development lie outside the bureaucracy itself, but both could serve as powerful resources. The first is the country's agricultural environment. The soil is largely a rich alluvial silt and highly suitable to cropping (about 60 percent of the country's total land area is cultivated). Water is plentiful throughout the year in most of the country, blessed as it is with abundant surface water resources and ground water commonly available at depths less than twenty feet even in the dry season (Wennergren et al. 1984: 39–50).

Over the years, many studies have expressed much hope about potential agricultural productivity in Bangladesh. One World Bank study in the early 1970s, for instance, when the annual rice crop averaged around 10–11 million tons, projected that a modern-inputs-plus-irrigation strategy in agriculture should produce a 32 million ton crop by 1993. Even after it became clear that this kind of spectacular target was not achievable, successive studies continued to profess enthusiasm for substantial increases in productivity.[8]

Certainly there have been substantial investments in agriculture over the two decades since independence. Agriculture received about one-third of the development budget allocations in the early 1970s. This decreased to a level fluctuating between one-fourth and one-fifth of a much larger budget by the end of the 1980s. Not enough, many would say, in a country where almost three-fifths of the work force continues to be employed in agriculture and about two-fifths of GDP derives from it. But nonetheless it has been a very sizeable investment over the years. The rural sector may not have gotten its due (as predicted according to Lipton 1977), but it has been accorded substantial investment attention.[9]

The second nonbureaucratic factor favoring development in Bangladesh has been the relative peace that has characterized the countryside since independence. The nation is one of the most homogeneous on earth, with some 98 percent of the population being ethnic Bengalis (the rest are mostly indigenous peoples and a smattering of North Indian Muslims—usually called Biharis). Thus the country has been spared the ethnic conflict that has been so troublesome in so many LDCs.

Neither has there been much violent political dissension. Initially there was much concern that the Freedom Fighters armed mostly by India during the 1971 struggle against Pakistan and suddenly at large after the Pakistan surrender in December 1971 would create problems. But there has been little of the rural insurrectionary violence that has plagued parts of India in recent decades. Nor, apart from some unrest in the Chittagong Hill Tracts as the indigenous peoples there get displaced by Bengali speakers from the lowlands, has there been ethnic disruption of the sort that has festered in various other regions of the subcontinent. In short, Bangladesh has enjoyed a reasonably pacific countryside in which to promote rural development.

Rural Development Performance in Bangladesh

Despite these considerable advantages, rural development in Bangladesh has made only limited progress in recent decades. As is indicated in Table 2.1, PQLI measures do show some progress, with infant mortality decreasing from around 144 per thousand in the mid-1960s to 105 in the mid-1980s.[10] Life expectancy increased somewhat, from around 45 to 52 over the same period, and adult literates rose from 22 per hundred adults to 35.

Compared to other poor Asian nations, however, Bangladesh did not fare very well at all. India was at roughly the same levels in the 1960s, as can be seen in Table 2.1, but even its modest attainments over the next two decades look considerably better than Bangladesh's. Indonesia, another similar case three decades ago in terms of infant mortality and life expectancy, has performed markedly better than Bangladesh. And countries like China, the Philippines, and Sri Lanka, which had a comfortable head start, maintained and even increased their lead.

Poverty by the mid-1980s appeared to have returned to the pre-independence levels of the mid-1960s, slightly over 40 percent, after worsening severely in the mid-1970s due to the dislocation caused by the independence war and the 1974 famine. Since the mid-1980s, however, the situation has again begun to deteriorate because of the severe floods of 1987 and 1988 and a general deceleration of agricultural growth.[11]

In aggregate terms, crop production experienced an initial surge after independence as farmers managed to recover their prewar position. But since 1977, growth (roughly 2.3 percent yearly) has been less than that of the population (about 2.6 percent) (Abdullah et al. 1991, II: 103). In terms of yields of rice, which has constituted about 95 percent of total foodgrains, Bangladesh did improve substantially over the last several decades, from about 1.7 metric tons per hectare in the early 1960s to more than 2.5 metric tons by the end of the 1980s. This represented an average annual growth rate of only 1.6 percent (FAO, various).

Compared to other rice-growing Asian economies shown in Table 2.2, Bangladesh's performance remains very poor. Countries that started the period with higher yields than Bangladesh (e.g., China and Sri Lanka) improved at a higher rate, as well as countries that started lower (e.g., India and the Philippines). Nor could Bangladesh resort to expanding its area

TABLE 2.1
Progress in Physical Quality of Life Indicators (PQLI) for Selected Asian Countries, Mid-1960s to Mid-1980s

	Infant mortality (per 1,000 live births)			Life expectancy at birth (in years)			Adult literacy rate (% of population over 15 years)		
	Mid-1960s	**Mid-1970s**	**MRE**	**Mid-1960s**	**Mid-1970s**	**MRE**	**Mid-1960s**	**Mid-1970s**	**MRE**
Bangladesh	144	138	105	45	46	52	22	26	35
China	90	46	29	57	65	70	n.a.	n.a.	73
India	150	130	92	45	50	59	28	34	52
Indonesia	128	109	61	44	51	62	39	57	77
Philippines	72	58	41	56	59	64	n.a.	n.a.	90
Sri Lanka	63	44	19	64	66	71	75	78	88

NOTES: n.a. = not available. MRE = most recent estimate, generally from 1985 (or in a few cases from 1990).
SOURCE: World Bank, *Social Indicators of Development, 1991–92* (Baltimore: Johns Hopkins University Press, for the World Bank, 1992).

TABLE 2.2
Growth in Rice Production and in GNP per Capita for Selected Asian Countries, Early 1960s to Late 1980s

	Yield in kilograms per hectare			Area sown in hectares (thousands)			
	1963–1965 average	1988–1990 average	Average annual growth (%)	1963–1965 average	1988–1990 average	Average annual growth (%)	Average annual GNP per capita growth, 1965–1989 (%)
Bangladesh	1,720	2,545	1.6	9,199	10,320	0.5	0.4
China	2,839	5,503	2.7	30,962	32,842	0.2	5.7
India	1,490	2,625	2.3	35,851	41,904	0.6	1.8
Indonesia	1,752	4,226	3.6	7,013	10,323	1.6	4.4
Philippines	1,268	2,719	3.1	3,132	3,403	0.3	1.6
Sri Lanka	1,907	3,007	1.8	502	747	1.6	3.0

NOTE: For cropping data, three-year averages are used in order to avoid distortions that could be caused by a single unusually good or bad season.
SOURCES: For crop data, *FAO Production Yearbook* (Rome: FAO, various years). For GNP data, *World Development Report 1991* (New York: Oxford University Press for the World Bank, 1991).

cultivated very much, unlike Sri Lanka, which could make up for limited yield growth by increasing the total area sown. While GNP growth in Bangladesh did stay slightly ahead of population expansion, this was not by much. The 0.4 percent annual growth over the period was a rate quite considerably lower than those posted by all the other countries listed in Table 2.2.[12]

To sum up, Bangladesh was undoubtedly even poorer relative to other poor countries at the outset of the 1990s than it would have been at the beginning of the 1960s if it had been an independent country at the time and if the World Bank had been making such comparisons. The gap between possibility and reality has thus widened over the last three decades. What has been the role of the bureaucracy in such poor performance?

Explaining the Gap

As noted earlier, a plethora of explanations have been proffered to account for the wide gap between what might have been expected to happen in rural Bangladesh and what has in fact occurred. The assessment here will concentrate on the bureaucratic component of that gap: given the resources it had, why hasn't the bureaucracy done a better job in promoting rural development? There are an intriguing number of ways to explain the bureaucratic gap, all of which would appear to have some validity.

Political Economy Explanations of Bureaucratic Performance

In many ways the bureaucracy fits quite neatly into a standard political economy analysis of the rural Bangladesh scene.[13] This explanation begins with a simple three-tier model which shows national elites at the top, a rural gentry in the middle, and more or less everyone else at the bottom. The top rung is the most complex, consisting of the military, the upper bureaucracy, political leaders, professional groups (mostly doctors, lawyers, engineers), the business community (mainly traders and importers but also including a still-embryonic national bourgeoisie of entrepreneurs), and an intelligentsia (primarily academics and journalists). Three other groups that can occasionally play critical roles at the national level are students, lower-level government employees, and organized workers, though they are not themselves elites and their roles are confined largely to short-term obstructive behavior. This can help (and has helped) to topple regimes but can do little else.

The second tier consists of the rural gentry in Bangladesh, which includes a smattering of large farmers but by and large is composed of what would be called middle peasants in countries less densely populated. Average holding size was only 2.26 acres at the beginning of the 1980s, and only about one-quarter of all farm land was in holdings of over 7.5 acres (BBS 1991: 162). In most parts of the country, families in the upper stratum typically hold 5 to 10 acres. This is enough to give them a commanding position of control in village affairs, for these are the farmers who produce enough more than their households consume to be able to hire in laborers, to lend out money, to start small businesses (especially trading), and to get involved in local politics.[14] Altogether this stratum might constitute 5 to 7 percent of the rural population.

The third level includes essentially most of the rest of the rural citizenry, with the predominant characteristic being a dependency to a greater or lesser degree upon village elites. In this relationship, the lower strata work for, sharecrop land and borrow money from, and owe allegiance to the rural elites. The poor survive, while the gentry control.[15]

At the national elite level, historically the key elements have been the military, upper bureaucracy, and political leaders. For most of the time since independence, the country has been governed by a de facto coalition of the first two, ruling under some form of martial law, largely rigged plebiscitary mandates or interim stages of a return to democracy. A less frequent combination has been the bureaucracy and political leaders of the ruling party, during the country's thus far brief experiments with democratic governance, one of which was in place at the time of writing (the latter part of 1992).

No matter which coalition of elites is in control at any given time, its overriding interest is to stay in control, largely by appeasing or neutralizing other elites, by coopting students and organized workers with potential to be disruptive, and by maintaining an alliance with the rural gentry. Such a regime needs to guarantee property rights for the gentry (though it can speak eloquently on the need for land reform) and to funnel a large share of rural development spending into the gentry's hands. In return, the gentry support the regime by keeping things reasonably calm in the countryside. Since the gentry's foremost goal is to maintain its own domination over a potentially restive rural population, it is more than happy to cooperate by exercising its traditional methods of control.

Seen in this light, the failure of rural development projects and the leakage of funds to unintended beneficiaries reflects not mistake and failure but rather contrived success. The alliance of national elites and rural gentry never intended to promote rural improvement in the first place; instead their aim has been to keep the countryside quiet and strengthen their alliance in the process.

The stake of the upper bureaucracy in all this is fairly clear. Its goal has been to keep the present system of administration operating, whether generals or politicians are at the helm. Either group is dependent on the bureaucracy to keep the state's machinery functioning, if only so that revenues and foreign aid will flow in to the exchequer and public order will be preserved. It is scarcely surprising that this permits a good deal of rent-seeking behavior from the upper bureaucracy, which is anxious to preserve its perquisites like housing, automobiles, special access to plots in Dhaka's elite residential enclaves, trips abroad, and in many cases, opportunities for illegal income.

How much validity does this exercise in traditional class analysis have? Certainly the bureaucracy has managed to hang onto many of its perquisites. While it has been buffeted in some ways—as when democratizing reforms reconstituted the cadres in the early 1980s,[16] and by the erosion of its salaries in real terms over the years—the bureaucracy has successfully repressed other attempts at reform. Most of its members have found themselves able to make up for any lost salary ground in the increased scope for peculation and venality that they have been presented with.

One administrative reform that the senior bureaucracy was able to thwart was the Public Administration Efficiency Study of the late 1980s. First, it delayed this assessment that the World Bank had been urging for some time, and then when it finally was done in 1989, the findings and recommendations were tempered (all mention of corruption, for instance, was excluded from the final draft). Finally, the rather modest reforms called for in the revised version were suppressed, and the study was never actually released by the government.[17]

Although the incidence of corruption is almost impossible to measure with any exactness because of its sub rosa nature, it has certainly loomed large in Bangladesh ever since British times. And there is little doubt that corruption has a severely limiting effect on development. Corruption squanders scarce capital by siphoning it away from new productive investment, increases transaction costs by imposing bribe requirements, weakens government effectiveness by making its laws a shambles, benefits the wealthy by reducing access for the poor (who cannot afford the graft), and undermines democracy by making authority so remunerative that those who hold it become unwilling to face open elections.[18] There is a widespread belief was that corruption increased greatly during the Ershad period, with the upper bureaucracy benefitting by no means the least.[19]

But all upper bureaucrats do not move in lockstep, and the bureaucracy in Bangladesh is no more monolithic than its counterparts elsewhere. Agencies often have different and incompatible interests, and within individual agencies not all officials act alike.[20] At the agency level, for instance, the Local Government Engineering Bureau (responsible for secondary roads) is often at loggerheads with the Roads and Highways Department (in charge of the primary road network). At the individual level, some staff in the Local Government Division, for example, tried to control the misspending engendered in Ershad's upazila parishad initiative of the 1980s, while others were more interested in ignoring or benefitting from it.[21] Extraction is not a smooth or predictable process.

Nor are all senior bureaucrats anxious to keep the system running as it has been. A significant number of the most senior civil servants, for instance, both active and retired, contributed to Rehman Sobhan's critique of government performance (often quite severe) and proposal of drastic changes (including bureaucratic reform) for the new democratic government under Khaleda Zia.[22] The upper bureaucracy, to modify an old Marxian concept, does appear to be a "group in itself" with distinct group interests, but it is not really united as a "group for itself," for both its agencies and its members are too often wont to move in different directions.

Is there any chance for improving bureaucratic performance within the confines of the political economy paradigm? The classic prescription for change, of course, is revolution, but the possibility of such an event has to be regarded as exceedingly remote in Bangladesh today.[23] Without a revolution, what way ahead does this explanation offer? If classes and their interests are so determinant, then the task has to be to neutralize the most harmful ones and help the most progressive or growth-oriented ones.

Given the tenuous hold that the shifting coalitions of military, bureaucratic, and political leaders have had on the state in Bangladesh, it seems doubtful that the vacillating dynamic of domestic politics could ever combine and persist in the effective neutralization of some groups and strengthening of others. Could the international donor community fill the breach here by attaching conditionality to its loans to ensure serious bureaucratic reform? Probably not, as we shall see in the following discussion.

Public Choice Explanations

Many of the conclusions reached through the political economy approach can be arrived at more directly from a public choice perspective. This school of thought has several versions, which at times can be at some variance with one another (see Mitchell 1988). But in the development field one of them in particular stands out, that is, the interpretation developed at Indiana University by Vincent and Eleanor Ostrom. The Ostroms' approach, often known as "institutional analysis," has a number of strands, but for our purposes it can be straightforwardly summed up as the study of institutional behavioral incentives.[24]

The principal idea here is that government officeholders, like people anywhere, are individual "utility maximizers" who will seek to optimize their own well-being within whatever incentive structure they are confronted with, even when (or perhaps especially when) those incentives lead to perverse results like corruption and the abandonment of ostensible institutional purpose. The bureaucrat, in short, will do whatever is best for himself, and in a setting where there is little reward for probity and much benefit from venality, he will readily opt for the latter. Given a political universe where the leaders—whether generals or politicians—see development spending not as a catalyst for development but as a way to purchase allegiance, there is little incentive for the bureaucrat to deliver products or services in public-benefiting ways and much inducement to seek private gains from public resources.

The complex exegesis of political economy and class analysis is much less parsimonious in its explanation for the failure of Bangladesh to develop. Institutional analysis suggests that one should expect bureaucrats to perform poorly and siphon off government resources for themselves in a situation where the leadership at the top is bent on staying in power (whether Mujib's claque or Zia's or Ershad's) more than on developing the country, and where funds (largely externally provided) are being used to buy support from important people to ensure its near-term survival. Bureaucrats, in other words, are not acting as a group or a class, either consciously as a "class for itself" or unconsciously as a "class in itself," so much as individuals responding self-interestedly to the environment in which they find themselves.

The good news here is that the remedy is less drastic than the prescription derived from political economy analysis. According to political economy precepts, the bureaucracy as an entity would have to be replaced, whereas institutional analysis suggests it is enough to change the incentive structure to reduce corruption and rent-seeking behavior. To change behavior, one needs to change the rules, not necessarily the whole structure and the players as well in the bargain.

Much the same approach can be used to account for a good part (though certainly not all) of international donor behavior. Donors often initiate projects that they must strongly suspect will produce little if any development. This is so because, first, the Bangladesh government and bureaucracy are not dedicated to such an outcome, and second, they face institutional incentives in their own organizations that reward them for "moving money" more than for designing and managing effective projects. Most donor organizations allocate a set amount of aid for Bangladesh every year, as they do for all countries, and then it is the task of the donor's representatives to find suitable activities on which to spend that money. They are not rewarded for withholding money on the grounds that a proposed project is wasteful, or that better projects must be nurtured.

This creates a situation in which Bangladesh government officials can afford to be somewhat casual about meeting donor demands for reform, secure in the knowledge that donor officials are under considerable pressure to spend their money. It is almost inconceivable that donors would abandon their programs in Bangladesh, for they would not want to have to explain why they were neglecting such a dire case of world poverty, no matter what the recipient's shortcomings.[25] Institutional incentives from several directions thus have maintained flows of resources that contribute little to development. As for remedies, the institutional analysis school has a recommendation that applies to donors that is much the same as its prescription for aid recipients to deal with the problems of corruption, inefficiency, and misdirected use of foreign assistance: Change behavior by changing the incentive structure.

Is this correct? Public choice solutions rest on two assumptions: that it is possible to modify incentives sufficiently; and that people behave as individuals rather than as group members when facing the incentive structure. The first requirement, like so many things in the policy world, is above all a matter of political will at the top. For corruption to be rooted out, the top leadership must decide that this is a foremost priority; if reducing abuse of public resources ranks after coalition building or maintaining a cozy relationship with the bureaucracy, little change is likely. Clearly, probity was not a top priority for any Bangladesh regime through Ershad's, and there is no sign that this has changed with the new elected government under Khaleda Zia.

Could the situation be improved if donors formed a united front and threatened to cut off assistance? Possibly, but given the donors' own needs to "move money," as we have seen, such a turn of events seems unlikely. Perhaps if corruption reached the scale found in Zaire or more recently Kenya and were combined with gross abuses of human rights and popular demands to protect democracy, the donors might take action, as they have in these two cases.

But Bangladesh has a long way to go before its corruption catches up with Zaire's, or Kenya's, and in the areas of democracy and human rights it has remained above the low points seen in the two African states. The donors will probably continue calling for studies to introduce administrative reform, but will stop short of seriously demanding action. And without pressure from donors, political will for fighting corruption will be hard to find in Bangladesh. Thus even if it is true that changing incentives can change behavior, public choice theory is not likely to find a test in Bangladesh any time soon.

If a modicum of political will were somehow found, could corruption be brought within reasonable bounds, if not eliminated, so that it would not interfere so much with the production of goods and delivery of services in the state sector? If the state were willing, could the incentive structure be changed to discourage rather than encourage venality? The public choice answer depends on what is known as "methodological individualism," the idea that people behave first and foremost not as social beings but as individuals, responding to opportunities and constraints in order to maximize their respective individual utilities.

Getting the bureaucracy to perform as expected is in these terms a matter of building the appropriate incentives and constraints. This is the way Thomas Hobbes saw the world, asserting that people were primarily individuals and only reluctantly a part of society, when he proposed a Leviathan state as the best way to ensure at least minimally acceptable conduct among people.[26]

While such a view may well make considerable sense in explaining Western behavior, it probably accounts for rather less in explaining what shapes performance in Bangladesh, at least in the bureaucracy. For there one's obligations to family, extended family, and wider social networks tend to take precedence over one's individuality. The state might call for probity and even attempt to punish venality, but the stronger voice of kith, kin, and community can drown out any such sound. Perhaps in the context of a smaller group and a finite resource, collective action for the common good will appear the logical means for maximizing one's utility.[27] But in the wider bureaucratic milieu, collective corruption is what makes sense.

Equally and perhaps more important is the question of who would refashion the incentive structure and how this could be done. Certainly it would seem unrealistic to expect that any of the groups presently benefiting from current arrangements will voluntarily renounce them. Neither the military nor the bureaucracy is likely to do so, and so far, politicians have shown no such signs either. Some might hold out hope for change because of international donor pressure, but efforts of this sort have been disappointing, as we have seen. Given the money-moving pressures on donors that have been discussed, a solution from this quarter also appears unlikely. Still, it may be possible to put sufficient limitations on behavior so that officials find themselves constrained to function with some serious devotion to public purposes.

Accountability, Pluralism, and Democracy

A third way to look at the bureaucratic gap is to think of it in terms of accountability.[28] In Bangladesh, the core elites in the bureaucracy, military, and politics have thus far not had to be responsible to anyone except each other. Under the circumstances that have prevailed since independence, this has amounted to no real accountability at all. Holding office has been principally a license to collect rents.

What would happen if the bureaucracy and its fellow elites were in fact accountable to a wider constituency? Accountability even to a broader grouping of elites—say the professional and business classes—should be an improvement, for this could make the state more likely to have to deliver more goods and services to more constituencies than it does now. But that would still be a relatively small circle, which would leave out the vast majority of the population. The challenge, then, is to widen that circle, to make the state accountable to a larger range of constituencies.

Accountability[29] can affect performance through negative and positive influences. It can be insisted on to ferret out malfeasance, forcing bureaucrats and politicians to behave with at least some minimum of propriety. *Freedom of speech* expressed through independent mass media can expose wrongdoing to the glare of publicity, and the *legal system*, sometimes in response to media exposés and sometimes independently, can bring malefactors to book.

But such guidance is essentially negative, telling officeholders what not to do, deterring rather than encouraging. In addition to negative sanctions, in a democracy bureaucratic and political leaders need positive direction as to what policies, programs, and services the citizens want. Positive instruction can be given through *elections*, though voting happens only at infrequent intervals and rarely offers anything more than a very general mandate to a political party leadership to pursue broad policy goals.

More specific and frequent direction comes from what is often referred to as *civil society*—the wide range of nongovernmental groups and associations that inhabit the space between the individual and the state, and which become empowered to petition and press the state to meet their wishes and demands. Such groups range from businessmen wanting tax abatements and looser regulations, through farmers wanting cheaper water and higher crop procurement prices, to "Untouchables" demanding job quotas, and human rights groups demanding due process guarantees in state prisons.

This kind of pluralist polity presents some faults and dangers of its own. The media may in fact do little investigating, the judiciary may become corrupt or simply incapable of prosecuting wrong-doers, elections may become fraudulent, and civil society may become dominated by elites milking the state for their own benefit. But if there is enough competition within the media, between political parties, and among voluntary associations, bureaucratic and political leaders will find themselves having to respond to enough persistent pressures that they have to provide more or less what citizens actually want.

Insisting on accountability may seem at first glance to be little more than a slightly different public choice approach. Both focus on how to induce better performance from bureaucrats. But while public choice concentrates on getting the "right" incentive system, through efficient *rules*, an accountability approach emphasizes the *process* of communication and decision making between officials and the public. It seeks to get the process right, with better rules for behavior as a by-product or consequence.

In South Asia, there are some examples of systems which have institutionalized an impressive degree of accountability within political-economic and sociocultural environments not very different from those in Bangladesh. In particular, Maharashtra State in India stands out as a political system in which those who manage the affairs of state—the political leaders and the upper bureaucracy—have to answer for what they do to the voters, the media, and a multiplicity of vociferous interest groups.

The result is a state apparatus which operates a reasonably well-constructed and well-maintained infrastructure, providing and servicing roads, irrigation systems, electricity grids, and the like. The state also provides an impressive array of services—schools functioning on a regular basis, dispensaries keeping their posted hours and having medicines in stock, and extension agents dealing helpfully with farmers' agronomic problems. The state oversees a vigorous and well-managed cooperative system that with some hugely successful sugar coops is the envy of both sugar growers and cooperative officials elsewhere. And the state operates a public works scheme that guarantees minimum-wage employment to anyone who needs and wants it.

There is some corruption and leakage in this structure, to be sure, and the goods and services provided are in various ways less than optimal, given the resources available. But when all is said and done, rural development has been advancing in Maharashtra.[30] This progress comes in no small measure because politicians and bureaucrats are accountable there for their behavior to broad constituencies of voters, interest groups, and the media.

How can one account for this scale of difference between systems like Maharashtra and Bangladesh in what is in so many ways the common cultural area of the Indian subcontinent? The most obvious difference is of course that Maharashtra is only a state within the larger national system of India, whereas Bangladesh is a sovereign state in its own right. Thus Maharashtra's bureaucratic and political elites do not have to deal directly with a military elite but only with each other, and so can perhaps accommodate other groups as players in the political arena more easily.

There are other differences that are much more salient between the two systems, many of which transcend the divide between states and subnational units, that can be used to compare the Western part of the Indian subcontinent—the former Bombay Presidency of the colonial period—with its Eastern region, specifically the erstwhile Bengal Presidency, which includes present-day Assam, Bihar, Orissa, and West Bengal, as well as what is now Bangladesh.[31] The most instructive comparisons are to be made using Maharashtra in the West as compared with Bihar and Bangladesh in the East.[32]

The foremost difference is in the British colonial land revenue systems, which many observers credit with creating a patron-client culture in the Eastern area, with its *zamindari* system of tax farming and tenancy, in contrast with the *ryotwari* system of Bombay, where those who farmed the land held it directly from the state, becoming something of an Indian analogue to the "sturdy yeomanry" praised in Thomas Grey's verse and Thomas Jefferson's political philosophy. The legacies of these systems, it can be argued, were, respectively, a culture of exploitation and dependency in the East compared with one of independence and self-sufficiency in the West.

Other distinctions are more contemporary, though they clearly have historical roots. Human resource investment stands out clearly as one of these differences. Literacy, which can serve as a proxy for the PQLI measures more generally, has been roughly twice as high for males in Maharashtra as in Bihar and Bangladesh in recent years and about 2.5 times higher for females. Interestingly, in 1951, literacy levels were just about the same across the three areas, indicating that the larger human resource investment in Maharashtra is relatively recent.[33]

There are also cultural differences. Interpersonal relations are more hierarchical in the East, where social rigidities between superior and subordinate are considerably harsher. Women are more restricted in their freedom there as well, in part because of the residual legacy of *purdah*, which formed an important part of the Muslim culture that dominated North India for hundreds of years before British rule but which barely penetrated to the Maharashtra region.

Indeed, differences between the regions are many, and given the long history of a number of them, it is virtually impossible to disentangle which are more causal and which are more in the nature of effects. One major consequence of these differences is that the bureaucracy and the political leadership in Maharashtra are *accountable* to the citizenry in ways that are simply absent in Bangladesh and Bihar. Bureaucrats and politicians in Maharashtra find that they have to produce the goods and services that people want, whereas their counterparts in Bangladesh and Bihar for the most part do not feel or act so constrained.

How might accountability be introduced to the latter areas? Certainly there is little hope for reform from within the bureaucracy itself: in rational-actor terms, why should bureaucrats or politicians want to reform a structure which allows them a secure and in some cases quite comfortable living in an environment full of danger and insecurity? Any serious reform must come from outside the bureaucracy.

How could this happen? Through donor initiative? The World Bank and the International Monetary Fund in seeking "structural adjustment" are willing to press financial accountability, but so far they have shied away from pushing for the kind of political accountability outlined here. In many countries, bilateral donors have supported efforts to establish accountability in the sphere of elections by funding technical assistance and monitoring activities. They have backed attempts to assure human rights by supporting advocacy groups, legal aid, and the like. And there has been some interest in assisting nongovernmental organizations (NGOs) more generally as political action agencies, for instance in the areas of women's rights and environmental protection.

In Bangladesh as well there have been some donor-sponsored efforts along these lines. In particular, human rights and election monitoring have received support, especially in the post-Ershad period. Could the same level of donor enthusiasm be mustered to spearhead a drive to increase accountability in the bureaucracy? This has not been the case thus far. Somehow donors have always had other priorities, such as structural adjustment, higher procurement prices for agricultural products, or privatization of state enterprises. And while interest on the Bangladesh side was never overwhelming for initiatives like these, at least there was more willingness to move in these directions than even to think of instituting accountability for the bureaucracy.

Today, however, there is a new political equation in Bangladesh. The cozy relationship that grew and matured over the Ershad period between the upper levels of the bureaucracy, the military, and the Jatiyo Party was suddenly severed by President Ershad's resignation in December 1990. The alliance that had successfully resisted bureaucratic reform since the mid-1970s and extended and deepened bureaucratic corruption during the 1980s under Ershad was at least briefly dislocated. Elections—arguably the first genuinely free and fair elections in the country since 1970—were held in February 1991, bringing in a new government with a mandate to establish and consolidate a democratic polity.

It is by no means certain that the new Bangladesh National Party government under Khaleda Zia could have instituted serious bureaucratic reforms in its initial days. But what is clear is that her government exhibited no intent to do so, even if it did muster the courage to undertake significant constitutional reforms, changing from a presidential to parliamentary state.

The new government has not only declined to push for bureaucratic accountability; it has squandered the one ready-made opportunity that might have existed for such accountability to percolate up through the system from below, namely through the upazila set-up. As noted earlier, the upazila parishads established by the Ershad regime in the early 1980s featured a chairman elected at large and a council composed of the elected heads of the local government bodies in each upazila. These parishads were to set policy and priorities for government activity, to be implemented by the upazila staff of specialists in the various departments relevant to rural development. In other words, there was an institutional mechanism in place that would make local government accountable to elected officials for the first time in the country's history.[34]

Not that the upazila initiative in fact suddenly made local governments truly accountable to the public. As might be expected, local elites managed to take over the parishad and union councils as they had all previous forms of local government (see, e.g., McCarthy 1987; Zafrullah and Khan 1989). Such manipulations meshed neatly with the three-tier political economy model set forth earlier: National elites cemented an alliance with rural elites through the latter's control of the upazila system, using the glue of rural development funding, of which an inordinately large part went into the pockets of these same rural elites.

The point here, however, is not what did happen with local government, but what *could* have happened if given enough time. The upazila system was the one structure in rural Bangladesh during Ershad's time through which people could have discovered their power to "reach up" and hold their governors accountable.[35] That they did not do so during the relatively short timespan of the Ershad years (1982–90) is not surprising. Perhaps they never would have done so, though experience in neighboring India with the panchayat system would suggest otherwise (Blair 1985, 1988).

There is reason to think that over time, as groups would gradually organize themselves into a local-level "civil society" and engage in the political arena, a similar "reaching up" could have occurred in rural Bangladesh as well. Some of the larger NGOs in Bangladesh, which have developed considerable political consciousness among their members, could become instrumental in this regard, although any real progress in altering the political system even at the local level would be slow at best.[36]

Unfortunately, Khaleda Zia's newly elected government foreclosed this possibility for the near term by abolishing the upazila chairman's position in late 1991 and then the upazila structure itself in 1992. It is virtually certain, though, that the upazilas will be replaced with some form or another of elected local government.[37] It is likely that the same scenario of takeover by local elites will occur, along with allegiances maintained between them and national elites. But if the new dispensation can stay in place long enough, say a decade or even two, a rural civil society may emerge at last and popular accountability can begin.

With an increase in the accountability of local government to its constituents, the possibility arises that government officials will actually have to deliver the goods and services they have been able to manipulate self-servingly for so long. Schools will have to hold classes, public dispensaries will have to treat patients, and agricultural extension agents will have to tend to the needs of small farmers. Such developments should not be romanticized. They would be only a beginning, and they cannot do much for those who cannot afford the opportunity cost of education for their children, or who lack the means to pay for the drugs dispensed in the clinics, or who have no access to land on which to follow the advice gained from the extension agent. Nor does the delivery of goods and services by itself assure that rural development will take place; recipients must use them appropriately for this to occur. But these things would be a start.

In sum, the challenge of instituting the kind of popular accountability called for under Bangladesh's democratic constitution has never been taken up at the national level, while at the local level there has been a reverse with the abolition of the upazila system. Whether the Khaleda Zia government might have promoted much accountability is uncertain, given the circumstances presented in this essay. But so far no regime has made any serious attempt to establish mechanisms for ensuring responsible decision making and conduct by officials at the national level or—except for the fleeting and incomplete upazila experiment under Ershad—at local levels either.

Conclusions

Three perspectives for explaining the gap in bureaucratic performance for promoting rural development in Bangladesh have been reviewed. All three offer reasonable analyses of that gap (though some are more complex than others), and while each contains prescriptions for closing it, none of the remedies would be easy to achieve.

In political economy terms, it seems unlikely that any alliance of groups and classes could emerge to challenge the shifting military/bureaucratic/political coalition that has dominated the national scene since independence. The changes in the bureaucratic incentive structure that the public choice approach points to are not hard to devise, but who could be found to implement them? And while pluralistic accountability would go far toward closing the gap, where will the pressure come from to force an unwilling government to act more responsibly toward its citizenry? Donor agencies, though they collectively contribute a great deal to Bangladesh's development effort, appear unlikely to try to bring enough influence to bear on the government to close the gap. Any real change will have to come from within.

Of the three approaches considered, the most expeditious way to begin to close the bureaucratic gap appears to lie with an accountability strategy, because it can be more incremental than the other two. The political economy school requires a drastic change in the dominant class structure just to get things moving at all. And while the public choice approach would not need any upheaval quite that striking, it would require a major break with the past to begin reforming the incentive structure. Accountability, on the other hand, can be introduced in gradual doses.

How might accountability be instituted in the future? A stronger state like Taiwan could introduce democracy and accountability incrementally on a top-down basis (see e.g., Cheng and Haggard 1992; Gold 1992), but Bangladesh as a state scarcely possesses the strength required. A state like India (or some of the subnational states within India), weaker than Taiwan but still stronger and more autonomous than that in Bangladesh, can make changes in a bottom-up way. But the process takes a couple of decades at least, and it is still incomplete. Middle peasants are now reasonably well represented, while some (but significantly less) progress has been made by women, untouchables, and the poor more generally.[38]

One can hope that the new local government system to be introduced by the Khaleda Zia government will create the potential for genuine popular representation at a high enough level to have some measurable impact on rural bureaucracy (say, at the upazila or district level). If this structure is allowed to stay in place for the decade or more that would likely be necessary for it to become institutionalized, there may be some hope for making government accountable at local levels and inducing it to spend its energies and funds in ways that actually promote rural development.

Admittedly, there is danger in such a gradualist path that nothing may change at all in the end, or that small changes may all too easily be rolled back. Indeed, even the potential for change can be reversed before any actual change has had a chance to occur, as happened with the abolition of the upazila system. Nevertheless, in Bangladesh's current context, the gradualist path toward accountability appears to offer the only prospect for closing the bureaucratic performance gap at all.

Notes

1. Data are from World Bank (1991: 204). The figures cited here as (weighted) averages for the forty-one lowest income countries do not include data for China and India. If these two countries are included in the base, Bangladesh looks even worse by comparison.

2. Of the 75,000 Class I officers, some 42,000 work for a multitude of autonomous government-owned corporations such as the Bangladesh Chemical Industries Corporation and the major nationalized banks, which leaves only 33,000 employed in the regular line ministries and the secretariat (BBS 1991: 120).

3. The poverty line in Bangladesh has generally been determined on the basis of household expenditures required to meet a minimum diet of 2,112 calories. See Hossain (1991: 51–52) for a discussion.

4. See Braibanti (1966) for a detailed analysis of how both the ethos and the practice of the ICS were carried over into the new CSP after Pakistan's independence in 1947.

5. As any number of donor-supported expatriates who have worked in Bangladesh (including the present author) can attest. Within the next few years, however, they will be retiring, and by the turn of the century there will be few if any left in service.

6. The foreign aid received by some smaller poor countries amounted to a much higher portion of GNP (Mozambique 59 percent, Somalia 39 percent). But among the world's poorest large states, Bangladesh has been rather generously treated. China received foreign aid equivalent to 0.5 percent of its GDP in 1989, India 0.7 percent, Nigeria 1 percent, Indonesia 2 percent and Pakistan 3 percent by comparison (World Bank 1991: 242).

7. The development budget during this period averaged about 45 percent of total government expenditure, with the so-called "revenue budget" (mainly for meeting payrolls) accounting for the rest. With total government expenditures averaging 15–16 percent of GDP, the development budget thus came to about 7 percent of GDP, well below the 9 percent of GNP supplied by foreign aid (even taking into account the fact that GDP and GNP are slightly different measures). Not all development spending was financed by foreign aid, of course, since some was supported by the government, as in host-country contributions to projects. Still, the foreign aid given Bangladesh more than equalled the entire development budget. Data on government spending are from BBS (1991: 405); data on foreign aid as percent of GDP are from World Bank (1991: 242). Sometimes these sources use GDP and sometimes GNP.

8. The World Bank study is cited in Faaland and Parkinson (1976: 132–33). For later, more modest but still quite optimistic estimates, see de Vylder (1982: 15–24); Wennergren et al. (1984); Hossain (1988); Abdullah et al. (1989: Main Report, 48–52); Abdullah et al. (1991: II, 101–49).

9. The total investment in rural development would be larger than that for agriculture, as it would include a portion of all expenditures on health, education, roads, and the like. But to separate out what part of the budget went to rural rather than urban development would be virtually impossible, even given the detail available in the government reports (e.g., GPRB 1989). Government spending on the agricultural sector (which includes forestry and fisheries as well as crops and livestock) can be used as a very rough proxy for spending on rural development generally.

10. In the 1960s, Bangladesh was still part of Pakistan. World Bank data (1992) include statistics for what was then East Pakistan to facilitate comparison with other countries. Comparisons here in Tables 2.1 and 2.2 include these older data to avoid having to use as a baseline the extraordinarily difficult beginning years of Bangladesh's independence, when the country was suffering from war damage as well as a severe famine. In Table 2.1, for instance, data from the early 1970s, just after the civil war, would have been much less favorable than those from the early 1960s, which would make the subsequent improvements shown in Table 2.1 excessively positive. All the measures in Table 2.1 are for total population rather than for rural population

only. In all likelihood the latter would show even less improvement in rural areas than the aggregate figures indicate.

11. See Hossain (1991: 26 and passim). Because different countries have different poverty levels and different ways of measuring poverty, comparisons are difficult. The World Bank source (1992) used for Table 2.1 offers several measures by which poverty could be assessed for each country, but there are very few entries for Bangladesh, presumably because of data and measurement difficulties.

12. GNP data shown in Table 2.2 are for the entire economy, rather than for the agricultural sector. In Bangladesh, this sector contributed 44 percent of GDP in 1989, though about 84 percent of the population still lived in the countryside (World Bank 1991: 208, 264). In view of the slow growth rates achieved in rice production, seen in Table 2.2, growth in per capita rural incomes has in all probability lagged behind that for the economy as a whole. So the 0.4 percent shown in Table 2.2 would overstate that of the rural economy.

13. For good assessments of the rural political economy in Bangladesh, see, for instance, Wood (1981); de Vylder (1982); Hartmann and Boyce (1983); Rahman (1986); and Westergaard (1985).

14. A large number of village case studies attest to this pattern of elite dominance. See, for instance, Arens and Van Beurden (1977); BRAC (1979); Hartmann and Boyce (1983); Jahangir (1979). Similar patterns exist over wider areas as well, as seen in the BRAC (1980) study of ten contiguous villages, appropriately entitled *The Net*.

15. This picture is, of course, greatly simplified. There are many groups in this third category, not all of which (e.g., self-sufficient peasants) are dependent on rural elites. And some of the rural gentry owe their wealth not to land but to trading or, more recently, construction, which has developed a symbiotic relationship with local politics somewhat similar to that found in the United States.

16. The reorganization of cadres occurred in September 1980, at the apogee of power for Ziaur Rahman's government (1975–81), which had by then achieved a serious degree of legitimacy, turning itself from a military autocracy into a popular regime through a series of elections. It was thus able for a short time (1980–81) to move independently of the bureaucracy in ways that were never possible for the governments of Ershad (1982–90) or—after the first waves of enthusiasm post-independence—Sheikh Mujibur Rahman (1972–75).

17. The never-released study was MOE (1989). A somewhat similar (and similarly ignored) study was sponsored by the United Nations about the same time (Betts et al. 1988). For an analysis of the bureaucracy's largely successful efforts to resist reform, see Khan (1989).

18. See Theobald (1990: esp. Chapter 5) for an elaboration of this argument.

19. Documentation is understandably scanty on this, and so evidence is largely anecdotal. Ahmed et al. (1991: II, 389–94) sum up what is widely believed about increasing venality in the 1980s.

20. On this theme more generally, see Esman (1991: 33ff).

21. Based on the author's experience in Bangladesh during the late 1980s.

22. This four-volume study appeared as Sobhan (1991).

23. And even if a revolution were to occur, putting a radical government committed to structural change in charge, one must seriously doubt that bureaucratic rent-seeking behavior would be reduced over the long term, if post-revolutionary historical experience elsewhere is any guide (Colburn 1994).

24. For an overview of the institutional analysis approach, see E. Ostrom et al. (1990). There is a much larger literature on public choice as it relates to bureaucracy. See, e.g., McLean (1987: esp. 81–102) and Dunleavy (1991: esp. 147ff).

25. Somalia presented an extreme case of this situation in 1992. Faced with extensive looting of relief supplies by local authorities, international donors found themselves having no choice but to continue pouring massive relief into the country in view of the desperate conditions of starvation prevailing there. Things in Bangladesh are similar, albeit considerably less critical.

26. For a contemporary assessment of methodological individualism and its implications for public administration, see V. Ostrom (1989: 44ff and 94ff; 1991: 31ff).

27. As has been seen in many of South Asia's common property resource management systems, particularly for water and forestry resources. See E. Ostrom (1990 and 1992); also Blair (1991b).

28. For a brief review of the literature on accountability in political development, see Brautigam (1991). This literature is not as cohesive a corpus as that for public choice, nor is the approach so well established that development specialists could be expected to be as well versed in it as with political economy. Much of the literature deals with Africa and so has not been accessible to (or accessed by) persons focusing on other areas. See, e.g., Hyden (1983) and Chabal (1992).

29. A more detailed explanation of the ideas outlined in the next several paragraphs is offered in Blair (1992b), which attempts to build an applied approach to development around the concept of accountability.

30. This achievement is apparent not so much from income data (the percentage of people below the poverty line in rural Maharashtra has not been much different from that of India as a whole—Dev et al. 1992) as in the quality of life measures which, as argued in the text, are more meaningful measures. Infant mortality in rural Maharashtra in the late 1980s was about 70 per thousand, compared with approximately 110 in rural Bangladesh, and 100 in rural India as a whole (Bose 1991; BBS 1991: 69). Rural literacy among females stood at 25 percent in Maharashtra in 1981, compared with 11 percent in Bangladesh and 18 percent in India overall (Verma 1986; Rabbani 1984). Antipoverty programs work better in rural Maharashtra comparing its Employment Guarantee Scheme (EGS) with Food-for-Work programs (FFW) in Bangladesh. Both provided about 100 million person-days of employment at the end of the 1980s, but EGS operates all year round, offers work to whomever wanted it at the stated wage, gives roughly half its work-days to women, and is financed by Maharashtra itself (largely through taxes on the urban middle and upper classes). The FFW on the other hand operates only during the dry season, is limited in its coverage, hires mostly men, and is financed through foreign aid (see Ravallion 1991).

31. The old Bombay Presidency is divided between modern Gujarat and Maharashtra, though both these contemporary states include a good deal of other territory as well. Still, I would argue that these two present states are the legatees of old Bombay in much the same fashion that Bihar, Bangladesh,.etc., can be traced back to the earlier Bengal Presidency, where the geographical matchup is more exact. The cultural regions endure. For a comparison in more depth, see Blair (1988).

32. Such a comparison bridges the subnational/sovereign state gap by including both Bihar and Bangladesh in the East, while avoiding the clutter and confusion that would accompany any attempt to include all the successor entities to the two former Presidencies. There is, of course, the "anomalous" case of West Bengal, which

under its Marxist leadership of the past quarter century has taken a course quite different from that followed by the rest of the Eastern region. In some ways the West Bengal experience suggests what might be politically possible to undertake in the wake of colonial rule in the Eastern region of the subcontinent. But the record is disputed, with some holding that equitable rural development has indeed occurred (e.g., Lieten 1992; Webster 1992), while others deny it (e.g., Mallick 1992). Comparisons between West Bengal and Bangladesh offer many valuable insights (see Bose 1986; Boyce 1987; and van Schendel and Faraizi 1984; also Blair 1991a), as do comparisons between West Bengal and Maharashtra (Echeverri-Gent 1991). But such comparisons would require a whole other analysis and assessment from the present one.

33. Literates as a percent of population in 1981 were in Maharashtra, Bihar, and Bangladesh, respectively: males 59, 38, 26; females 35, 14, 13 (from 1981 censuses: Padmanabha 1981; Rabbani 1984). Thirty years before, the percentages for all three areas were about 30 percent for males and 10 percent for females. Overall economic progress is harder to gauge, since aggregate measures like per capita income necessarily include in Maharashtra the city of Bombay (by far India's richest), making it difficult to assess rural welfare.

34. Actually the idea of having an upazila chairman elected at large was unique in the subcontinent, so far as is known to this author (for an analysis of the upazila system and its potential, see Blair 1985). The more general practice with local government has been to employ tiers of indirectly elected officials, with only the councils at the very lowest level elected directly by the citizenry. Some of the Indian states have governmental bodies at a higher (e.g., district) level directly elected, but the head of the unit is then chosen by the elected membership, i.e., indirectly like a prime minister being chosen by the majority party in the parliament. Bangladesh, in other words, provided for a higher degree of direct citizen voice in choosing local leadership.

35. The phrase is from Hyden (1983: 131). See also Brautigam (1991: 18).

36. Several studies in recent years have found that even the NGOs with political empowerment of the rural poor on their long-term political agendas had made little progress toward this end. Income generation is understandably the first priority in the Bangladesh context and this has tended to crowd out political ambitions (Hasan 1985; Hashemi 1990 and 1991). On the other hand, a case study focusing on NGO participation in the 1991 local elections found some modest impact, which could grow as time goes on (Westergaard 1992). In a number of constituencies, grassroots organizations stimulated and assisted by BRAC, without outside encouragement, undertook bloc voting at village level to elect officials more sympathetic to the needs of the poor majority (separate personal communications from F. A. Abed to N. Uphoff and H. Blair, 2/92).

37. This is principally because no central government can manage the countryside directly through uniform top-down controls; it needs some kind of decentralization to adapt its governance to local conditions. To gain and maintain legitimacy in the modern era, this requires some form of elected local government, as each successive regime in Bangladesh has found (Blair 1985; also 1992a). Indeed, by the summer of 1992, the Khaleda government had produced a new plan for representative local government (Rashiduzzaman 1992).

38. For analysis of these issues, focusing mostly on Maharashtra, see Omvedt (1988, 1989a, 1989b, 1991a, 1991b).

3

Management and Productivity in Kenyan State Enterprises

David K. Leonard

Most critics of poor public sector performance see its roots as lying in *either* weak management or an unsupportive policy environment. Indeed analysts often clash as to which of these factors constitutes the *real* problem. Analysis of case studies from Kenya's public sector suggests that these two factors are often mutually reinforcing and even interactive. Not only can a hostile policy environment create poor internal management, but weak management attracts adverse government policies. These interactions working in reverse can have positive effects. Appreciation of these more complex causal relationships leads to prescriptions for improving public management that are quite different from those frequently advanced.

The Setting

Kenya's public corporations are not performing satisfactorily. About this there is no controversy. A Kenya government *Working Party on Government Expenditure* pointed out that:

> examples of unsound and poorly controlled [parastatal] investments can readily be found. . . . [The sector is frequently characterized by a] lack of advance planning, adequate safeguards for Government investment and good management, which has resulted in uncontrolled cost escalations, inefficient technologies and unprofitable enterprises. (Ndegwa 1982: 42)

Similarly Barbara Grosh in her impressive study on *Public Enterprise in Kenya* (1991: 22–23, 153–54) reports that half of the corporations she studied had serious financial and efficiency problems.

The controversy instead concerns the role of management in these problems. A Kenya government *Report of the Committee on Review of Statutory Boards* saw it as central and based its recommendations on what it saw as faulty selection of parastatal directors and senior staff and on weak financial control procedures (Ndegwa 1979). This diagnosis was implicitly endorsed by the passage of the State Corporations Act in 1986, which strengthened government controls over managers.

Grosh contends, on the contrary, that poor parastatal performance reflects general economic conditions and policies of the government itself. She sees the managers of public corporations much more as victims than as villains (Grosh 1991: 155–69). These apparently contradictory analyses are both correct in a connected way. Kenya's frequent failure to select capable managers for its public enterprises is often responsible for the policy failures that have sapped their strength.

The Policy Problem

Few doubt that corrupt and incompetent managers exist in Kenya (as well as everywhere else). But what is their frequency and the extent to which they account for the acknowledged problems of the parastatal sector? Whereas the two Kenya government commissions chaired by Philip Ndegwa had to deal with the effectiveness of public enterprises in generalities, Barbara Grosh was able to develop a twenty-year time series of performance indicators for thirty-three parastatals. Her analysis of these data focuses attention on the occurrence of adverse economic conditions and on flaws in the policies governing many of the enterprises.

The constraining international economic climate in which Kenya has found itself since 1979 is certainly responsible for many of the problems of public corporations. On the policy front, Grosh notes the damage that can be done to parastatals by inflexible controls over the prices at which they buy and sell their products. Some corporations suffered from having to compete against unregulated private firms while their own prices were fixed by government. Others, with regulated prices that were appropriate on average, could respond only slowly to swings in supply and demand, which left them with debilitating surpluses and shortages. Grosh also pinpoints frequent faults in firms' financial structure. Several enterprises she studied were seriously undercapitalized and/or short of adequate working funds, while others had highly leveraged financial structures, with most of their capital coming from loans rather than equity. These parastatals were highly vulnerable to sudden surges in interest rates. Still other, less evident policy constraints can be identified. There is an all too common propensity to give parastatals inherently unprofitable social mandates without providing them with the resources or means that would compensate for the costs involved (Grosh 1991: 155–65).

Surely the policy problems that Grosh cites are real, and they account for much of the poor performance observed in Kenyan public corporations. In a comparative study of parastatals in Botswana and Tanzania, Mukandala concludes that performance is largely determined by the political context and government agenda within which these corporations operate (Mukandala 1988). Are we then to conclude that management accounts for little in the variation in effectiveness of these firms?

The Policy Responsibilities of Management

The second of Ndegwa's reports to the Kenya government on parastatals acknowledges many of the policy problems raised by Grosh but still focuses attention on management (Ndegwa 1982: 45, 49). For reasons that are not well articulated in the report itself, this is apt. Grosh's analysis overstates its argument by treating policy making and management as separable functions. They are not. Philip Selznick's classic *Leadership in Administration* (1957) stresses that the most important role of chief executives is not internal management but setting the objectives for their organizations and mobilizing the resources to achieve them. This view amplified that of Chester Barnard (1938), and it has been strongly reinforced by organizational studies done since (Vaill 1984: 91, 93–94; also Bennis 1985).

My research on the management of Kenyan rural development convinces me that administrators need not be the passive recipients of public policies. Effective managers are active in shaping the policy framework within which they operate. A few cases will illuminate the point. When Charles Karanja took over as general manager of the Kenya Tea Development Authority in 1970, the KTDA was involved almost exclusively in agricultural extension and the collection of green tea leaf. International marketing and the critical operation of "manufacturing" (that is, processing) the tea was done for the KTDA by several multinational tea firms. Karanja wanted these functions to be performed directly by KTDA, thereby expanding Kenyan control of this sector of the economy and facilitating the placement of Africans as tea factory managers. Without much difficulty he persuaded the Kenyans on his board of directors of the wisdom of his proposal.

But the multinationals, the Commonwealth Development Corporation

(CDC), and the World Bank did not agree, arguing that these functions were extremely technically demanding and that hasty nationalization and Africanization could jeopardize the viability of the entire small farmer tea initiative. As the CDC and the World Bank were the major financiers of KTDA's growth, they could veto such major shifts in policy. The dispute was carried to the Ministry of Agriculture. There, two of the big names in Kenyan politics and administration, Jeremiah Nyagah as minister and Joseph Kibe as permanent secretary, sided with Karanja's critics. Under the rules of the game, the matter should have ended there.

But Karanja would not be stopped. He used his contacts among the president's personal advisers and took the chairman of his board with him to see the president, Jomo Kenyatta, at the State House in Nairobi. There, Karanja told Kenyatta that African tea growers were grateful to the president for having fought for their right to grow the crop, but that KTDA ought to have the right to process and market the tea as well. Karanja added that if he failed to successfully manage KTDA's assumption of these functions, he would expect to be dismissed.

Kenyatta then turned to his minister of agriculture, said that he had a high regard for Karanja, and gave his personal approval for KTDA's takeover of the new functions. Kenyatta added that if Karanja failed in this new endeavor, he would be sacked. This single meeting gave government backing to Karanja's ambitions, and so the CDC and the World Bank backed down (Leonard 1991: 2). Karanja was subsequently able to mobilize the resources and quality staff effort he needed to perform these new functions well, making KTDA productivity in these areas comparable to that of the private sector (as seen in Table 3.2). These efficient standards of performance must have been difficult to maintain. To do so required not only managerial vigilance but also the political ability to maintain KTDA's autonomy.

Remarkable in this regard was the authority's lack of accommodation to the second Tri-Partite Agreement. Twice in his presidency Kenyatta struck bargains with organized labor in which they would forgo wage increases in return for 10 percent increases in employment by large public and private employers. The private sector dealt with these agreements by temporarily increasing its labor force and then using attrition to bring it back down to its previous level. In the public sector, however, the number of established (that is, authorized) positions was increased by 10 percent each time, leaving a permanent increase in employees—and in associated costs. If KTDA factories had implemented the agreements, they would have had higher labor costs than their private competitors and grower incomes would have suffered. Karanja had sufficient commitment to farmer welfare and enough confidence in his political connections to avoid the intention of the agreements. He met its requirements by transferring seasonal workers onto the permanent payroll without hiring new or additional labor for KTDA or its factories (Leonard 1991: 139–140).

Another illustration of the ability of managers to influence their economic policy environment in Kenya can be found in the events of September 1982. The country had experienced an attempted coup d'etat against President Daniel arap Moi in early August and was in political turmoil. Economically it was in a perilous condition as well.

Most developing countries had hoped that the OPEC oil price hike of 1979 would be like that of 1974, producing an economic pause, readjustment, and then renewed global growth. Thus they borrowed to get themselves through what they expected would be short-term difficulties. Instead they found themselves in a prolonged world recession, with debt burdens that quickly got out of hand. Kenya was one of the many countries so affected. The bill for these debts came due, so to speak, in September 1982. A team from the International Monetary Fund (IMF) arrived in Nairobi, ready to provide the country with bridging finance but demanding the usual package of reforms in return—budget cuts, higher interest rates, and devaluation of the shilling.

Such austerity measures are painful, and governments have been known to fall when they accept them. Given the unsettled conditions already prevailing in Kenya, none of its cabinet ministers would even meet with the IMF. Yet Kenya's senior economic managers were convinced that it would be dangerous for the IMF to leave without an agreement. Philip Ndegwa, governor of the Central Bank, and Harris Mule, permanent secretary of the Treasury, saw the economy in very similar terms. They both wanted the economy restructured to meet the present crisis. The IMF's medicine was what they would have prescribed themselves. They did not want to simply reschedule Kenya's debts and thereby postpone or prolong the agony of readjustment. They wanted instead a profile of debt repayments that would peak in 1989 and leave the country in strong economic shape thereafter.

Mule, who was handling the IMF visit, had to decide what to do when no cabinet minister would negotiate with the team. He turned to Simeon Nyachae, the permanent secretary for development coordination in the Office of the President and a man close to the president. Although Nyachae lacked the economic training and exposure that Ndegwa and Mule had up to that point in time, he had a similar outlook. He was persuaded by Mule of the wisdom of the IMF's bitter medicine.

Here we see willingness to take risks for policies that are considered best for the country, if not for careers. This does not mean that the civil servant pays no attention to the political consequences of his actions. If he thinks a position is correct but cannot be sustained at the time he will back away from it. But where he thinks he has a chance of success, he will expose himself to risk publicly in a most "unbureaucratic" manner in order to achieve it.

Nyachae took the case for the IMF package to Moi. The president had faith in Nyachae's judgment because he was satisfied that it was consistent with his own political interests. Moi is a skilled political tactician and saw that the aftermath of an unsuccessful coup was actually a good time for taking unpleasant actions. His opponents were disorganized and unsure of themselves. He accepted the IMF package and structural readjustment began.

Nyachae played a similar role with Ndegwa in the Central Bank in early 1983. Ndegwa, whose advice also was respected by Moi, wanted to initiate a new foreign exchange rate policy, both undertaking a substantial immediate devaluation and continuing to revalue the currency incrementally and unobtrusively thereafter in line with inflation and the terms of trade.

Ndegwa went to Moi together with Nyachae and the minister of finance, an economist. The policy was adopted and has proved particularly astute. Not only has it kept Kenya in a favorable trading position internationally and encouraged agriculture, but the resulting devaluations, being frequent and very small, have been invisible to the public and have therefore been nonissues politically (Leonard 1991: 215–17).

These four instances illustrate the fact that a Kenyan administrator need not sit back and passively accept the policies that the political process delivers to him. The best and most effective public sector managers have taken initiative to help shape the policy environment within which they operate.

Of course, they have not always been successful. The KTDA lost control over the domestic marketing of packaged tea during the Moi administration because Karanja mishandled a public controversy over the smuggling of tea to Ethiopia (Leonard 1991: 172–75). By this time Karanja had lost the personal confidence of the president that had made him so effective under Kenyatta. Mule and Nyachae had to back away from a liberalization of grain marketing which they favored but which became too hot politically. Some issues cannot be won even by skillful and well-connected managers, and they have to know how to detour around them. But even though executives of public corporations can win only a portion of the policy battles in which they engage, that portion is critical to the success and productivity of their organizations.

Successful managers focus on the issues that are central to their firms' performance and will assemble the resources necessary to address them. Where those issues are matters of public policy, managers need to find alternative policies that are viable within their political context, to present these alternatives cogently to persons with the power to gain their acceptance, and to mobilize support for them.

An effective manager is able to enact positive changes in the organization's policy environment, but it must be remembered that a managerial error opens the gates for hostile response. Intrinsic in the patterns of public enterprise performance observed by Grosh is an interesting and perverse dynamic. Public corporations that had positive balance sheets were treated with benign neglect by political leaders. When enterprises were doing well financially, their executives were granted a great deal of *de facto* autonomy to manage them, despite what might be tight *de jure* oversight. Furthermore, good performance gave prestige to their managers, who in turn could use this status to get policy change when they needed it. Conversely, once an enterprise lost political glamour (for example, by recording a deficit), its managers lost their autonomy and influence, and their ability to correct the performance problem was compromised. As managers' status waned, other actors were more likely to interfere and less likely to listen to the executives' analysis of the corrective action needed. Thus weak managers encouraged failure, which in turn made it difficult for their successors to be strong.

Management Does Make a Difference

Managers thus need to embrace with diligence their essential tasks of setting direction, securing external resources, and influencing policies. They need at the same time to focus their organization's internal energies by motivating and empowering their subordinates.

The KTDA Case

Charles Karanja provides evidence that management does make a difference. KTDA has been a success by many criteria. In 1959, some 5,000 smallholders with 1,000 hectares produced only one-fifteenth as much as Kenya's multinational tea estates. In 1980, KTDA was servicing 130,000 growers with 50,000 hectares. It sold half of the country's tea exports and had come to represent 5 percent of the international market. In the process, KTDA has become perhaps the world's largest tea corporation.

KTDA has excelled in quality. In 1959, Kenyan teas were bought at prices 14 percent below the average London price; twelve years later, they fetched the world's highest prices, 6 percent above the average. This preeminence in quality has been maintained ever since. The organization has been immensely profitable for Kenya and its growers. The World Bank estimated that the KTDA achieved a 28 percent return for the economy on its investments, and its smallholder producers earned incomes three times the

Kenyan average (see Paul 1982: 60–62; International Tea Committee 1985: 37; Forrest 1985: 76; and Lamb and Mueller 1982: 18–24).

A ruthless commitment to efficiency characterizes all of Karanja's career. Its results are reflected in a steady drop in KTDA's operating costs, as reflected in Table 3.1. Finally, KTDA underwent considerable vertical expansion. It grew from its base of helping smallholders to grow tea to managing the areas of manufacturing, international wholesale marketing, and retailing, supplanting multinationals in the process. These expanded areas of responsibility called for new structures and are the particular accomplishment of Charles Karanja.

The general results for KTDA factory management can be seen in Table 3.2. All senior positions in the KTDA were filled by Africans by 1980. These included nationals in factory management and marketing only seven years after the functions were taken over by KTDA. The organization had even done away with expatriate advisers by that time.

Despite this fairly rapid localization of managerial staff, and despite significant expansions in operations, KTDA contained or reduced its real operating costs. Industry experts considered KTDA costs to be roughly the same as those of the private estates in Kenya. Increased public management of functions did *not* lower productivity. This is all the more remarkable since the accounts for factories have historically been presented in such a way as to obscure their operating efficiencies from all but insiders. It would have been easy for KTDA managers to hide boondoggles.

By no means does this mean that Karanja personally, and by extension

TABLE 3.1
Average Annual Operating Costs of the KTDA

Year	Cost per ton in constant (1976) K.Shs.	Year	Cost per ton in constant (1976) K.Shs.
1963	3,868.9	1974	341.6
1964	4,203.6	1975	372.0
1965	2,877.6	1976	334.5
1966	2,224.3	1977	238.5
1967	1,821.0	1978	237.9
1968	863.3	1979	256.7
1969	1,060.8	1980	360.3
1970	578.2	1981	383.4
1971	666.1	1982	379.8
1972	482.7	1983	287.9
1973	367.8	1984	287.7

SOURCE: Grosh (1987: 63).

TABLE 3.2
KTDA Factory Costs

Year	Nominal factory cost per kg. of green tea (K.Shs.)	Real factory cost per kg. of green tea (1976 K.Shs.)
1970–71	0.41[a]	0.73[a]
1971–72	0.47[a]	0.78[a]
1973–74	0.44	0.56
1977–78	1.05	0.86
1978–79	0.40[b]	0.31[b]
1979–80	0.80[b]	0.54[b]
1980–81	1.18	0.76
1981–82	1.33	0.78
1982–83	1.35	0.74
1983–84	1.14	0.57

NOTES: It is somewhat more common to present these figures in terms of the cost of a kilogram of made (rather than green) tea. Unfortunately the KTDA Annual Reports do not lend themselves to as long a time series if that approach is used. A few of the factory costs for a kilo of made tea that are available are: 1973–74 K.Shs.1.92; 1980–81 K.Shs.5.03; 1983–84 K.Shs.4.79.

The figures presented were calculated by the author from raw data presented in the KTDA Annual Report for the relevant year. The reports give the prices received by the factories for each kilogram (kg.) of made tea [pmt], the payouts for each kg. of green tea [pgt], the ratio of the weight of the made tea to that of the green tea [mt/gt], and the percentage weight loss of the green tea between the grower and the factory [wl]. The factory cost is then: ([mt/gt]·(1 − wl)·pmt) − pgt.

There is inter-year instability in the cost figures because the factories hold back supplies in abundant years and sell them in the subsequent years. The price quoted for the made tea is for that which was sold that year, not for all the made tea that was manufactured out of green tea that year. This imperfection in the figures averages out over time. The real (or constant) costs were calculated using the GDP cost deflator and 1976 as a base year.

a. Indicates that the figure is based on a partial return of factories.

b. These figures probably are artificially low because of the sale of back supplies during the beverage boom. See the above notes on calculation methods.

the function of enterprise management, was solely responsible for the success of KTDA. The authority inherited a sound institutional structure and operated in generally favorable economic and political circumstances. Nonetheless, those advantages had to be translated into concrete organizational achievements, and the authority's high standards of performance had to be maintained, defended, and extended. It is easy to imagine that KTDA would have been much less successful if its management had been more passive and less skilled. The policy environment explains much of KTDA's accomplishments, but many of the positive features of that environment were shaped by the management itself (Leonard 1991: Chapter 6).

Dissenting Views on the Importance of Management

The stress on the importance of leadership found in the organization theory literature and the preceding discussion of Karanja does not necessarily lead to a "great man" theory of organizational accomplishment. Herbert Kaufman (1981: 135, 174) concluded from his study of U.S. federal executives that they made only modest incremental impacts on the policies and programs of their agencies.

The most vigorous dissent to the view that management makes a difference that I have found is advanced by James March. In a pair of articles on the careers of Wisconsin school superintendents, he suggests that the pattern of apparent failures (dismissals) and successes (promotions to better districts) is really random. "Most of the time superintendents are organizationally nearly indistinguishable in their behaviors, performances, abilities, and values" (March and March 1977: 405; March and March 1978).

Reflecting on these results several years later, March interpreted them more carefully. As a result of the many promotional filters through which management candidates must pass on their way to the top, he said, the variation in chief executives' actions and qualities is smaller than the measurement errors involved in evaluating their performance. The criteria for assessing successful management must be flexible to give credit for adaptability. Events that are beyond managers' control exert critical influence on performance. So the identification of outstanding managers is necessarily imprecise. What does this mean to March?

> Toward the top of an organization, it is difficult to know unambiguously that a particular manager makes a difference. Notice that this is not the same as suggesting that management is unimportant. Management may be extremely important even though managers' contributions are indistinguishable. It is hard to tell the difference between two different light bulbs also; but if you take all light bulbs away, it is difficult to read in the dark. . . . Managers *do* affect the ways in which organizations function. But as a result of the process by which managers are selected, motivated, and trained, variations in managers do not reliably produce variations in organizational outcomes.
>
> In such a conception, administrators are vital as a class but not as individuals. Administration *is* important, and the many things that administrators do are essential to keeping the organization functioning; but if those vital things are only done when there is an unusually gifted individual at the top, the organization will not thrive. What makes an organization function well is the density of administrative competence, the kind of selection procedures that make all vice-presidents look alike in terms of their probable success. (March 1984: 27, 29)

March's is a dissident view. Most others take the role of the top executive more seriously. But even he does not doubt that management is important. His generalization that *individual* managers are unimportant is most likely to hold true for mature organizations that have achieved stable personnel systems at a high level of performance. Peters and Waterman, who think managerial leadership is exceedingly important in the early stages of a firm's development, hold that, "the excellent companies seem to have developed cultures that have incorporated the values and practices of the great leaders and thus these shared values can be seen to survive for decades after the passing of the original guru" (1982: 26).

Such a stable personnel system in which individual managerial candidates are interchangeable is itself a managerial creation. Since the pool of qualified African managers is newer in Kenya and therefore likely to be thinner, and since many of the country's parastatals are young and therefore have not achieved organizational stability, it is reasonable to expect much greater variation in managerial performance there even by March's criteria.

March's analysis is helpful, however, in that it directs our attention away from the individual, exceptional chief executive officer and leads us to focus on the personnel system through which managerial candidates are generated and selected. This acknowledges the influence of the managerial cadre, for better or for worse, on the productivity of public organizations.

Managerial Selection and Organizational Performance

Acknowledging that management matters does not guarantee greater productivity from public organizations. The way in which the Kenyan government has gone about dealing with the management function in recent years may be exacerbating rather than solving the problem. The State Corporations Act of 1986, which was recommended by the two Ndegwa reports, is oriented toward establishing controls over parastatal management. It not only strengthens accounting and financial reporting procedures, which are needed for effectively evaluating managerial performance, but also mandates detailed cost controls and central approval of parastatal budgets, measures that reduce managerial flexibility. One-quarter of the act's sections set forth procedures for the personal prosecution of parastatal managers and board members for failure to comply with government directives (Grosh 1991: 17; Ndegwa 1982: 46–49).

Avoiding Misspecification of the Problem

It is well established in organization theory that such controls induce formalism and rigidity and are dysfunctional for positions that require problem solving and the exercise of discretion. The performance of researchers, professionals, and senior executives is most enhanced by careful attention to the selection of appropriate personnel and the removal of those who fail to perform satisfactorily. Attempts to control the details of their behavior will tie the organization up in bureaucracy. In the words of Landau and Stout, "To manage is not to control" (1979: 148–56; see also Crozier 1964).

This is why Hanson's classic work on public corporations (1959) stresses the need for managerial autonomy. Precisely because of the importance of the environmental factors that Grosh emphasizes, good performance depends on selecting managers who understand these factors and are able to obtain the resources that their organizations need, including favorable policy decisions. If they are to operate effectively in Kenya, organizational heads need more than technical competence. They must have access to the president and be able to evoke confidence in their recommendations (Leonard 1991: 257–59).

Kenyatta's and Moi's Personnel Policies

The policies of Jomo Kenyatta appear to have been consistent with this model of parastatal management, at least for the first decade of his presidency. It is evident that Kenyatta appointed many people as board members, chairmen, and sometimes chief executive officers of public corporations solely for political reasons. But somewhere at the top of each parastatal there usually was at least one individual, quite often a Kikuyu, who was competent and motivated and in whom the president had great personal confidence. Kenyatta followed this person's advice and was responsive to his pleas for supportive policies, just as he was to Charles Karanja at KTDA.

It quickly became evident who this individual was, and the informal authority structure of the corporation became organized around him. In many cases it appears that Kenyatta was able to find an executive in whom he had confidence partly because there were at least a few people on the board of the corporation who were experienced in the area and from whom the president could get advice. Although *most* board members may have been strictly political appointees, gaining more from the public organization than they contributed to it, a minority had the competence and inspired the confidence necessary to manage effectively. Kenyatta delegated a great deal of authority to these individuals.

These chief executives who combined formal office with the backing of the president were often able to build effective teams of junior officers beneath them. With enough influence to control promotions and by having the vision to use it in their organization's interest, they were able to stimulate elan and effort among their subordinates. Not only did these selected junior men and women contribute to the immediate performance of their organizations, they also formed a cadre from which future senior executives could be selected. Where this process worked well, as it did in KTDA, those promoted to senior management from within were highly likely to be productive.

The job socialization and filtering processes created a pool of administrators who were imbued with their organization's productive values and who were in many ways indistinguishable when promoted. For organizations like KTDA the depersonalization and continuity of quality internal administration of which both March and Peters and Waterman speak approvingly was achieved. It appears that this pattern of "planting" a quality executive deteriorated in Kenyatta's final years, when he became somewhat senile. His judgment in personnel appointments was no longer so sound and many of those around him manipulated his decisions for their personal benefit.

Thus when Kenyatta died, observers were more impressed with the rapaciousness of his more recent, generally Kikuyu, appointees than they were with the quality and reliability of the more numerous and still-serving earlier cohort. This impression encouraged a view which saw senior administrative positions as more concerned with the distribution of benefits than with the creation of value.

Daniel arap Moi found himself in an awkward position when he succeeded to the presidency in 1978. He inherited a large group of Kikuyu senior officials, some good and some not, who had inspired Kenyatta's confidence. Since the Kikuyu were an important part of his governing coalition through 1982, Moi could not simply remove these executives. But they did not enjoy Moi's confidence and they therefore were unable to get supportive decisions from him in the same way in which they had with Kenyatta. When the economic environment took a sudden turn for the worse and new policies were urgently needed, the organizations managed by these individuals began to fail.

Meanwhile President Moi played a game of attrition. He established a mandatory retirement age of fifty-five, which enabled him to dispense with the services of many of Kenyatta's appointees. He would wait for the rest to make some error or for their organizations to show signs of failure. The offending executives could then be dismissed with legitimacy in the public's eyes.

Whatever its political logic, this strategy was terribly debilitating for the quality of public management. Not only were executives unable to get the policy decisions and resources that they needed, but they also experienced great uncertainty and insecurity about their jobs. They became cautious and managed by the rule book instead of taking the initiatives that were needed to solve their organizations' problems. This new political environment made it more difficult—but also more necessary—for managers to try to improve their policy environment if the productivity of public organizations was to be maintained.

The preceding are only transitional problems, however. If these "holdover executives" were replaced one by one by others who were both skilled and enjoyed the new president's confidence, all would eventually be well. Unfortunately, it appears that Moi does not have the talent that Kenyatta had for finding managers to whom he can reliably delegate decisions. Some of those in whom he has confidence seem to be more concerned with their own than with their corporation's interests. Others, who seem more competent and dedicated to the public interest, are unable to retain his confidence for long enough to create successes in their policy or organizational domains.

Moi's trust appears to be more fickle that Kenyatta's was. The problem is *not* that many top posts are assigned solely out of political considerations; that was true of Kenyatta as well. The difficulty instead is that Moi is not sufficiently discriminating among his appointees and is putting his trust in unworthy people. The consequence is corporations that either are weakly managed internally or poorly served by the policy framework in which they operate, or both. This pattern of weak management unfortunately bodes ill for the future. Weak or misguided chief executives cannot create or sustain a competent and well-motivated junior executive cadre. Future senior executives therefore have to be selected even more carefully, even if the political-managerial relationship is corrected.

Conclusions

The problem of public corporations in Kenya today then is both one of management and of policy; the two are intertwined and mutually reinforcing, not alternative explanations. The interaction effects of management and policy environment observed in Kenya can be generalized more widely. The most effective mangers are ones who understand clearly what public policies are needed to sustain the effectiveness of their organizations *and* who have the political influence to obtain these policies.

The ability to inspire political confidence thus ranks equally with technical competence in the selection of top executives to achieve desired productivity from public organizations. Nonetheless it also is true that skill at internal administration (which is a part of technical competence) has implications for political influence. Administrators whose managerial failings create visible performance problems will lose political influence, just as those who can dramatically improve their organizations' efficiency and effectiveness inspire political confidence. Thus public sector personnel systems that give exclusive attention in the selection of executive leadership to *either* technical administrative competence or political influence will produce failures. Development administration involves the interaction and thus requires the joint weighing of these two factors.

4

Mentalité, Rationality, and Productivity: Sandinista Administration of State Enterprises in Nicaragua

Forrest D. Colburn

The Nicaraguan revolution, led by the Sandinista Front for National Liberation (FSLN), toppled the Somoza dynasty in July of 1979, supported by a loose coalition drawn from every stratum of Nicaraguan society. The political change inspired widespread hope that removal of the corrupt despot would lead to correction of the many inequities prevailing in Nicaragua. That never happened, however, and indeed, Nicaraguans of all classes became decidedly poorer in the aftermath.

The election of February 1990 ended Sandinista tenure, and at the same time, the Nicaraguan revolution. The Sandinistas were constrained by many difficulties, including a persistent counterrevolution. But the country's unsatisfactory economic performance was the most damaging electorally for the Sandinistas, and for the welfare of Nicaraguans. Table 4.1 details the dismal performance of the economy from 1985 to 1990. The country's precipitous decline would have been even greater if not for extensive foreign aid, which in many years was equivalent to double the value of national exports. The country's foreign debt increased from US$1.6 billion in July 1979 to US$9 billion on the eve of the 1990 election.

The economy under the Sandinistas struggled with many liabilities, especially the costs of defense and a distrust of the private sector. What is notable, though, is that even where they had considerable autonomy, in the state enterprise sector that constituted perhaps a third of the formal economy, the Sandinistas suffered calamitous financial losses and there was widespread public belief that they were incompetent economic managers.

From a research base at the Central American Institute of Management (INCAE, the Instituto Centroamericano de Administración de Empresas), I

TABLE 4.1
Nicaraguan Economic Indicators, 1985–90 (percentage)

	1985	1986	1987	1988	1989	1990
Growth of GNP	−4.1	−1.0	−0.7	−13.4	−5.2	0.1
Per capita growth of GNP	−6.7	−3.5	−3.0	−15.4	−7.6	−2.9
Inflation	334	747	1,347	33,603	1,690	13,491

SOURCE: Comisión Económica para América Latina (CEPAL)

had an opportunity to study at close range the "managerial environment" in the Sandinistas' extensive state enterprises. These ranged from a discotheque in Managua to mammoth agricultural estates. Such a study contributes to understanding why public bureaucracies in poor countries so often perform inadequately. The Nicaraguan case suggests how important for achieving and maintaining productivity are public attitudes, values, and norms—what can be called *mentalité*.

Macroeconomic performance of the kind detailed in Table 4.1 is the aggregate of countless microeconomic choices of individuals. Those choices can be expected to be made, on average, "rationally." But political forces, including vague and utopian ideologies, can alter the calculus for individuals of what is "rational." Such a view is expressed by the economist Arnold Harberger:

> The Nicaraguan economy got where it is through a series of policy blunders. . . . It is gratifying to know that there were countercurrents of economic rationality during that period. But it is important to realize that the countercurrents of economic rationality were no more than just that (the counterculture to Sandinismo, as it were). The main currents were what swept the Nicaraguan economy into its present dismal situation. Whether those currents can be tagged with the label of populism I do not know and would not venture to guess. But that they can be accurately tagged with the label of bad economics I have not the slightest doubt. (1991: 368)

How "currents of economic irrationality" suggested by Harberger can sabotage the potential productivity of public organizations can be grasped by studying the impact of politics on managing assets which were entrusted to Sandinista administrators. Understanding the Sandinista "managerial environment," disaggregating its dimensions, helps explain how and why decisions were made that unwittingly led toward Nicaragua's economic morass.

A number of suggestive works on the influence of ideas have recently emerged in the study of comparative politics, political economy, foreign policy, and history.[1] Despite their differences in subject matter, they all focus on policies and outcomes that cannot be explained solely by changes in objective conditions or material interests. All attempt to provide alternative explanations that incorporate an appreciation for the role of ideas. The most forceful of these studies argue that ideas are more than a kind of intervening variable mediating interests and outcomes. Instead ideas are held to "transform" perceptions of interests. They shape not only actors' perception of possibilities, but also their understanding of their interests (Sikkink 1991: 243; also Uphoff 1992: 360–63, 374–77).

The legacy of Sandinista public administration is a testament to the importance of "ideas" in explaining outcomes—or more particularly, the absence of desired outcomes. What is especially suggestive about the Nicaraguan case, though, is that the idea of revolution was so diffuse, so inchoate, and so widely—and divergently—appropriated by different sectors of society. The political ascendancy of the idea, or more accurately, the mentalité, of revolution was intimately linked to the triumph of the Sandinistas in seizing and consolidating power. It was expected to raise the productivity of the Nicaraguan people, suppressed by the crass material exploitation of Somoza and his associates. But the Sandinista leadership proved unable to control—and at times even understand—what they had unleashed.[2]

Politics

Consideration of the state administrators' environment begins with the most obvious and immediate element—the poverty of resources. This poverty is a legacy of the former regime and the insurrection, sorely aggravated in the postrevolutionary epoch by the counterrevolution of the Contras. But a comprehensive portrait of the state administrators' environment must include a sketch of the influence of politics.

Postrevolutionary Nicaragua was intensely politicized, circumscribing Sandinista efforts to build a new Nicaragua. While the regime did not hesitate to act boldly, as in establishing the area of the people's property, known as APP, it continuously weighed its political fortunes in forming and implementing policy. According to Commander Wheelock:

> Since the beginning of this revolution we have not had the elements or objective conditions for the construction of socialism, not in agriculture, not in industry, not in commerce. This is to say, before everything we have to consult history, the socioeconomic evolution of the country, political circumstances, and since 1979, geopolitics, before choosing those factors that will guide us toward an adequate social transformation, one in keeping with the interests of the revolution. (1984: 7)

These remarks suggest the influence of politics on decision making, but they do not touch on the extent of the regime's attempts to shape political circumstances. The FSLN actively sought to retain its supporters, to win the uncommitted, and to disarm its adversaries. And it enlisted state enterprises to participate in this political work. Examples abound, from the provision of employment and social services to government supporters to the stationing and maintenance of troops. The requirement to perform these tasks, which varied from enterprise to enterprise, affected the managerial environment. At the least it clouded objectives and sapped resources.

Politics influenced the performance of Nicaragua's state enterprises beyond treating them as a source of political resources to shore up political power. That aspect existed and needs to be appreciated. But politics had another, qualitatively different impact. The revolution brought a change of attitudes and norms, a new and unanticipated mentalité.

The heated rhetoric of the revolution debased traditional authority and challenged attitudes toward much that the old order held dear, including accounting and auditing, making profits, repayment of loans, and even a full day's work. The change in attitudes was not complete, evenly shared, necessarily consistent, or enduring. Yet the course of the revolution unmistakably altered attitudes and values, with considerable impact on the performance of state enterprises.

The Revolutionary Mentalité

The insurrection that culminated in the ouster of Somoza assaulted the values and norms of his regime. His personal rule and the economic system that underpinned it were denounced for good reason as unjust and exploitative. Agitation by cadres and mass media deepened the people's sense of deprivation and fanned hopes for a brighter future. The premise of revolutionary rhetoric was that a better life was deserved and possible for the underprivileged majority of Nicaraguans, prevented only by the rapaciousness of the Somoza regime. The triumph of the revolution unleashed a widespread euphoria and a belief that unfulfilled needs would finally be met. Many poor Nicaraguans thought that after the revolution they would suddenly have everything they had never had before, and that they would no longer have to work. All associated with the old regime were discredited.

These sentiments together can be loosely called a revolutionary mentalité, whose politically charged impact is difficult to delineate, let alone measure. But in the aftermath of the revolution there was most certainly a consequential change in attitudes toward work and authority. On the positive side, the revolutionary mentalité gave the Sandinista leadership and its cadres a sense of purpose, a willingness to act, a disregard for risk, and an indifference to personal hardship. However, the revolutionary mentalité brought unexpected difficulties that contributed to postrevolutionary Nicaragua's vexatious managerial environment.

These difficulties included an abrupt drop in the productivity of laborers, ambiguity about the objectives of economic enterprises and about the criteria for evaluating performance, a derogation of traditional managerial practices, and disrespect for economic—in contrast to political—locuses of authority (for example, banks). These difficulties are consequential in their own right. And because they undermined economic rationality, they reinforced the already existing temptation to use economic entities for political tasks.

Slowly but surely the Sandinista leaders acknowledged that revolutionary aspirations had to be tempered and that certain facile, self-serving interpretations of the revolution were misleading. The Sandinistas' own rhetoric changed, for example, from inciting workers' militancy to pleading for laborers to increase their productivity. But the Sandinistas' enduring convictions, the danger of frustrating popular aspirations that they themselves had created, plus the presence of counterrevolutionaries, prevented the Sandinistas from tackling counterproductive dimensions of the revolutionary mentalité. In the midst of cynics and counterrevolutionaries, they had to accommodate even reckless and lax followers. There were gingerly worded admonishments, weak incentives, and no sanctions. The underlying dilemma involved an often ugly tradeoff between financial responsibility and political sensitivity. Economic and political logics clashed.

Peasants' and rural laborers' interpretations of what the revolutionary victory meant burdened the Sandinista regime with a tremendous fall in labor productivity throughout most of the economy but particularly in state enterprises. Peasants and rural laborers were most likely to believe that now they would have everything they never had and would no longer have to work. Despite such hopes, it proved impossible for the rural poor suddenly to "have everything." There were few liquid assets to seize and redistribute. Rural Nicaragua is depressingly poor, and its productive facilities could not quickly provide the household goods desired.

Although frustrated in their naive desire for sudden luxury, the rural poor proved more successful in achieving the second part of their expectation, "that they no longer have to work."[3] Rural laborers throughout Nicaragua spontaneously took advantage of the near-anarchy in the countryside to reduce their labor obligations dramatically. Those employed for daily wages simply cut back on the length of the working day. Those employed for piece-rate work (*tareas*) insisted on switching to daily wages and then followed their brethren in shortening their working day. Rural laborers working for the private sector were able to reduce the hours they worked partly because economic activity slowed during the insurrection, and partly because apprehensive employers and supervisors tolerated shorter working hours and greater laxity.

The state was more affected than the private sector by the labor militancy the FSLN fostered. Hours worked per day on newly established state enterprises fell nearly everywhere. And state enterprises found themselves pressured into increasing the number of employees, usually above what was necessary. An internal Ministry of Agricultural Development and Agrarian Reform (MIDINRA) report described rural laborers' attitude:

> The peasant has come to see the new proprietor as "state" and not as "producer" and thus his expectations, rather than to exchange his efforts with this new producer, are instead to ask and often to demand from it as the state, even before the generation of some kind of surplus, the social benefits that he had been deprived under the previous form of exploitation. (MIDINRA 1985: 2)

Another internal MIDINRA report complained that Sandinista-fostered unions exacerbated the fall in labor productivity:

> The union organization in the countryside is strongest in state enterprises and has not reached the level of maturity that the workers potentially have . . . to the contrary [it] has caused a fall in the productivity of labor and a decline in labor discipline. (MIDINRA 1984: 3)

Many administrators of state enterprises maintained that their most difficult and intractable problem was labor indiscipline.

Nicaraguans' spontaneous pursuit of reduced labor obligations was eminently rational. The fundamental maxim of economic logic, that people desire more rather than less, has a corollary: in exchange for what they desire people likewise prefer to offer less rather than more. Rural poor Nicaraguans, frustrated in their desire for immediate improvement in their standard of living, simply took their "historical vacation." However, this rational strategy reduced the new regime's ability to meet financial expectations and complicated its relations with labor.

The difficulties that rural laborers presented to the revolutionary regime were openly acknowledged and regularly reported—for example, in *Barricada*, the state newspaper. Commander Wheelock summarized the problem:

> Since the triumph of the revolution we have observed in the countryside that contracts made by labor organizations with the Ministry of Labor, and in general with productive enterprises, have presented a tendency to set lower norms for work than existed previously. In sugar, the fall has equaled 40 percent of the historic norm, in rice 25 percent,

> in coffee 60 percent; this is to say [there has been] a very steep fall in the productivity of labor. What has happened as a consequence of this? Now we need two workers to do what one did before. (1984: 100)

The problem of low productivity was augmented by "a lack of discipline" that "complicates the management of state enterprises."[4]

MIDINRA carefully attempted to restore labor discipline and productivity. Moral suasion was used to convince rural laborers of the Sandinistas' commitment to their welfare and of the very real constraints, such as the counterrevolution, on governmental resources. But many appeals, like the posting of signs proclaiming, "production is revolutionary," were too wooden to convince peasants. More important, declining real incomes retarded the state's efforts to reverse the decline in labor productivity.

A manager at the Enterprise Oscar Turcios summarized this way the responses of peasants when exhorted to increase productivity: "After the Revolution they said, 'No, we are free.' Later they said, 'You are too demanding; the salary is very low.' "[5] Labor indiscipline suggests that the very values that revolutionaries preach—and that help them gain power—subsequently erode the state's capacity to manage the commanding heights of the economy.

The revolutionary mentalité of administrators also contributed to the financial woes of agrarian public property (APP), although less visibly. Administrators did not interpret the revolution as meaning the end of toil. On the contrary, they tended to work hard. But they concentrated their efforts on producing goods and services with little, if any, thought to the cost or the net economic consequences of their activities.

Their indifference may have come from their training; many administrators were agricultural technicians. And simply attending to the day-to-day obstacles of the field or shop floor was daunting. However, the indifference to financial details also reflected administrators' common attitude that they were working in the service of the revolution. Other than self-aggrandizement, which was rare, whatever they did was considered justified—and deserved others' cooperation.

The problem in state enterprises was not just that systems of planning, accounting, and control may have been poorly designed and implemented but that they also received inadequate attention. The comments of an administrator discussing the management of state enterprises in the Matagalpa region are informative:

> The annual plan is written at a desk; no one speaks to those in production. The plan is prepared too quickly. There is no participation, not in the formulation of the plan or in its implementation. The plan is not used. . . . Directors do not ask for information about costs. . . .

> Administrators of enterprises do not seem interested or concerned with the prices they receive for their goods and services, only with the amount of financing they receive.[6]

This portrait is likely what an internal MIDINRA report referred to when it complained of "an ideology in the enterprises and regional offices of anti-control and anti-planning" (MIDINRA 1984: 10).

The dominant values held by state administrators led them, as a whole, to laxity not only in controlling their costs and revenues but also in meeting their financial obligations. The delays engendered conflict, often pitting the parts of the state against each other. Enterprises were delinquent in paying for their utilities, wrote checks without funds to cover them, and even failed to pay their bills to one another. Most noticeably, MIDINRA's commercial enterprises routinely delayed—for months—payment to MIDINRA's production enterprises for the goods they purchased (MIDINRA 1985a).

Conflict was most evident and consequential in dealings with the nationalized banking system. Reflecting the attitude of many administrators, one enterprise director called the bank a "monster."[7] At worst it appeared as an ugly capitalist legacy, at best as a bureaucracy insensitive to the needs of the revolution. When conflicts arose, the enterprises almost always prevailed. As one administrator said, "It is always possible to receive more money from the bank, claiming that if additional funds are not received, production will be disrupted."[8] Negotiations were a "game," it was reported; bankers to whom money was owed could be told, "It will not be possible to pay the workers, and then there will be a political problem."[9]

According to a senior Nicaraguan banker, the attitude of the Sandinista regime was simply that "the productive sector should have all of the privileges of the bank." He recalled an incident where the director of one of MIDINRA's sugar refineries submitted a request for supplementary funds. The banker said he could not make a decision and wanted first to review the firm's accounts. The director of the enterprise told him, "Listen, you son-of-a-whore, you give us the money or I am going to come to your office with four thousand men with machetes, because you are holding up production." The banker granted the loan, since for him there was "no backing from the government to act as a banker." If he did, all he got was a "disagreeable afternoon."[10]

As the banker's comments suggest, responsibility for the prevailing managerial environment—in which it is rational for an administrator to overlook economic criteria—belongs to Nicaragua's leadership. In a revealing passage, Commander Wheelock, writing more as a member of the ruling FSLN National Directorate than as minister of MIDINRA, suggests the origins of Nicaragua's managerial mentalité. In discussing the national crisis, he acknowledged that the regime overburdened itself economically. He asked himself: "Why? For the morale of the revolutionary to do everything. . . . It is a revolutionary attitude to defy aspects of everyday life and some economic realities." He continued: "Of course, after a while the Central Bank began to complain of monetary emissions. . . ." (1984: 74)

A Comparative Perspective: Ethiopia and Mozambique

The evidence presented here demonstrates trenchant limitations in the Sandinistas' capacity to marshal and employ resources to achieve the higher levels of productivity needed to meet the expectations of a needy people. The same limitations have bedeviled other contemporary postrevolutionary regimes, such as those in Ethiopia and Mozambique. As in Nicaragua, state capacity in these countries appeared to be limited not just by poverty but also by the unseen manipulation of economic enterprises for political ends and by a revolutionary mentalité that undermined economic efficiency.

An analysis of Ethiopia's state enterprises presented a view, and explanation, of their performance that could just as well have been written for Nicaragua's enterprises:

> During a working visit . . . Chairman Mengistu . . . noted with heavy concern the shortcomings of the state farms and how the performance and operations of the state agro-industrial activities were far from desirable and at times catastrophic. He commented that following the government take-over, the farms seemed to have turned into a [source of] consumption of available assets instead of producing incomes. (Kinfu 1980: 25)

The report attributed the poor performance in part to politics: "Political expediency is much more important than economic rationality" (Kinfu 1980: 27).

Mozambique's former leader Samora Machel offered this frank critique of his state enterprises in a speech:

> What did we find in your factories? We saw that you produce very little. So we then asked . . . how we can increase productivity? The answer was always the same: it is impossible to raise productivity because in most enterprises there is poor time-keeping, absenteeism, liberalism, a lack of respect for institutions, confusion . . . the result is low productivity. Using the same machinery as you had in colonial times, in the same plants, with the same number of employees, and often the same technicians, you have reduced productivity! (1985: 113)

Machel suggested that much of this decline derived from a mistaken political mentalité among laborers. "They abuse the leeway allowed them and when their attention is called to this, they say: 'Colonialism's finished, exploitation's over'" (1985: 117).

A report on public sector performance in Ethiopia suggested in similar terms that prevailing concepts of "the revolution" contributed to low productivity. Unlike Machel, though, the author focused on administrators:

> Because of . . . revolutionary zeal there is a tendency and over-enthusiasm to impress on [everyone] the need to be progressive, anti-reactionary and therefore relieve oneself from the ties of all habits, customs, techniques, and functions attached to the old order, and thus a tendency for rejecting financial and accounting techniques and tools as capitalist methods not useful to the socialist setting. (Kinfu 1980: 27)

Again, the same argument could just as persuasively apply to Nicaragua.

The similarity among the financial performances of the state sectors of three postrevolutionary regimes—Nicaragua, Ethiopia, and Mozambique, countries otherwise quite different from one another—suggests that state management of the nationalized "commanding heights" of the economy proves to be a problem for postrevolutionary regimes in the poor parts of the world. Moreover, the surprise that Mengistu, Machel, and the Sandinista *comandantes* expressed at the result of state initiative suggests that problems are unpredicted and therefore especially vexing.

Perhaps because of confidence gained from ousting the old order, emergent revolutionary leaders have exaggerated notions of the capacities of the institutions under their command. Whatever the explanation, the broad conclusion is that postrevolutionary leaders make decisions not only under considerable pressure but also without knowledge of probable outcomes.

Conclusions

Revolutionaries and their sympathizers need to be cognizant of how free-floating attitudes, values, and norms may encroach upon the managerial effectiveness of those entrusted to administer state resources for the public's welfare. Indeed, a sober calculation of state capacity may temper enthusiasm for nationalization and state management of the economy.

The experience of Sandinista public administrators, though, may perhaps offer lessons to a more diverse—and common—set of administrators. The managerial import of powerful political ideas and symbols so starkly illustrated in revolutionary regimes suggests that in every administrative setting, the "normative landscape" should be assessed, and not taken for granted as being neutral, irrelevant, or automatically supportive.

It is reasonable to assume that individuals behave rationally. Yet which decisions are rational depends on the normative landscape surrounding administrators. Daily decisions in the poorer countries of the world are often made in the context of vague but powerful normative currents, such as "nationalism," "socialism," or "privatization." The impact of such ideas on the productivity of public organizations should be systematically assessed.

Assessing the impact of transcendent ideas on public administrators is difficult. At the time of their ascendancy, prevailing norms and ideas may seem eminently rational, hardly a source of skewed management practices. But skepticism is necessary. Perhaps the most fruitful means of gauging the import of norms and ideas is to compare "micro" level administrative decisions with desired "macro" outcomes. What material and subjective factors shape the calculus of individual decision makers? Do the decisions at "micro" level associated with these factors result in desired "macro" results? This linkage between "micro" decisions and "macro" outcomes is murky but of critical importance. Incentives alone cannot explain the latter, as the criteria and perceptions that shape self-interested behavior are themselves creations of public discourse and diffused ideas.

NOTES

This essay draws upon more extended and detailed analyses presented in Colburn (1990) and an unpublished work written in early 1992, "The Nicaraguan Peasantry: Choices and Unintended Consequences."

1. See, for example, Hall (1989), and a special issue on Knowledge, Power and International Policy Coordination, *International Organization* 46 (Winter 1992).

2. Interview with Miguel Gómez, formerly a senior official in the Ministry of Agricultural Development and Agrarian Reform (MIDINRA) and presently with the Corporaciones Nacionales del Sector Público (CORNAP), Managua, January 24, 1992.

3. The nuances of the behavior of peasants and rural laborers are explored in Colburn (1986).

4. Interview with Manuel Castro and Fidel Olivas, administrators, office of MIDINRA's fourth region, Estelí, January 1985.

5. Interview with Santo López, the Enterprise Oscar Turcios, Estelí, February 1985.

6. Interview with Marta García, administrator, the Enterprise Antonio Ramírez, Matagalpa, January 1985.

7. Interview with Manuel Duarte, director of the Enterprise Adolfo García Barberena, El Crucero, January 1985.

8. Interview with Alberto Gallo, administrator, the Enterprise Julio Buitrago, Masachapa, January 1985.

9. Interview with Iván Zelaya, economics director for MIDINRA's fifth region, Matagalpa, January 1985.

10. Interview with Antonio Medrano, administrator, Bank of America, Managua, February 1985.

5

Donor Support for Decentralization in Peru in Control-Oriented Bureaucracies

Gregory D. Schmidt

In recent years decentralization has become an important concern of development specialists, with many analysts and practitioners arguing that decentralized organizations in the public and private sectors can facilitate more efficient, equitable, and participatory patterns of development.[1] Since the mid-1970s, international donor agencies have expressed interest in various modes of decentralization. The most comprehensive comparative research on the topic concludes that donor support is likely to be crucial to the success of decentralization efforts in developing countries (Rondinelli, Nellis, and Cheema 1984: 74).

Yet, some important organizational analyses have argued that donor agencies have very limited capacity for supporting institutional development, including the development of decentralized institutions. In particular, this literature suggests that organizational imperatives to "move money" rapidly and to insulate projects from uncertainty during implementation undermine effective donor support for decentralization.

The apparent discrepancy between what donors view as a desirable objective worthy of their support and the constraints that they face in facilitating this objective can be called the donor-decentralization gap. Although this gap was first identified almost two decades ago by Judith Tendler (1975: 106–8), it is seldom addressed in the burgeoning literature on decentralization. Most analysts avoid this paradoxical issue altogether, often confidently giving prescriptions without realistically assessing the donor's or recipient's ability to implement them.[2]

This chapter addresses this apparent dilemma in the context of a highly centralized and control-oriented administrative system, drawing on experience from two decentralized projects implemented in Peru by the United States Agency for International Development (USAID) during the 1980s.[3] The first section examines the donor-decentralization gap through a review of relevant literature. The second section provides background on incipient decentralized agencies in Peru's very centralized, control-oriented public sector. The third section presents an overview of the two USAID projects, describing their objectives, highlighting common design features, examining the consequences of inflexible implementation schedules, and briefly discussing their impacts. The fourth section analyzes how decentralized implementation and certain design features of the two projects facilitated achieving donor objectives. A fifth section explores how traditional donor concerns and specific project features furthered decentralized institutional development in Peru. These latter sections warrant some "rethinking" of donor incentives and institutional impacts, which is summarized in the concluding section.

A Donor-Decentralization Gap?

Some analyses of foreign assistance suggest that external pressures and internal organizational processes severely constrain the ability of major international development agencies to support institution building in general and the strengthening of permanently decentralized organizations in particular. Here we examine two organizational biases—the money-moving and insulation syndromes—that are said to limit the ability of donors to effectively support various modes of decentralization.[4]

External and internal factors contribute to the money-moving syndrome.[5] The most salient measure of a donor agency's accomplishment is commonly its expenditure-to-staff ratio, rather than the developmental impacts of its projects. International development agencies—in order to enhance their public image, to maintain or increase their budget, and sometimes to compete with other donors—can become obsessed with meeting expenditure targets that measure such "progress."

Similarly, the performance of managers in development agencies is typically evaluated in terms of the rate at which they generate and complete projects. As a result, spending money, rather than developmental considerations, is said to drive project selection.

The insulation syndrome results from typical organizational behavior and from the specific environment in which international donors operate. Like other organizations, donor agencies seek to minimize uncertainty and to maximize control over their environments.[6] Such behavior is motivated not only by pursuit of organizational objectives but also by the need to demonstrate accountability to funding sources and watchdog agencies.

Development projects, however, are almost always implemented by agencies of the recipient government or, more recently, by nongovernmental organizations (NGOs) in the recipient country. Consequently, donors typically attempt to insulate the projects that they finance by insisting that the implementing agency have congruent organizational priorities, high levels of technical competence, and low susceptibility to political interference. Indeed,

> Many international assistance agencies have created semi-autonomous public authorities to implement their projects so that loans and grants might be kept separate from the normal central government budgeting and accounting process . . . International donors have wanted their projects to be "quarantined," not simply to protect them from the inefficiency of the civil service, but to make them more visible. This arrangement makes the projects easier to evaluate and allows "show-cases" to be created through which follow-on funding can be more readily generated. (Rondinelli, Nellis, and Cheema 1984: 16)

Extending the logic of insulation further, the World Bank and other donors often have bypassed host country agencies altogether by relying on temporary project management units (PMUs) to expedite implementation of projects that they support. In many cases such units have been "virtually autonomous with minimal connection to their environments" (Smith, Lethem, and Thoolen 1980: 9). PMUs have typically had their own sources of funds, hired their own staffs, followed their own administrative and personnel procedures, and purchased their own equipment.

It is argued that the goals of moving money and insulation prompt donors to design and manage large-scale projects, which are geographically concentrated and generally capital-intensive, in collaboration with a few selected agencies of the recipient government or through PMUs and other bypass mechanisms. Such a mode of operation is expected:

1. to increase the chances of absorbing large amounts of money during short periods of time (Chambers 1978: 211; Korten 1980: 484)
2. to allow lower ratios of staff time per unit of expenditure (Tendler 1975: Chapters 5 and 7)
3. to facilitate donor supervision and control (Tendler 1975: 105)

In contrast, working with established decentralized organizations seems to increase a donor agency's internal costs and to reduce its control over the environment.[7] Decentralized organizations in developing countries generally have lower levels of technical competence than do central government agencies. In any event, working with numerous decentralized organizations is likely to place a greater administrative burden on the donor, especially when these organizations are easily entangled in bureaucratic red tape emanating from the capital. When such organizations are truly participatory, uncertainty increases and implementation is often slowed.

Given the organizational imperatives of donor agencies and the apparent weakness and vulnerability of decentralized organizations in recipient countries, it is not surprising that donors have primarily collaborated with central government agencies or worked through special implementation arrangements. For example, in a representative sample of twenty-one USAID-sponsored integrated rural development projects mostly initiated during the late 1970s, only five were implemented through permanent subnational units of the recipient governments, and four of these five covered only one subnational unit (Honadle and VanSant 1985: 122–25).

Although international development agencies have displayed some greater willingness to work with decentralized organizations in recent years, available evidence suggests that donor attempts to support decentralized institutional development are typically compromised or displaced at some point in the project cycle by their organizational imperatives. For example, during the McNamara presidency, the World Bank moved from a reliance on PMUs in rural areas to the use of geographically focused integrated regional development projects employing various mechanisms for administrative coordination among line agencies or regional development authorities (Ayres 1984: 47–48, 94–96). But despite built-in mechanisms to reduce uncertainty, these new-style projects had greater disbursement shortfalls and were more staff-intensive than general agricultural projects (Ayres 1984:126–28). They were thus questionable from the standpoint of the Bank's need to demonstrate efficiency to the governments and to the private sources from which it raises investment capital.

Moreover, to cover the cost of institution-building components in such projects, very high production targets were set so that they would show an acceptable internal rate of return (Lele 1975:129; Morgan 1980; Uphoff 1991: 473–74). So much management attention was devoted to meeting these high targets that institution-building goals were set aside (Morgan 1983). Similarly, in a review of USAID's efforts to support municipal governments in Latin America, Gall (1983) found that pressures to move money overwhelmed the objectives of building capacity and achieving institutional reform.

The Administrative Context: Centralism, Control, and CORDES

Peru, like many developing countries, has a very centralized and control-oriented public sector. Although the current government of President Alberto Fujimori has begun an ambitious program of public sector reform and privatization, authority and public resources are still concentrated in ministries, state enterprises, and autonomous agencies of the central government. These entities have usually formulated and implemented policies from the top down, with little reference to local differences and variability. Administrative systems for planning, personnel, training, procurement, information, budgeting, payments, and accounting are all highly centralized and control-oriented.

There has been a strong backlash against this pattern of central control in recent years.[8] During the late 1970s, Peru was convulsed by major strikes and demonstrations of regionally based popular movements protesting economic austerity, lack of public investment in their respective regions, and political overcentralization. It is no accident that one of Peru's poorest and most neglected departments, Ayacucho, is the birthplace of the extremist Shining Path movement that has terrorized the country since 1980.

The 1979 Constitution provides for a system of elected regional governments with primary responsibility for economic development and social services within their jurisdictions. Disputes over regional boundaries and bureaucratic resistance, however, delayed their formation until 1990. In the meantime, decentralization efforts revolved around the operation of twenty-five *departmental development corporations*, referred to as CORDES. These were mandated by the Constitution as transitional organizations which were to lead to regional governments.[9] Combining features of political devolution and administrative deconcentration, these corporations primarily engaged in public works, accounting for one-fourth to one-third of all public investment in construction (Schmidt 1989: 203, 214–15).

While the twenty-five CORDES organizations suffered from a number of internal weaknesses—including featherbedding, low salaries, corruption, and weak planning capabilities—similar shortcomings also afflict central agencies.[10] Moreover, many of the corporations' "internal" weaknesses were closely related to, if not caused by, national policies or processes. Since most of the CORDES depended on transfers from the national government for virtually all of their revenues, they were extremely vulnerable to adverse decisions and controls emanating from the capital.[11]

Before the budgetary reforms of 1986–87, Congress frequently overturned investment decisions made by the corporations, while the Ministry of Economics and Finance routinely used complex disbursement procedures to arbitrarily curtail or delay expenditures authorized in the annual budget law. Any reprogramming among CORDES projects during the year had to be approved by a congressional committee *and* by the ministry—at best a very tedious and lengthy process.

These prereform budgetary practices meant that revenue flows to the CORDES were very unpredictable and the corporations' ability to achieve coherent programming was severely limited. The Ministry of Economics and Finance not only unilaterally curtailed authorized expenditures, but also specified their distribution among twelve rigid and specific expenditure categories, often without regard to the departments' needs. The corporations often received the bulk of their funds at the end of the calendar and fiscal year, when efficient use was hindered by insufficient time to complete works and by the rainy season in the sierra.

Rigidities and delays in the disbursement process contributed to procurement problems because contractors and suppliers considered the corporations to be unreliable. The system was not even successful from the standpoint of reducing government spending. Rather than creating a "leaner" public sector, it contributed to slow, inefficient implementation of whatever projects were undertaken.

The CORDES were initially placed under the supervision of the Office of the Prime Minister and later were monitored by the Ministry of the Presidency. Officials from other central government agencies attempted to rigidly enforce uniform national regulations that were often inappropriate, counterproductive, and even contradictory. For example, before the budgetary reforms, the corporations were subject to standardized procurement regulations that did not take into account the difficulties of making purchases in the interior and sometimes forced them to buy their supplies in Lima.

Onerous multiple controls stifled managerial initiative, much as the Peruvian government's economic regulations and policies have undercut private initiative in the formal economy and have contributed to the development of a huge informal economy (DeSoto 1987). Superior performance was rewarded only marginally, if at all, while actions not conforming to the letter of complicated, ever-changing administrative regulations could be heavily penalized.

Decentralized Project Implementation in Peru

USAID worked with the CORDES and other decentralized agencies of the Peruvian government primarily through (1) the Integrated Regional Development (IRD) Project, begun in 1979 and completed in 1986, and (2) the

Disaster Relief, Rehabilitation, and Reconstruction (DRR) Project, begun in 1983 and completed in 1987.[12]

The US$23.1 million IRD project began as a pilot effort to test an urban-rural investment strategy in two departments of the sierra, Cajamarca and Junín. Its principal construction components were: (1) irrigation systems in areas with high agricultural potential, (2) electrification systems in key market towns and rural service centers, and (3) roads linking priority rural areas to the key market towns and rural service centers. The project also sought to improve the planning, implementation, and revenue-generating capabilities of the corporations, their predecessor agencies, and the municipalities in Cajamarca and Junín.[13]

IRD technical assistance advisers soon found that national budgetary and administrative norms severely limited the effectiveness of their efforts to build capacity by working solely on the periphery (LRAP 1984: 64–69). This frustration with central controls and other difficulties led to an overhaul of the project design in 1983, when a midterm evaluation was completed and USAID/Peru underwent major staff changes. Among the major changes was the reprogramming of US$2.35 million for technical assistance for the CORDES and municipalities throughout the country.

Meanwhile, two severe disasters in 1983—the heaviest rains in recorded history in the north, and acute drought in the south—led to additional USAID collaboration with the corporations through the US$65 million DRR project, the largest and most geographically dispersed project ever supported in Peru by USAID. Reaching fifteen of Peru's twenty-five departments, it provided financial and technical assistance for 113 subprojects, which generally grouped similar components—such as roads, irrigation works, or electrical systems—in a given department. Some of the project's 572 components, especially for community development, were further broken down into over 3,000 activities. This emphasis on numerous small to medium-sized disaster-related works complemented reconstruction efforts financed by the Inter-American Development Bank and the World Bank, which focused on a few large-scale projects.

At the outset of the DRR project, the CORDES—despite their recent creation and the shortcomings discussed above—were perceived to have comparative advantages for implementing disaster-related works. Central ministries and agencies generally had poor track records in implementing previous USAID projects; the sheer number of subprojects and their wide geographic dispersion precluded the use of free-standing PMUs. Almost all DRR subprojects were implemented by the corporations, which also received the major portion of two PL 480 local currency funds valued at US$18.4 million plus approximately US$100 million in disaster relief funds from the Peruvian government.

Approximately 70 percent of DRR assistance was directed to the flood-ravaged departments of the north for repair or replacement of infrastructure that had been damaged or destroyed. In the drought-stricken south, immediate priority was given to emergency food relief, employment-generating public works, and replenishment of seed stocks. The project then emphasized measures that would help farmers to cope better with drought in the future while enhancing their productivity in the meantime: small irrigation systems, agricultural extension, and natural resource management activities.

Common Design Features

Although the IRD and DRR projects had quite different objectives, there were four important similarities in their design.[14] First, both projects collaborated with national-level PMUs that supervised and assisted the CORDES. In each case, supportive project-related units were established within permanent national agencies. The DRR project provided operational support to the Rehabilitation and Reconstruction Division (GRR) and the Sierra Microregional Project (PMS), which were both located in the National Development Institute. A special unit in the Ministry of Economics and Finance—the Disaster Relief and Rehabilitation Project Office (DRRPO)—processed and supervised disbursements of counterpart funding from the Peruvian government. In 1984, an amendment to the IRD project agreement created the Technical Assistance and Training Program for Departmental Development Corporations (PATC-C) in the Office of the Prime Minister.[15]

Exempt from the very low salary scales prevailing in the public sector, these national-level units attracted personnel who were usually above average and sometimes exceptional in their capabilities and dedication. Their supportive orientation toward working with regional staff was a major departure from the control-oriented norms of the Peruvian public administration.

Second, instead of designing and determining specific project components from the center, the IRD and DRR projects set up project funds at the center to be drawn on to finance certain types of works which were designed at regional and local levels and then approved according to criteria specified in the respective project agreements. The IRD project created: (1) a US$10.5 million Rural Public Works Fund, which was administered by the corporations in Cajamarca and Junín under USAID supervision, and (2) a Key Market Town Development Fund initially capitalized with US$8 million, which was administered by the Housing Bank. The DRR project channelled USAID grants and loans for disaster-related works directly to the CORDES. In each case, categorical transfers from centralized project funds to the corporations bypassed the cumbersome finance ministry disbursement channels.

Third, the two USAID projects provided the CORDES and national-level PMUs with general, long-term and specialized, short-term technical assistance, and fourth, each project supported decentralized PMUs at the departmental level. As discussed in the following section, the use of special units called PRODERINS[16] in the IRD project was less a matter of strategic choice than a result of pressures to get started on implementation in a situation of institutional instability. Concurrently, PMUs called PIRR units[17] were created in most CORDES receiving DRR funds to administer and implement disaster programs.

Inflexible Implementation Schedules

As we saw in the review of literature at the outset of this chapter, donor-supported efforts to strengthen decentralized organizations may come into conflict with imperatives to move money and insulate projects from uncertainty. Indeed, inflexible or short project time frames under the IRD and DRR projects contributed to some adverse institutional and programmatic impacts. On the other hand, the experience of the DRR project demonstrates that pressures to move money can come from the recipient country and may not always be counterproductive for institutional development.

The IRD project got off to a slow start, primarily as a consequence of Peru's transition from military to civilian rule during 1979–80. Intense pressures from USAID/Washington to get the project back on schedule led to a series of unfortunate decisions that lessened its long-term institutional impact. USAID/Peru did not wait for the reestablishment of the constitutionally mandated CORDES. Instead it attached PRODERINS to departmental development committees (CODES), which were weak agencies that had been formed by the discredited outgoing military regime. Moreover, the USAID mission insisted that the first two departmental plans be completed by the original deadline of June 1981, even though the technical assistance contract for the project had been signed more than a year late. Rigid enforcement of the project's timetable undercut the goals of improving regional planning capabilities and encouraging popular participation. This decision also strained IRD project relations with the regional planning offices of the National Planning Institute, a powerful agency which provided secretariat services for the CODES.

In 1982 these regional planning offices, as well as the CODES administrative staffs and line units, were absorbed into the newly created CORDES. However, the PRODERINS were given special status and placed directly under the prime minister's supervision. While this increased the autonomy and effectiveness of the PRODERINS, their separate status and higher salaries predictably increased resentment toward them among the corporations. Although PRODERINS and CORDES were merged the following year, the crucial planning offices were consequently composed mostly of hostile personnel attached to the National Planning Institute.

Although moving money was a major concern in USAID/Peru during the 1980s, the DRR project felt little internal pressure because it was one of the mission's most efficient projects. Indeed, most of the pressure to move money in the DRR project came from Peruvian politicians and critics in the media, especially those who did not understand or agree with the project's early emphasis on restoring productive rural infrastructure, instead of repairing damage in urban areas.

Even so, as the project was winding down, the U.S. General Accounting Office (GAO) issued a report that strongly criticized it for excessive emphasis on institution building and inadequate attention to implementation (GAO 1986). The report unfavorably compared the DRR project with a similar one in Ecuador, whose purported virtues included limited geographic coverage and use of strong, centralized agencies with previous experience working with donors. Although the GAO's conclusions reflected an erroneous assumption that all the activities in these projects were time-critical, which most were not, a career-sensitive project manager in a USAID mission might well conclude that he or she should avoid collaboration with unproven decentralized organizations and accelerate implementation at the expense of institution building.

Even though pressures to move money had little direct impact on the DRR project, its reconstruction and rehabilitation focus resulted in a very short time frame for implementation. A comparison of the effects on different kinds of components of this fast-track approach suggests that the impact of the money-moving syndrome on institutional development varies considerably by the type of task or project. The fast-track approach generally did not pose problems for restoring infrastructure in northern flood areas or for irrigation components emphasizing maintenance, repair, or modest improvements of existing systems in the drought-stricken south. Indeed, the compressed implementation schedule may have enhanced the institutional development of CORDES in the north, where the reconstruction task was well-defined. The DRR project challenged corporations in flooded areas by assigning them large and sometimes unprecedented tasks to be completed in a short time period. Most CORDES met the challenge and achieved the project's objectives, thereby gaining significant institutional learning and self-confidence. Had the project been implemented over a longer time period, bureaucratic lethargy might have been the rule among the CORDES.

But the fast-track approach was usually inappropriate for building new irrigation systems in the south because it reduced the time available for technical studies and severely limited the scope for community participation in design and construction. The DRR final evaluation reported examples of canals constructed in inappropriate places, some construction plans that may be too expensive to complete, and instances where well-constructed works probably will not be used by communities.[18]

Outcomes

Although we are not trying to evaluate the IRD and DRR projects here, it should be noted that both projects were reasonably successful.[19] Work done by the CORDES under the two projects generally was technically sound and cost-effective, made positive contributions to Peru's economic development, and reached economically and socially disadvantaged groups.

Most IRD road and irrigation investments began as community initiatives and received high marks from beneficiaries, who often contributed labor for construction and maintenance. In contrast, the project's electrification works—which suffered from long delays caused by central agencies—were less positively evaluated. IRD irrigation systems contributed to greater agricultural and livestock production, while IRD roads facilitated more rapid and economical transport.

In the flood-ravaged north, the DRR project helped the CORDES rapidly restore damaged economic infrastructure upon which agricultural production and distribution depend. The project also repaired or replaced water and sewer systems, repaved streets, and assisted housing reconstruction. Its relief and rehabilitation efforts generally provided timely, effective aid in the drought-stricken south, though new irrigation components were not so successful for reasons discussed above.

The two projects also significantly increased administrative and technical capabilities in the regional corporations: improving basic procedures and skills, establishing or greatly upgrading computer systems, and enhancing performance in carrying out technical studies, programming, cost-indexing, and contracting. The IRD project demonstrated that it is possible to create effective regional planning capabilities based on local human resources, simple analytic techniques, and data on local conditions (Chetwynd et al. 1985: 3), though the project was not generally successful in institutionalizing these capabilities for the long run.[20]

Although the DRR project did not have explicit institution-building objectives, it facilitated the development of new or expanded capabilities in disaster management and emergency maintenance, improved the corporations' traditional role in public works, and showed them how to utilize consulting firms effectively for more specialized tasks. Other institutional impacts are discussed below.

Rethinking Donor Incentives

Donors may overestimate the potential advantages and underestimate the likely disadvantages of implementing projects through national-level agencies. Moreover, international development agencies can employ the kind of design features used by USAID/Peru to reduce the costs and reap more potential benefits of decentralized implementation. Indeed, in the overly centralized and inefficient administrative systems found in many developing countries, it may be advantageous for donor agencies to collaborate with decentralized organizations, even if they are primarily concerned with the very narrow objective of moving money (Uphoff 1986: 259–60).

Centralized Project Funds, Decentralized Implementation, and Money Moving

Much of the bias against decentralized organizations stems from their having lower levels of technical competence than do central government agencies and their vulnerability to political and bureaucratic pressures from above. Experience from the IRD and DRR projects suggests, however, that donors can overcome these problems through technical assistance, direct financial linkages, and aid for supportive national-level PMUs.

In contrast, it is usually more difficult to reform national-level structures and processes that impede project implementation. Treasuries, central banks, and government ministries in developing countries typically face competing demands in a context of fiscal austerity. Centrally administered funds for development projects, including contributions from donors, are often diverted to cover shortfalls elsewhere or to generate income. As a result, slow or erratic disbursements frequently disrupt the implementation schedules of development projects and lessen their effectiveness.[21]

In cases where implementation through central agencies is likely to be hindered by slow disbursements or excessive red tape, donor agencies should explore decentralized modes of implementation, which may well move money more expeditiously. USAID/Peru experience shows that categorical transfers from centralized project funds to decentralized organizations can move money in large amounts since many smaller undertakings can match a few larger ones in scale. The US$65 million DRR project—the largest ever implemented by the mission—was divided into dozens of subprojects and literally hundreds of components. Most works financed by the DRR project were completed within three years of signing the project agreement, despite the relative inexperience of personnel working in PIRR units.[22]

In contrast, similar USAID-financed infrastructure projects implemented through central agencies suffered long delays in implementation because of glacial rates of disbursement and overcentralization of authority (Schmidt 1989: 82–84). Indeed, during the late 1970s and early 1980s, USAID/Peru had one of the slowest "pipelines" of any mission in the world. The most common problem was that central government agencies held project funds to meet other obligations. Disbursements had to trickle through several layers of a byzantine bureaucracy before reaching the field, and once there, payment of personnel usually took priority over construction.

Although some CORDES also tried to hold or divert project funds for other purposes, they were largely deterred by the clearer lines of accountability to USAID. Moreover, whereas implementation delays in the field are not readily apparent or even important to bureaucrats in Lima, the corporations operated close to project beneficiaries and thus were more responsive to local needs and priorities.

The shortcomings of central agencies were also evident in the implementation of other disaster programs and Key Market Town Development electricity components.[23] The DRR final evaluation concluded that CORDES performance under the project was noticeably better than that of central ministries implementing disaster-related work financed by multilateral institutions (Checchi 1987: 20–21, 47).

Thus, a concern for moving money should not be an automatic reason for avoiding decentralized implementation. Large-scale, but disaggregated USAID projects in Indonesia and Egypt also have been implemented in collaboration with many subnational governmental units (Uphoff 1986: 290–92). Indeed, given limits to the absorptive capacities of central agencies and geographically focused projects, collaboration with numerous decentralized organizations in different areas appears to be a more efficient way to invest relatively large sums of money in rural development.

Supportive Intermediary Organizations and Staffing Intensity

The allegedly high staff-intensity of decentralized implementation is seen as another disincentive for donors to work with and through decentralized organizations. More personnel are required to deal with many regional and local organizations than with a few central ones. Managers of projects implemented through decentralized organizations often must spend much of their time cutting through the red tape in the capital. But there are possible solutions available.

Instead of working directly with decentralized organizations, donors can collaborate with central government agencies or national-level NGOs in the host country. These, in turn, can serve as intermediary organizations, providing technical assistance, supervision, and political support to regional and local organizations involved in project implementation.

Under the IRD and DRR projects, PMUs located in certain key agencies of the central government—the GRR, PATC-C, and the PMS—functioned as supportive intermediary organizations. Their roles in project implementation greatly helped USAID/Peru to economize on its own staff resources. In particular, having the GRR screen dozens of subprojects and hundreds of components made it possible for the DRR project to work with CORDES throughout the country, rather than through just a few chosen corporations or central agencies. Moreover, the GRR's political role as the CORDES's representative in Lima substantially reduced USAID staff time needed for interagency coordination. In contrast, before the establishment of PATC-C, IRD resident advisers spent an inordinate amount of time in Lima, dealing with administrative and disbursement problems (LRAP 1984: 60–62, 66, 72).

Of course, even if donor personnel costs can be lessened by collaborating with intermediary organizations, decentralized implementation might still be too staff-intensive in an era of decreasing donor agency staffs. Moreover, economizing on their own staff expenditures might require donors to provide massive financial support to cover the costs of intermediary organizations. In Peru, however, the DRR project's overall expenditures for technical assistance and operational support were comparable with those of similar projects implemented through central agencies.[24] This is all the more significant given the high percentage of expenditures on expensive expatriate technical assistance under the DRR project. If more technical assistance had been procured in Peru, as suggested in the final evaluation report (Checchi 1987: 37–38), overhead costs for the DRR project could have been significantly lower than for centrally implemented projects.

Alternative Channels, Direct Financial Ties, and Reduced Donor Dependence

Most project agreements in principle allow international development agencies to withhold disbursements or employ other measures to penalize inadequate progress in implementation. In practice, however, sanctions are seldom invoked because political, rather than managerial or developmental considerations ultimately decide project initiation and termination (Rondinelli 1983a: 84–85; Strachan 1978: 472). Thus, ironically, once disbursement begins, the donor often becomes dependent on implementing organizations in the recipient country. Indeed, USAID/Peru's frustration with lethargic central agencies prompted the mission to collaborate with the CORDES on the DRR project, even though it was well aware of their many weaknesses.

The DRR project demonstrated that where there are alternative channels for implementation and more activities requiring funding than there are funds, direct financial ties between the donor agency and decentralized public organizations can increase the donor's flexibility and lessen its dependence on any one organization.[25] This set of circumstances created the kind of "market surrogate" situation of competition analyzed by Israel (1987). Not only was the DRR project implemented through fifteen CORDES rather than through a single central agency, but each corporation could carry out subprojects and components on its own, contract them out to private firms, or delegate implementation to other agencies (these in turn could also contract out the work). This disaggregation of work for the project gave DRR managers some flexibility in adjusting the rhythm of implementation to suit the capabilities of implementing organizations.

The combination of alternative channels, direct financial linkages, and multiple modes of implementation usually allowed USAID/Peru to avoid or reduce dependence on any one implementing organization.[26] Although not defined in terms of rigid timetables, timely performance was repeatedly stressed in project implementation letters and other correspondence with the corporations. By reprogramming funds during a given year or adjusting the subsequent year's budget to reflect implementation progress, DRR project managers favored the more efficient CORDES over the less effective corporations. Although the performance of some individual corporations was inadequate, the DRR project was overall one of the most efficiently implemented in the mission's history. Thus, direct financial ties between a donor and decentralized organizations allow specific decisions to deal with particular implementing agencies—which should be based on managerial and developmental considerations—to be separated from the decision to fund a project in a given country, which is invariably influenced by political considerations.[27]

Rethinking Institutional Impacts

The "institutional space" available for the development of the CORDES was severely constrained by centrally determined laws, regulations, and procedures that were often complex, arbitrary, and unpredictable. Once USAID decided to work with the corporations, these constraints posed serious obstacles to efficient implementation of the IRD and DRR projects, as well as to IRD institution-building goals.

Consistent with the traditional approach of donor agencies, the two projects used special financial channels and PMUs to circumvent or mitigate centrally determined policies that threatened efficient implementation by the CORDES. But these bypass mechanisms also facilitated the development of the corporations by providing them with regular flows of resources, predictable and supportive program contexts, and increased political power. In addition, the design and skillful use of these mechanisms furthered decentralized institutional development in other ways, discussed below. Thus, USAID/Peru experience shows that donors' disposition to insulate their projects from uncertainty and to support the most efficient implementation mechanisms can also serve the end of at least temporarily opening "institutional space" for decentralized organizations in control-oriented administrative systems.

Direct Financial Linkages, National-Level PMUs, and Resource Predictability

In addition to frustrating donors' efforts to move money expeditiously, disbursement bottlenecks stifle the development of decentralized organizations. Before budgetary reforms in 1986–87, Peruvian citizens in the provinces had little incentive to invest time and energy in dealing with the CORDES because the corporations exercised only tenuous authority over a very unpredictable resource base. Indeed, as long as authority over resources remained concentrated at the center, provincial political actors directed their demands primarily to central agencies, instead of interacting with one another through the CORDES. This pattern not only led to demand overload at the center, but it also undermined the development of responsible bargaining processes in the provinces.

The DRR project and the IRD project's Rural Public Works Fund dramatically increased the predictability of CORDES resources by channeling grant and loan money from USAID/Peru directly to the corporations, instead of through the Ministry of Economics and Finance.[28] Each year funds were committed to the corporations on the basis of a tentative list of components—giving the CORDES dependable access to resources—but disbursements were contingent upon completion of adequate technical studies and compliance with other project criteria. Key personnel in the corporations (e.g. presidents, general managers, and budget and planning officials) interviewed by the author all compared USAID's disbursement record favorably with that of the Peruvian government. Indeed, when asked to list positive aspects of the project, most first mentioned the fact of prompt, dependable disbursements.

In addition, two national-level PMUs—the GRR and the DRRPO—meticulously monitored disbursements of Peruvian counterpart funding, which also were much more timely and predictable than those received by the CORDES through regular finance ministry procedures.[29] Corporation officials and managers, especially those on the north coast, praised the GRR's role in securing counterpart funding and ministry approval for budget transfers among subprojects. Some regional officials even referred to the GRR as their "consulate" in Lima.

A predictable flow of resources quite obviously increases the odds that decentralized agencies can satisfy their clienteles and thus gain legitimacy over time. PRODERINS and CORDES received high marks in surveys of IRD beneficiaries carried out in 1983 and 1985, even though major governmental institutions were held in disrepute by large majorities of Peruvians at the time (Schmidt 1989: 81). The chief rationale for giving these decentralized public organizations good ratings was that they completed their components and fulfilled promises made during implementation.[30]

Centralized Project Funds, Categorical Transfers, and Institutional Development

The IRD and DRR projects both used centralized project funds to finance works chosen by the CORDES in accordance with specific criteria. This system of categorical transfers not only moved large amounts of money through prompt disbursements, as discussed already, but also was employed in ways that enhanced the institutional development of the corporations.

In most parts of the developing world, categorical transfers are the most politically feasible way of financing decentralization initiatives, especially in their initial stages.[31] Fortunately, the comparative literature on decentralization suggests that categorical transfers can serve as an important stimulus for the development of participatory, decentralized institutions.

> It is better to start decentralization by giving the organizations to which responsibilities are transferred money to allocate rather than rules to follow. Even when the funds are modest and the final authority remains with central agencies, the concrete tasks of allocating resources will do more to galvanize local action than even the grandest abstract discussions. (Rondinelli, Nellis, and Cheema 1984: 75)

IRD project experience provides evidence to support this view. Beneficiary surveys demonstrate high levels of popular participation in the identification, design, construction, and maintenance of components financed by the Rural Public Works Fund, though there were sometimes tradeoffs between community participation and other objectives of the IRD project.[32] Local organizations also initiated and took out loans for electrification works financed through the Key Market Town Development Fund.

While categorical transfers are always made in accordance with central regulations, the key factor as seen in Peru is the nature and predictability of central controls, rather than their existence per se. Central government agencies in Peru generally attempt to enforce regulations that are complex, frequently changing, and sometimes contradictory, without providing any support to help the CORDES comply. In the IRD and DRR projects, on the other hand, though the corporations were subjected to some USAID controls, technical advisers at the departmental level made tasks more intelligible and manageable by helping CORDES staff understand and follow project regulations. Corporation personnel interviewed by the author were particularly appreciative of the advisers' problem-solving approach, in contrast to what some termed the "inspectionist" attitude of officials from central government agencies.

Experience with decentralized implementation in Peru also demonstrates that transfers from centralized funds can stimulate cooperation among different implementing organizations, thus ameliorating gaps in horizontal coordination that so often hinder development efforts. Under the DRR project, the CORDES often signed mutually beneficial implementation agreements with ministerial field offices having complementary resources. For example, in most departments of the southern highlands, a majority of the Ministry of Agriculture's investment budget was financed by the DRR project through the corporations. In turn, field offices of the ministry provided expertise and often gave the CORDES some influence over sectoral policy. Similarly, the system of categorical transfers facilitated coordination among local communities under the IRD project, and between the corporations and private voluntary organizations under the DRR project.

The general success of the IRD and DRR projects—which differed markedly in terms of their objectives, scale, and geographic dispersion—suggests that central project funds and categorical transfers might facilitate project expansion, while enhancing both implementation and institution-building objectives. During initial, experimental stages, a small project fund can be established. As experience is gained and objectives are clarified, the fund can be expanded to finance works meeting specific criteria, which can be spelled out in agreements signed by all parties in the process. In parallel fashion, technical assistance support from national-level agencies or from the donor can be added or modified to complement increased transfers or changes in project requirements.

PMUs Reconsidered: Capacity-Building, Empowerment, and Institutional Reform

It is well-known that international development agencies often attempt to insulate the projects they finance from uncertainty by implementing them through temporary PMUs. Most of the literature suggests that PMUs facilitate short-term, implementation goals at the expense of longer-term, institution-building objectives.[33] It is argued that building up PMU capacity, by offering high salaries and other incentives to attract the "best and brightest," succeeds at the expense of permanent organizations which lose key personnel. Critics maintain that any improvements in technical or administrative capabilities achieved through PMUs are difficult to transfer to permanent organizations. Moreover, donor agencies that rely on PMUs are unlikely to support needed capacity-building efforts in more permanent organizations or to underwrite crucial administrative reforms. Furthermore, the use of special units foments bureaucratic rivalries that are liable to undermine efficient implementation, which is the main justification for the PMU approach.

As institution-building has become a more important priority, PMUs increasingly have been rejected, often categorically, as organizational alternatives by development practitioners and donors themselves.[34] Although the objections expressed by critics of PMUs are valid, their criticisms appear to be overgeneralized. The literature tends to gloss over important distinctions among types of PMUs: they can be set up within or outside of existing organizations, they can operate at different levels, and they can perform many different kinds of tasks. Moreover, attention tends to be focused on the operation of individual units, rather than on how they can be linked to other organizations. Further, such factors as the condition of the administrative system of the recipient country and the management philosophy and design of the project are not considered as contextual variables that might influence the appropriateness, effectiveness, and institutional impact of PMUs, making them possibly quite useful.

National-Level PMUs

Recent analyses of decentralization in developing countries stress the importance of maintaining an interorganizational perspective. Key central agencies must be reoriented and improved to better support decentralization, while appropriate interorganizational linkages should be used to build on strengths and to compensate for weaknesses at different levels.[35] As Leonard suggests: "One of the more difficult, but important, forms of international aid is that which institutionalizes a central organizational capacity to assist local and intermediate organizations" (1982b: 205).

Donor agencies that wish to assist national-level agencies that undertake such a task face an apparent dilemma in highly centralized political systems. On the one hand, a politically marginal central agency is unlikely to be effective in serving decentralized organizations. On the other hand, politically powerful agencies at the center are likely to overemphasize what Leonard characterizes as control linkages, contrasted with assistance linkages, and are unlikely to maintain decentralization as a top organizational goal.[36]

Experience with the IRD and DRR projects indicates that a promising strategy in such a context is to establish or reinforce supportive PMUs—such as the GRR, PATC-C, and the PMS—based within important national-level agencies. The strategic location of these units increased their access to political power, whereas their project-related status gave incentives for an assistance orientation and helped USAID/Peru insulate them from counterproductive political and administrative pressures.[37]

These national-level PMUs were crucial to the general success of both projects and greatly enhanced the institutional development of the CORDES. They facilitated predictable resource flows, increased the corporations' political power, strengthened managerial and technical capabilities of the CORDES, filled critical gaps in expertise, and diffused innovations.[38]

Establishing national-level PMUs may appear to blatantly contradict the goal of sustainability but, as Leonard points out, it is difficult for *any* organization to sustain an assistance orientation (Leonard 1982b: 205). Thus, donors do not necessarily institutionalize an assistance orientation by working with central agencies through established channels. Indeed, it is particularly difficult to change the orientation of control-oriented agencies without working through PMUs.

Moreover, there are several ways in which national-level PMUs might have enduring institutional impacts. One strategy not explicitly attempted in the Peruvian case is to use the PMU to try to change the orientation of the overall agency of which it is a part.[39] Or the PMU might become a permanent agency that continues to support decentralized operations after the end of the project.

The perpetuation of a national-level PMU, however, is no guarantee of sustainability. PATC-C survived the end of the IRD project, but it soon lost much of its supportive orientation and technical capacity as a result of the institutional realignment that followed the 1985 change in government (Schmidt 1989: 57–58). In contrast to the declining fortunes of PATC-C, the PMS assumed the leading role in coordinating the microregional programs that were emphasized by the incoming García administration. It was given a new name—the Special Project for the Development of Microregions in Economic Social Emergency (PEDMEES)—and was relocated to the National Planning Institute, which became the lead policy agency under García. PEDMEES consciously emulated the IRD and DRR projects by setting up a grant system that channeled financial resources and technical assistance to priority microregional undertakings of the CORDES.

The most unexpected and important institutional impact of working with the GRR, PMS/PEDMEES, and especially PATC-C was that *these national-level PMUs generated political support and a knowledge base for constructive institutional change*. Thus, in addition to diffusing substantive knowledge, the regional and national training exercises sponsored by PATC-C increased awareness of the common political obstacles faced by the corporations (Schmidt 1991). Moreover, training and technical assistance activities provided a wealth of information about the repercussions of central regulations on regional operations and produced useful insights regarding reform. Drawing on this knowledge, PATC-C's Office of Basic Analysis produced numerous studies and policy proposals on diverse topics, which often criticized central controls and advocated needed legal changes. These studies were broadly disseminated and provided an intellectual basis for reform.

A decentralist coalition that emerged around PATC-C personnel played an important role in institutional reforms that have greatly accelerated the process of decentralization in Peru. PATC-C led a successful campaign for key changes in the 1986 budget law that favored the CORDES and their microregional offices. Additional budgetary reforms were passed in 1987 under the leadership of former PATC-C officials who were now based in the National Planning Institute, with continuing support from PEDMEES. These reforms gave the corporations autonomy in selecting investments, led to simpler and more flexible disbursement procedures, prohibited arbitrary reductions by the finance ministry, greatly increased CORDES' discretion in reprogramming, and gave rise to more appropriate procurement procedures that facilitated local purchasing.[40]

These same officials were also the primary architects of a 1987 law that provides a framework for more autonomous and democratic regional governments in accordance with the 1979 Constitution. Furthermore, they helped draft specific laws creating eleven regional governments that were passed in 1988–89.[41] These regions cover the entire country, except for Lima and Callao which will form special regions. After regional elections in November 1989 and April 1990, the CORDES formed the cores of the new regional governments that began operations in 1990.

During their short histories, regional governments have created important institutional spaces for provincial aspirations. Putting aside partisan and regional rivalries, the eleven regional presidents formed a powerful provincial pressure group until President Fujimori suspended the constitution.[42] The future of regional governments is closely tied to the future of Peru's constitutional order. They will almost certainly play an important role in the future development of the country if and when it returns to full democratic rule. Significantly, the regions stand to benefit from Fujimori's administrative reforms and privatization policies.[43]

Decentralized PMUs: Insulation and Effective Management

DRR project experience shows that, at least under certain conditions, PMUs within permanent decentralized organizations can facilitate both implementation and institution-building objectives. From the perspective of DRR management, the PIRR units within the corporations furthered the typical donor objectives of rapid implementation and program insulation by: (1) facilitating compliance with USAID requirements, (2) increasing the likelihood that DRR components would have high priority, (3) decreasing the probability that DRR resources would be diverted to other purposes, (4) focusing technical assistance on DRR-supported works, and (5) helping DRR-supported efforts circumvent externally imposed administrative bottlenecks. Nevertheless, by pursuing these typical concerns of donor agencies, USAID/Peru also insulated PIRR units from the excessive controls and petty regulations of the central government.

This insulation allowed the DRR project to adopt an accountability style of management. The project provided PIRR units with financial resources, supportive technical assistance, and a predictable budget situation, while holding them responsible for completion of subprojects and components (Schmidt 1989: 86–87). This management style rewarded initiative and problem-solving, which was uncommon in the very cautious bureaucratic culture of the control-oriented Peruvian public administration.

Without exception, CORDES presidents and general managers reported that the younger and less-experienced engineers working in the PIRR units outperformed more experienced staff in other units. The general manager of one corporation remarked: "The higher standards and superior assistance of the project provide a great context for team building." "Under this program, we've done things that we didn't know we could do," commented an engineer in one PIRR unit, who summed up the feelings of many.

It should be recalled that objectives were relatively well-defined in northern flood areas, where PIRR units were especially successful. Also, CORDES units were relatively strong in the north. Thus, while use of PMUs and an accountability style of management may generally have positive institutional impacts in control-oriented administrative systems, they may be especially appropriate where there are well-defined tasks and relatively developed capabilities.

PIRR units were established in ways that left considerable room for institutional learning, perhaps at some cost to expeditious implementation. To their credit, DRR managers did not start out by imposing special units at the onset of the project. Indeed, some CORDES took the initiative to create their own PIRR units. In several cases where there was slow or inadequate implementation through normal CORDES structures, USAID tacitly or explicitly threatened to cut off funds, forcing the issue of improving administrative productivity. Nevertheless, again to its credit, DRR managers did not attempt to dictate the structure of PIRR units. The PIRR units in the CORDES which the author visited tended to evolve in stages: from advisory units with no line or administrative functions, to separate line units, and finally to semiautonomous units with both administrative and implementation functions.

PIRR units had positive impacts on the larger corporations of which they were parts. Most CORDES emulated the improvements in programming and technical capabilities that were demonstrated in their PIRR units. Moreover, on average, 70 percent of professional personnel in PIRR units were retained by the corporations and their microregional offices after completion of the DRR project. Some of the other PIRR professionals found employment with field offices of central ministries and agencies.

The largely successful integration of PIRR units into the CORDES stands in sharp contrast to the experience of the PRODERINS under the IRD project, discussed above. A comparison of these experiences suggests two hypotheses regarding the institutional implications of decentralized PMUs.

First, the long-term institutional impacts of PMUs are likely to be greatest if they are established within organizations where goals are broadly congruent, as was the case with PIRR units operating within the corporations, rather than merged into existing agencies on the basis of administrative convenience. The mergers between PRODERINS and CORDES were full of conflict that created enduring strains and prevented the institutionalization of intended regional planning capabilities.

Second, if higher salaries are needed to attract superior personnel to a PMU, organizational jealousies will be minimized if salary differentials are limited to a few key persons. The higher salaries initially paid to all PRODERIN staff under the IRD project greatly complicated the merger of PRODERINS and CORDES. In contrast, by paying higher salaries to only a few key GRR personnel, the DRR project largely avoided conflict and alleviated the shortage of key skills.[44] Some conflict resulted from giving bonuses to PIRR personnel in selected corporations in recognition of overtime services. However, in two CORDES visited, this conflict was ameliorated by also giving bonuses to deserving staff in other units who had helped carry out disaster programs.

Conclusions

In contrast to much of the literature on foreign assistance and institutional development, the preceding account of two large projects implemented through Peru's highly centralized and control-oriented bureaucracy has revealed some congruences and synergies, as well as tensions, between the needs of international development agencies and those of decentralized organizations. This analysis suggests that donor agencies need to temper their zeal for money moving if they want to support institutional development in general, but that they do not necessarily have to opt for centralized implementation. Indeed, donors may well be able to expend funds faster through decentralized organizations, especially when disbursement bottlenecks or excessive concerns with control impede implementation through the central government. The CORDES efficiently moved large amounts of money, whereas similar donor-supported projects implemented through central agencies floundered.

In addition, some of the design features of the IRD and DRR projects can be employed to reduce costs and increase the benefits of working with a large number of decentralized organizations. Supportive intermediary organizations can ameliorate or eliminate the need for additional donor agency staff to administer projects in a decentralized manner. Donors can use direct financial ties to a variety of decentralized organizations to increase flexibility during implementation and to lessen their dependence on any single agency.

The design features of the two USAID/Peru projects can help international development agencies take advantage of synergies between implementation and institution-building. Where there are disbursement bottlenecks, direct financial linkages to decentralized organizations facilitate a predictable flow of resources, which is a sine qua non for both efficient implementation and institutional development. Moreover, experience in Peru demonstrates that categorical transfer mechanisms can be designed to insure compliance with project criteria, while at the same time giving decentralized organizations significant roles in resource allocation. Furthermore, categorical transfers can provide incentives for collaboration among implementing agencies and facilitate a transition from initial, experimental activities to full-fledged projects.

Donor agencies can even use PMUs, which are usually considered to be inimical to institutional development, to pursue both implementation and institution-building objectives. PMUs in key central agencies can be engaged to facilitate prompt disbursements from the center, build capacity, compensate for weaknesses, and generally increase the political power of decentralized organizations. By using decentralized PMUs to insulate implementers from central controls, donors not only enhance the viability of their project, but may also create a favorable setting for the development of more effective management.

The chief criticism of financial bypass mechanisms and PMUs is that they are not sustainable. But such mechanisms may be necessary to initiate decentralized implementation in highly centralized and control-oriented administrative systems. That this conclusion is paradoxical does not invalidate it. In such a context, it may be impossible to achieve much worth sustaining without such mechanisms. Moreover, USAID/Peru experience shows that national-level PMUs can link traditional implementation and capacity-building objectives to the reform of a control-oriented public sector, thus broadening the scope for decentralized institutional development.

In sum, effective donor support for decentralization need not be constrained by the organizational imperatives of international development agencies. They are more likely to be limited by a lack of imagination and perseverance to design and implement projects that aptly utilize the comparative advantages of decentralized organizations. In highly centralized and control-oriented administrative systems, decentralized project implementation may generate political support and knowledge for broader institutional reforms. The experience and analysis presented in this chapter will, we hope, encourage donor agencies to bridge any gap between their willingness and ability to support decentralization initiatives in developing countries.

NOTES

1. For summaries of arguments in favor of decentralization, see Cheema and Rondinelli (1983: 5–16) and Rondinelli (1981: 135–36).

2. An exception to this pattern of neglect is the literature on "bureaucratic orientation," which holds that the structures, processes, and orientations of donor and recipient agencies must be modified to support more flexible, decentralized, and participatory approaches to development. For discussion, see Korten and Uphoff (1981), and Uphoff (1986: 227–31).

3. Much of the material for this chapter was collected during research for USAID/Peru during May-July 1985 and for USAID/Washington in March 1987 (see Schmidt 1989: 4–5). The author followed up these earlier research findings during the latter half of 1989, with a Fulbright-Hays faculty research grant from the U.S. Department of Education, and during summer 1992 while in Peru on a Fulbright lectureship. He is, of course, solely responsible for the information and interpretations in this chapter.

4. For discussion of various modes of decentralization, see Rondinelli and Nellis (1986: 5–10).

5. On the causes and consequences of money moving, see Bryant (1979: 8), Gow and VanSant (1985: 111), Morgan (1980: 6–9, and 1983), Tendler (1975), and VanSant and Crawford (1985: 21).

6. For discussion of the general tendency of organizations to manage their environments, see Aldrich (1979: Chapters 9–13). The rather special case of donor agencies is examined in Morgan (1980: 6–8), Rondinelli (1982), and Tendler (1975), from which most of the arguments in this paragraph are drawn.

7. For elaboration of the arguments in this paragraph, see Bryant and White (1982: 159–63), Gow and VanSant (1985: 111), and Tendler (1975: 106–8).

8. For an historical overview of center-periphery relations in Peru, see Schmidt (1989: 7–36).

9. Departments are the traditional first-order subnational jurisdictions in Peru. Before the establishment of regional governments in 1990, there were twenty-four departments, with the port city of Callao also having such status.

10. For additional discussion of CORDES, see Franco Temple (1986: 5–104), and Schmidt (1989: esp. 29–32).

11. The central controls discussed in this section are treated in greater detail in Schmidt (1991: 42–43, and 1992: 438, 446–48).

12. For detailed descriptions of these two projects, see Schmidt (1989: esp. 49–54).

13. For simplicity's sake, we will not consider IRD efforts to improve municipal administration, focusing instead on the experience with CORDES.

14. These four design features, which are by no means uncommon in development projects, are discussed in greater detail in Schmidt (1989: 54–61).

15. PATC-C is assessed in greater detail in Franco Temple (1986) and Schmidt (1991).

16. "PRODERIN" is the Spanish acronym for "Project for Integrated Regional Development."

17. "PIRR" is the Spanish acronym for "Comprehensive Rehabilitation and Reconstruction Program."

18. The report concluded that these new components should have been implemented under a separate system for subproject management, or under a different project (Checchi 1987: 51–52).

19. For analysis of IRD and DRR project impacts, see Checchi (1987), Chetwynd et al. (1985), French et al. (1983), Hatch et al. (1985), and Schmidt (1989: esp. 65–103).

20. The IRD project also helped several CORDES to begin collecting user charges and assessments from improvements, but national laws and regulations continued to constrain their ability to recoup income from investments and generate revenue.

21. On the causes and effects of disbursement delays, see Honadle and VanSant (1985: 11, 30, 33, 58), Rondinelli (1983b: 204), Rondinelli, Nellis, and Cheema (1984: 3, 35), and Uphoff (1986: 256, 292).

22. Professionals and other employees in PIRR units were on average younger and initially less experienced than their counterparts holding similar positions in other line units of the CORDES. Many were recent university graduates or even university students willing to put in long hours for low pay in remote areas of the country.

23. Because the Key Market Town Development Fund was administered by the Housing Bank, the latter's extremely slow processing of loan applications delayed major implementation progress until 1984. Only after USAID reallocated part of this fund to other components did performance improve (Chetwynd et al. 1985: 8–10).

24. According to data provided by USAID/Peru, the ratio of expenditures for technical assistance and operational support to expenditures for construction was 16.7 percent under the DRR project, 17.2 percent under Plan MERIS (the Improved Water and Land Use in the Sierra Project), and 17.3 percent under the Rural Water Systems and Environmental Sanitation (RWSES) project. The ratio of expenditures for technical assistance to construction was only 10.5 percent under the DRR project, as compared to 12.5 percent for the RWSES project and 12.6 percent under Plan MERIS.

25. The written comments of Michael Hirsch, chief of the DRR Division, were invaluable in elaborating the discussion in this subsection.

26. In several departments there were inefficient CORDES, a lack of viable alternative channels for certain kinds of components, and insufficient domestic financing. If it wanted to give reconstruction and rehabilitation assistance to the citizens of these departments, USAID had little choice but to work with inefficient corporations under these circumstances.

27. An instructive contrast to the DRR project is USAID's Provincial Development Program in Indonesia, in which there were no direct financial links between the donor and the provincial and local governments implementing project components. Instead, funds were released to lower-tier governments from the central treasury, which received reimbursement from the USAID mission in a paper transaction. Under such conditions, USAID monitors had little leverage with officials carrying out the program at grass-roots levels (King 1982: 15).

28. Although proceeds from USAID loans remained subject to low MEF budget ceilings—which did not anticipate accelerated devaluation—and to restrictive MEF regulations governing transfer among subprojects, USAID project managers learned how to work around most of the centrally imposed restrictions. The DRR project had some additional flexibility because grants constituted approximately one-third of its funding. In most cases reprogramming was done with grant money, which did not have to be approved by the MEF.

29. The activist role of these national-level PMUs was facilitated by USAID/Peru's considerable influence over Peruvian counterpart funding, much of which is raised through the sale of U.S. Public Law 480 commodities (Johnson et al. 1983).

30. *Cumplimiento*, meeting one's promise, is an important thing among rural people, who neither demand nor expect a lot, according to Hatch et al. (1985: 50). PRODERINs and CORDES completed many works that had been abandoned by other agencies and generally kept their promises. Although DRR beneficiaries were not surveyed, the quality and timeliness of that project's components undoubtedly enhanced the image of the corporations that implemented them.

31. See Cheema and Rondinelli (1983: 297) and Rondinelli and Nellis (1986: 16) on the widespread reluctance in developing countries to transfer financial resources or taxing authority to decentralized organizations.

32. French et al. (1983) and Hatch et al. (1985) summarize the beneficiary surveys and cost-effectiveness studies carried out by Rural Development Services, Inc. in 1983 and 1985. These are reviewed in Schmidt (1989: 80–81, 90–93, 98–99; 1990: 268–70).

33. For example, see Honadle and VanSant (1985), Korten (1980), Morss and Gow (1985), Smith, Lethem, and Thoolen (1980), and Tendler (1975).

34. Israel reports in the following chapter that the World Bank, which practically invented this implementation strategy, is backing away from this approach (see also Ayres 1984: 47–48; Honadle and VanSant 1985: 14–15).

35. See Honadle and VanSant (1985: 29); Leonard (1982a, 1982b, and 1983); Rondinelli (1981: 144); Rondinelli, Nellis, and Cheema (1984: 56–57, 74–75); and Uphoff (1986: 213–17).

36. See Leonard (1982a: 36–37, and 1982b: 218–22) for discussion of control vs. assistance linkages.

37. This insulation was especially important during the waning days of the

Belaunde administration, when some officials in the Office of the Prime Minister wanted to use PATC-C for short-term political objectives.

38. See Schmidt (1989: esp. 54–57, 65–69, 85, 88–90, 92, 111–14, 143).

39. It has unfortunately not been possible for the author to examine the impact of the GRR on the National Development Institute, where most top managers of the PMU were reassigned after completion of the DRR project.

40. For a discussion of these budgetary reforms, see Schmidt (1991: 49–52) and especially (1992: 446–48).

41. For a discussion of the complex process by which regional governments were established, as well as their organization, powers, and resources, see Schmidt (1989: 32–34, 69–71, 75–77).

42. Indeed, determined Congressional efforts to increase funding for regional governments and to give them a leading role in the antiterrorism campaign became flash points in a complicated constitutional struggle between the legislature and President Fujimori, whose upstart political party had not participated in the regional elections. After his April 5, 1992 suspension of the Constitution, Fujimori dismissed Congress, the regional presidents, and the regional assemblies. Under intense international pressure, he held a vote in late 1992 for a new Congress with the authority to modify the Constitution and scheduled municipal elections in early 1993. As of this time, regional governments remain under the control of presidential appointees.

43. The constitution approved in November 1993 provides for elected regional governments, but their future structure and powers were not spelled out.

44. For discussion of PIRR unit salaries and staffing patterns, see Schmidt (1989: 60–61).

6

Dealing with Gaps in Public Sector Performance: Institutional Development Experience of the World Bank

Arturo Israel

How has the World Bank treated the issue of narrowing the gap between public sector agencies' potential level of performance and the actual level observed in developing countries? An extensive answer would require an assessment of the Bank's long-standing efforts in this broad area, which has been defined at different times in terms of institution-building, institutional development, public sector management, capacity-building, or even governance. The treatment here is less ambitious, discussing how the Bank's scope and approach in this area has evolved over the years, and how it has been adapted to the changing circumstances in developing countries, focusing on a number of key issues.

Assessing Performance Gaps to Improve Institutional Development Work

Bank staff have seldom focused on issues of institutional capacity in terms of the gap between potential and actual performance. From an operational point of view, this perspective has been either implicit or irrelevant; what borrowing countries and Bank staff wanted was to achieve some reasonable or feasible level of institutional improvement that would support the implementation of certain programs, projects, or policy reform by meeting predetermined (usually modest) targets. Reaching the outer limits of operational efficiency has been a very long-term objective.

Clearly it is necessary to arrive at some agreement regarding the gap that is to be closed. If this is based on worldwide standards—for example, the performance expected from a telecommunications company or from a central bank in the country or countries with the highest standards of performance—then the "gaps" in most developing countries are very large indeed. They would be even greater if standards are set according to a higher, theoretically determined, "absolute" standard.

However, if the gap is defined more realistically, in relation to the potential institutional performance in a particular country, given its own general institutional (and political) set-up, then the concept has more operational significance. Moreover, gaps can be defined at different levels—for instance, with regard to those factors directly under the control or influence of a manager, or in terms of a broader perspective considering contextual factors such as the policy framework.

We can conceive of a hierarchy of gaps, suggested in Figure 6.1, going from a narrow gap based on estimates of the internal potential of one or a group of institutions, to considering the broader context within a country, to comparing performance with world or even theoretical standards. As we shall see, the Bank has acted *often implicitly* with reference to different concepts of a performance "gap" as the scope and significance of its institutional development (ID) work has changed.

Everybody agrees that institutional development is a central ingredient of any successful development strategy. The Bank has considered ID as part of its operations since its inception. Initially, the focus was narrow, however, seeking to strengthen the performance of individual agencies responsible for implementing the investments that the Bank was helping to finance. The approaches followed were relatively simple and the Bank gained some proficiency in this, particularly in the sectors of traditional lending—infrastructure, industry, and some financial institutions. But beginning in the early 1970s and particularly in the 1980s, the broadening scope of development strategies greatly complicated institutional development work.

First, the antipoverty orientation of many programs forced the Bank to deal not only with some of the weakest institutions in any country (those agencies dealing with agriculture, education, local development, population planning, and health), but also with several of them at a time, in complex "integrated" programs. Traditional approaches to ID broke down. The Bank could not pursue with each of the agencies involved the kind of long-term, intensive, and fairly technical approach which it had used with individual agencies in the power or transport sectors. Further, there was the intrinsic difficulty of attempting to improve the performance of much weaker and more complex institutions. Often, the Bank was forced to settle for a "wholesaling" approach, dealing directly with only one or two agencies while working indirectly with several others.

Second, adjustment programs and the emphasis on policy management

FIGURE 6.1
Schematic Representation of Performance Gaps

Level 5		Maximum theoretically attainable level of institutional performance
	Gap 5	
Level 4		Average performance level of best similar agencies in other developing countries
	Gap 4	
Level 3		Performance level if agency meets the highest operational standards within the country
	Gap 3	
Level 2		Performance achievable by government establishing better policies and procedures
	Gap 2	
Level 1		Potential performance attainable on the basis of internal improvements in organization
	Gap 1	
Level 0		Actual operational performance

forced the Bank to confront issues related to public enterprise (PE) reform, the performance of central government agencies, and systemwide issues in the public sector. This led the Bank to address issues of public sector administrative reform.

Third, greater reliance on the private sector and a reduced and reoriented role for public sector institutions has faced the Bank (and developing countries) with the need to elaborate a still incomplete conceptual framework that defines a new role for the public sector and clarifies its institutional implications. This has confronted the Bank with the realization that it may have been trying to help strengthen the wrong institutions. Also, this has pushed the Bank into even broader institutional arenas, such as societal rules, the working of markets and private property, and more generally with the governance of the societies involved. In short, the Bank must now consider practically the whole institutional set-up of a society.

One consequence of this expanding scope is that country and Bank staff are more aware of the interactions among the different institutional levels: seldom does it make sense to strengthen one agency in isolation from the systemic problems faced by a sector or country. Also, the fact that a public sector agency is in place to perform a particular function gives no *a priori* reason for attempting to strengthen it; many should be eliminated or heavily restructured. The dismantling or downsizing of institutional structures and systems has become an essential element of ID activities.

Thus, institutional development work at the World Bank is in a period of transition. A number of success stories can be cited of agencies that the Bank helped to create or to strengthen; many agencies have been restructured or eliminated, a negative but crucial contribution, especially with public enterprises; and a number of policy reform programs have been implemented in part by strengthening key agencies in charge of implementation.

However, the Bank faces a number of challenges in the ID area. At the substantive level, most developing countries will continue to confront major institutional changes as they attempt to open up their economies, to reassess the roles to be played by the public and private sectors, to attempt more beneficial and sustainable management of environmental issues, and to reduce poverty. In particular, many countries in sub-Saharan Africa and elsewhere continue to face the consequences of a widespread and imminent institutional breakdown, in addition to the major structural changes required in the former socialist economies of Central and Eastern Europe.

In spite of the accomplishments just referred to, the World Bank has not been very successful with ID, even in its traditional projects with individual agencies. The experience has been even less satisfactory with poverty reduction programs, and the jury is still out with regard to the broader institutional development programs supporting structural adjustment (SA) operations. Just when the Bank thought it knew how to undertake simpler ID programs, the field became wide open, and the approaches it followed have had to be reviewed or new ones developed.

ID work at the World Bank also faces other challenges internal to the organization. In spite of the widespread recognition of the importance of ID, there are still doubts about the role that the Bank could or should play, about the resources and skills to be devoted to this field, and about the approaches to be followed. It is still unclear to many Bank staff whether ID is one or several lines of action, and whether it should be fully integrated into other aspects of operations or dealt with as a separate topic.

World Bank Activities in Institutional Development

The initial, and narrowest, approach by the World Bank with regard to institutional capability gaps was to try to bypass them. The Bank's first reaction was to seek to avoid most of the consequences of prevailing institutional weaknesses in a country by isolating "its" project from those weaknesses—creating enclaves, that is, project units operating under conditions and rules different from those affecting prevailing institutional structures.

This approach often achieved project implementation, a short-term gain, but the long-term consequences were usually negative. (The preceding chapter gives a positive example.) Project units were staffed by the best people in the line agencies, who were attracted by the exceptional conditions under which those units operated, but were reluctant to return to their line agencies once the investment was completed. The result was a weakened line agency, often unable to operate or maintain the Bank-financed investment.

This narrow approach is now employed usually in extreme cases, where short-term gains are crucial (often in sub-Saharan Africa) or where a line agency is considered beyond repair, in which case the objective might best be to hasten its demise and use the project unit as the nucleus of a new agency.

However, bypassing the issue of a performance gap has not been the Bank's main approach. Very early, the Bank realized that closing such institutional gaps is a key component of any development strategy. The Bank's actions and programs can be grouped into five categories that correspond to their historical sequence and to the five categories of ID activities currently being pursued.

Creation or Strengthening of Individual Entities

The first phase of World Bank ID work, which still comprises the bulk of the activities in this field, was the creation or strengthening of individual agencies in charge of investment projects in infrastructure, industry, financial intermediaries, and certain agriculture subsectors. The objectives, then and now, have been relatively narrow, focusing mainly on those aspects of these entities that were more directly related to the implementation of the Bank-financed projects or programs.

In programs dealing with individual agencies, the Bank has followed traditional approaches focusing on organizational skills and technical aspects and on financial and economic resources. It has made reasonably good but uneven use of techniques and approaches derived from organizational and financial analysis and from human resource development. The introduction of specific techniques has been reasonably successful. Relatively less emphasis has been put on aspects such as motivation (particularly incentives), political aspects (especially commitment), or "process" elements.

In many cases, once the Bank established a long-term relationship with a particular agency, the scope and objectives of its ID programs have been broader, aiming at long-term reductions in the gap. The approaches to ID have been conceptually simple, focused mainly on internal factors, assuming that important improvements would come from the introduction of a number of managerial and financial techniques, from changing organizational structures, from new personnel management approaches, and from skills upgrading. Earlier on, the programs considered only occasionally the interactions of the agency with its environment, or the issue of interagency relations.

Until the early 1980s, most of these individual ID programs were designed and treated largely in isolation, both from the rest of the institutional set-up and from the general economic policy environment. Moreover, special efforts were made to maintain that isolation. More recently, the links between institutions and the policy context have become closer in Bank work, in particular with the conclusion that ID is not possible in a distorted policy environment.

The scientific underpinnings for such work have been derived mainly from development administration, from organizational analysis, and from management and financial analysis. The big intellectual challenge has been to adapt these techniques and approaches, most of them developed in the U.S. and Europe, to the realities of developing countries. ID program components have been, typically, some degree of organizational restructuring, introducing management information systems, personnel management techniques, planning methods, financial management techniques, and so on. The tools available have been principally the financing of technical assistance and consultants.

Supporting Social and Poverty Reduction Programs

During the 1970s, when the Bank expanded its activities to poverty reduction programs in the social sectors, the objectives, the types of entities engaged in this work, the approaches followed, and the focus of ID programs had to change considerably. The focus of such programs was the provision of services, thus blurring the distinction between project components of "investment" and institutional development: to implement the program was equivalent to achieving the ID objectives. The entities involved were different—including, for example, regional and local agencies, community organizations, and NGOs. Many of these entities are among the weakest in a country. That the programs were multiagency greatly complicated the ID component, raising the always complex issue of interagency coordination.

This meant that the objectives, and the gap involved, were broader and more complex. The focus of ID efforts continued to be on program implementation, but the distinction between the specific project objectives and that of longer-term sustainability became meaningless, for the reasons indicated. The programs were usually too complex and ambitious, and were beyond the capacity of the institutions involved. The Bank has supported research which has helped to document and demonstrate the intrinsic difficulty of developing institutions in the social sectors and has promoted the use of competition surrogates in those cases where market competition is not feasible (Israel 1987).

These programs did not innovate much in terms of improving the internal performance of agencies, basically using the same methods described for the first category. However, the "people-oriented" nature of these organizations, involving large numbers of agents (e.g., education, agricultural extension) inevitably resulted in a heavier reliance on approaches that emphasized the human aspects of institutional performance. These approaches were also central in dealing with other entities involved, such as local and community organizations, cooperatives, and NGOs. Here the Bank has acted mainly as an intermediary and has relied on consultants, without developing its own doctrine on the subject. An exception was the development of the Training and Visit (T & V) system, which is largely grounded on principles of traditional organizational and managerial analysis (Benor et al. 1984).

Generally speaking, the Bank has had mainly a supply orientation, for example, service delivery, until recently neglecting the methods required to incorporate considerations of client demand. Still, these programs have forced the Bank into a more interdisciplinary mode, with explicit considerations given to sociological and anthropological dimensions. Inclusion of demand aspects has been slowly increasing in recent years, for example, through the use of beneficiary assessments techniques (Salmen 1987). Integrated development programs, including several subsectors and a large number of institutions, have been largely given up because of their institutional complexity.

Strengthening Sectoral Systems

Other ID programs have been mostly related to sectoral adjustment operations and typically have had three types of objectives: (1) enhancing the sector or subsector capacity to manage policies, (2) enhancing the sector's regulatory capacity, and (3) restructuring (including strengthening, privatizing, or liquidating) of a number of sectoral enterprises and agencies. The Bank is not alone in having little experience in such undertakings. Although the scope of these programs is supposed to be sectoral, the unit of action has continued to be the individual agency. However, there are important differences compared with the two approaches described above.

First, by undertaking divestiture of existing organizations from the public sector, these sectoral programs might take on a substantial political coloration. The link with economic and political analysis is much stronger than in the previous two categories. Second, in focusing institutional reforms on specific functions, such as policy management or planning, these programs basically followed the approach discussed for the first ID category—working with a single agency, even though success in such functions has usually depended on the coordinated performance of more than one entity. Third, these ID programs have attempted to assess whether the institutional structure of a whole sector or subsector is adequate, considering the type and number of individual agencies, their functions and effectiveness, and their interactions with other sectors. For this, the theoretical underpinnings are much weaker than for the strengthening of individual agencies. The approaches until now have been "pragmatic," which is to say that the Bank has yet to adopt or develop a satisfactory analytical framework for dealing with institutional structures at the sectoral level. Finally, the general outlook of these programs makes it impossible to have inward or narrow ID preoccupations, as with ID programs for individual agencies, since it is even less likely that the sector's institutional performance can be evaluated in isolation from the rest of a country's system.

The components of these programs are more varied and could include divestiture programs, strengthening or restructuring one or more entities, study or action programs to improve sectorwide functions, and legislative and procedural changes. The lending instruments are broader, including freestanding TA operations.

Reform of Governmentwide Functions

The basic assumption of the work undertaken to date with regard to the strengthening and restructuring of governmentwide systems of administration is the initial rejection of the possibility of achieving general reforms along the lines of those attempted in the 1960s. The immediate objective of these programs has been to support the implementation of structural adjustment programs. The approach has been pragmatic, but without much theoretical underpinning, with the exception of public enterprise reform.

Bank ID programs have picked those areas of public sector management that appeared in most need of improvement, and actions were designed to deal with those, assuming that progress could be made independently from other systemic problems. The components have included narrowly focused civil service reform, improvements in tax and customs administration, public expenditure management, and improved capacity for management of macroeconomic and sector policies (World Bank 1991a).

The programs have had usually a short-term perspective, linked to the implementation of policy reforms. For example, civil service reform programs have been essentially cost-containment efforts aimed at reducing the payroll by decreasing the number of civil servants. Seldom have they included any longer-term program aimed at restructuring the public employment and pay system, or at modifying the incentives and rules under which the civil service operates. Programs on customs or tax administration focused mostly on the technical aspect of these operations.

The only activities that have gone somewhat beyond these narrow attempts are ones related to public expenditure reform. These have introduced a broader perspective regarding public sector financial management, planning, and interagency coordination. The close link between policies and institutions implicit in these programs, even if only cursorily dealt with, is a considerable improvement over previous isolated efforts focused exclusively on individual agencies rather than on systemwide functions.

A case of a more complete approach largely developed within the Bank has been that of public enterprise reform, which changed the focus from internal management factors to looking at the policy and regulatory environment faced by the enterprises, the nature of their relationships with the central government, and the basic principles of institutional and managerial autonomy. PE reform combines economic with managerial and organizational principles. As with sectoral programs, free-standing TA operations have been important instruments for implementing these programs (Shirley and Nellis 1991).

Reform of Rules and Norms

The reform of rules and norms has been the type of ID activity in which the Bank's role has been the most haphazard. It is becoming increasingly relevant as the Bank gets more into private sector issues. Of course, it has always dealt with rules and regulations in some of its operations: land tenure issues in agriculture, property rights in industry, tribal norms for resettlement, and legal issues. But there has not been a review of these activities at the Bank taking an adequate institutional perspective. Moreover, the Bank has seldom linked these rules and norms at the societal level with their organizational counterparts.[1]

This is a subject that is just beginning to be explored (World Bank 1992a). The state of the art for studying public sectorwide functions performed by several independent agencies is rather poor. The Bank may yet make a contribution to this by taking the management of a particular policy rather than a specific agency as the unit of analysis. This offers a potentially useful perspective, because it focuses on how a particular function (the management of a policy) is performed by several entities. It stresses final desired outcomes rather than thinking mostly in terms of inputs and outputs, which is the partial view encouraged when taking agencies rather than functions as units of analysis (Lamb 1987).

How can we summarize the Bank's approaches with regard to an administrative performance gap? At first, the attitude was to bypass it. When that proved no longer possible and clearly self-defeating, the implicit approach has been to deal with it in the narrowest possible terms, broadening the approach only when experience indicated that a particularly narrow view would not be successful, or when outcomes elsewhere in development strategies forced a broadening in scope.

Although this is a mixed picture, the Bank has made some significant contributions to the development of ID approaches. The PE reform approaches have been broadly successful, while the T & V system has reported positive impacts in a number of countries, although it remains highly controversial. The attempts being made in policy management might result in approaches that will allow progress on systemwide functions without having to undertake general administrative reforms. On the other hand, a number of shortcomings still need to be overcome: the dominance of short-term views; the incompleteness of some of the approaches, disregarding particular societal and political factors; excessive supply-orientation, disregarding demand considerations; and insufficient borrower participation.

Results of Institutional Development Programs

What have been the results of ID programs that the Bank has helped finance? Or stated differently, what have been the contributions of Bank-financed programs in reducing the institutional productivity gap? In the late 1970s, when institutional issues were identified as a central constraint in development programs, one basis of this conclusion was the Bank's experience with its portfolio of projects under implementation. Among these projects, managerial and institutional problems were by far the most common and pervasive.

Annual reviews of the portfolio continue to show that managerial and institutional problems are the predominant ones affecting implementation, and the trend seems to be deteriorating. The proportion of projects facing moderate to severe managerial problems has increased from 30–35 percent of the total in FY 1980 to over 60 percent in FY 1988. No doubt part of this deterioration is attributable to the widespread economic crisis emerging during this period and to the expanded scope and difficulty of Bank operations. However, the message is unmistakable and confirmed by several other sources: institutional and managerial problems continue to be ever more at the core of the difficulties facing countries in their development efforts. This message has been confirmed by a special task force that reviewed the condition of the Bank's portfolio. The report emphasized the need to focus on implementation and institutional issues.

Analysis of Bank Experience

Taking 1,250 projects with ID components from FY 1978 to FY 1987, only 36 percent made "substantial" progress toward the achievement of ID objectives, 45 percent were able to make partial progress, while 19 percent showed negligible achievements. These results are much less favorable than those for operations as a whole, including investment components, which performed satisfactorily 80 percent of the time.

The sectoral patterns are more divergent than those for regions or countries. In this large sample, the highest ratings for substantial progress in ID programs were for industry (48 percent), public utilities (42 percent), and development finance companies (40 percent). The least successful sectors for ID were agriculture (25 percent), population-health-nutrition (23 percent), and education (31 percent) (Paul 1990). This pattern has remained practically unchanged over the last two decades.[2]

Within institutions, the most successful programs were those related to technical and financial aspects. Mixed results were obtained in planning, commercial activities, and extension services. Less satisfactory results were registered in training (although programs for technical and general training and the establishment of training centers were relatively more successful) and in maintenance, changes in organizational structures and processes, personnel management, interagency coordination, and sector-wide reforms.

These results are indirectly confirmed by analyzing the implementation of different types of project components. Equipment components were generally implemented more easily than civil works, and civil works more easily than the provision of services. These patterns appear more clearly in complex projects: in the case of railways, locomotives and wagons were acquired and in operation before the track was renewed or the workshops built, and the track was generally ready before an organization was in place for its maintenance. In integrated rural development projects, tractors, trucks, or machinery were available before the feeder roads were completed, and the roads were ready before an effective marketing or extension structure was operational.

This emphasis on sectoral patterns does not mean that there are no substantial regional or country differences; it only means that the sectoral patterns are stronger. The percentage of negligible achievement in ID programs in Asia was only 11 percent, 16 percent in Latin America and the Caribbean, 18 percent in Europe, the Middle East, and North Africa, and 26 percent in Africa. The disparate sectoral patterns only means that there is likely to be more difference in ID progress between, say, a telecommunications and a rural health agency within a country than between the telecommunications agencies in two countries.

These findings refer to all Bank ID programs except those linked to structural adjustment. For the latter, implementation periods are still not sufficiently advanced to arrive at definitive judgments, but a number of points can be made. First, adjustment-related ID programs have had a definite impact in several respects in many countries, preventing further increases in the size of the civil service payroll or additional functions in the public sector, and eliminating the possibility of creating new public enterprises. These programs helped countries focus on strategic changes in the role of the state now underway and in implementing the transition.

A positive contribution of adjustment-related ID programs has been in the area of public enterprise reform. Considerable improvement has been achieved in the relationships between central government agencies and public enterprises, a number of restructuring operations have been completed and, more importantly, deficits and payrolls have been considerably reduced in many cases. However, there are doubts about whether these achievements are sustainable in the long run and whether a change in ownership is necessary to lock them in (Nellis 1989).

Third, ID components of adjustment programs helped in several countries to reinforce the existing capacity for policy management to the point where policy reforms could be implemented. Whether these programs will result in the long run in strengthened capacity for policy management remains to be seen. The ID programs attached to structural adjustment loans (SALs) have suffered from the poor institutional analysis in country economic work, especially in recent years. Programs still do not fully reflect the current reorientation in the role of the state, and the need to reconcile the actions to be taken to ensure effective policy management in the short run with those required for longer-term institutional improvements. ID components of sectoral adjustment loans (SECALs) have been of a higher quality, in part because institutional analysis in sector work has been more substantive. However, there is still little systematic information about actual impact.

The difficulties of sustainable institutional development are seen now in many cases. After long periods—often decades—of progress in ID programs, agencies which had gained capacity were faced with the pressures of economic crises in the 1980s. Power and telecommunications companies were not allowed to increase their tariffs to cover their increasing costs and were starved for investment or even operation and maintenance funds. Development Finance Companies (DFCs) were forced to lend funds at subsidized rates and to act against the liberalization policies being pursued by governments. In spite of the considerable institutional strengthening accomplished in previous years, these entities began to deteriorate rapidly in financial terms. A number of years of starvation resulted in their operational and technical deterioration. The performance gap, which had been narrowing, increased.

The Bank can point to a number of successes in the difficult areas of poverty reduction and agriculture projects, in spite of a generally poor record. The success of the T & V programs in several countries, including some in sub-Saharan Africa, is one case in point. "Operation Flood," the dairy program in India, is another. These cases suggest that if the conditions are right, progress can be made even under difficult circumstances. Success stories can also be identified among the adjustment operations along the lines just described. The programs in Bolivia, Jamaica, Mexico, Ghana, and Cameroon have made important contributions as well (World Bank 1988). So there are a number of cases with more encouraging results than where institutional factors were neglected.

It is increasingly recognized that one of the key ingredients of sustainability is progress in institutional strengthening. Bank studies confirm the mixed results described above by concluding that a little more than half of the Bank-financed operations are likely to be sustainable, with the same sectoral patterns reported above.

Reasons for Success or Failure

What are the reasons for these results? A number of studies have been made inside and outside the Bank trying to explain the reasons for success or failure of ID programs. A review of such studies suggests that there is no fixed set of factors proposed as explaining the outcomes. Rather, individual factors or a set of factors predominate in each case. What is found *and it is more glaring in the cases of success* is that one or two factors are so strongly positive that they are capable of overcoming a number of negative influences. More often, a positive outcome is the result of a confluence of three or four factors. The following list covers factors of success (and, conversely, of failure) that have been identified in one form or another. It is not a "general theory" of ID but rather a checklist.

Contextual factors. Aside from exogenous factors such as "acts of God," wars, and the political and cultural background of each country, which we must take as given, the strongest contextual factors have been the macroeconomic and sectoral policy environment and the rules of the game established by policy and regulatory makers for each institution, including in particular the way in which those policies and regulations are applied.

For example, the intervention of central government agencies in the operation of public enterprises, whether overt or covert, is an aspect of the policy and regulatory environment which is commonly a crucial influence. Many examples show that it is meaningless to pursue institutional improvements in a distorted policy environment, especially when agencies are saddled with a large number of often contradictory objectives, or in circumstances where direct government interventions on a daily basis result in distorted decision making and resource flows.[3]

Intrinsic characteristics of activities. Strong patterns among and across sectoral ID programs suggest that something intrinsic to the activities themselves may help explain those patterns. Israel (1987) has developed the concept of "specificity" to explain these results.[4] Specificity, which is strongly related to the technology of each activity, is composed of two elements. One is the possibility of each activity being able to define its objectives, the methods for achieving those objectives, and the ways of controlling their achievement. A second element has to do with the nature of the effects of an activity—whether they are immediate, strong, focused, and easy to trace.

These characteristics define a spectrum of activities and, by aggregation, of sectors and subsectors, that goes from "high specificity" in the industrial and financial fields to "low specificity" in social sectors and some central government functions. This spectrum broadly coincides with the sectoral and subsectoral patterns of success and failure that have been found. High-specificity activities have a discipline imposed on them by their intrinsic nature that assures a minimum level of operational efficiency, which gives them a head start in ID programs. Conversely, low-specificity activities have a major handicap, and their performance can be improved only through strong managerial and administrative measures.

Structure of markets. This factor is well known and accepted: competitive markets create incentives for higher institutional performance, a conclusion which is demonstrated by experience. This applies equally to public and private units: the dynamics and incentives of competition are probably more important than those of ownership. Thus, ID programs for organizations operating in competitive environments are more likely to succeed. Experience shows that a combination of these two last factors is especially powerful: activities with high specificity and exposure to a strong competitive environment (e.g., an airline or an export activity) have a much higher likelihood of achieving relatively higher levels of operational performance *and progress in ID efforts* than low-specificity activities operating in monopolistic situations (e.g., public rural primary education). This is important for developing countries because, almost by definition, more of their activities will tend to be closer to the low-specificity end. Paradoxically, this makes competition and competition surrogates even more important in developing countries.

Initial level of institutional performance. ID programs are more likely to succeed with institutions that already have at the outset a relatively higher level of institutional performance. This accounts for the difficulties experienced by ID programs in sub-Saharan Africa and the relative success in some Asian and Latin American countries, where institutions are generally much stronger. However, experience also shows that in cases of extreme crisis and virtual institutional collapse, ID programs could be quite successful in restoring institutional performance to a basic level. The collapse of services has sometimes succeeded in galvanizing the attention of the political establishment and the public, which then provide the necessary support to achieve progress.

Commitment. There is broad consensus on the importance of commitment, now being called "ownership," in the success of ID programs. However, it is an extremely complex factor (Heaver and Israel 1986). First, it has to be disaggregated among the actors or group of actors who control or influence a particular ID program; support is needed both at the political and bureaucratic levels. These actors could be in central government agencies, within an agency itself, beneficiaries, clients, suppliers, or the Bank. Second, commitment has to be understood in a dynamic sense; it can vary drastically over time, because of changes in the political environment or among key individuals supporting or attacking a particular operation. The Bank's experience is full of programs that were initially well supported but which floundered once some key individuals departed. Third, commitment is not fixed or given. It can be influenced and built up through a number of measures. Various cases could be quoted in which project implementers were able to build up commitment among stakeholders on the basis, for example, of showing some initial measure of success, or of an extensive program of dissemination.[5]

Leadership. Leadership has been cited as the reason for success so many times and in so many programs that it now sounds more like a cliché than a factor. The institution-building model proposed by Esman (1972) gave leadership a predominant role as one of the five main elements of strategy. In fact leadership, especially when combined with at least one more positive factor, is one of the most recurring factors explaining ID success in the Bank's experience. By leadership, we mean the presence of an outstanding individual or group of individuals in charge of an ID program, persons who take their responsibilities seriously, who are good at communicating and persuading, and who have imagination and creativity as well as persistence. Equally important, these individuals possessed sufficient political savvy to protect their agencies from undue political interference, much as Leonard described in his Kenya case study.

The Bank's experience contains many instances where progress can be directly traced to the efforts of particular individuals. We see this in cases where no progress was being made, a person arrives and progress picks up, the person leaves and stagnation sets in. But such leadership also needs to be found at different levels, from ministers, to consultants, to local actors. Practically all of the successful cases studied showed a fairly strong influence of leadership along the lines described here.

Effective program processing. This category encompasses several factors that are seen by many as among the main ones determining progress in ID programs. But experience suggests that often these are necessary but not sufficient conditions for success. Effective program processing includes: (1) good initial assessment, (2) adequate program design and preparation, and (3) an effective "process" approach during implementation (and in Bank terms, supervision) so that the initial design is modified quickly and appropriately in light of experience during implementation.

The basic assumption underlying this category is that the approaches and techniques used in making institutional assessments are generally adequate and available (although very much in need of improvement), and that "blueprint" and "process" approaches are complementary in ID rather than alternative ways of proceeding. There is no doubt that good initial assessment and design, combined with a workable process approach which can make up for deficiencies in the original design, will go a long way toward assuring success.

Adequate human and financial resources. This is a simple and obvious factor. In order to succeed, ID programs need at least a minimum level of financial and especially human resources, in the countries and at the Bank. This factor suggests that the reasons for success are not necessarily symmetrical with those for failure. Many cases of failure are explained mainly by lack of human and financial resources, but abundant resources will not automatically ensure success. Availability of resources is really a proximate cause, the underlying factor being political and bureaucratic commitment. However, the issue of resources often needs to be addressed directly and explicitly.

As indicated, this list of factors affecting success or failure is not a theoretically formulated framework, but it helps to support the hypothesis that the success stories are usually explained by the convergence of two or three factors. Many examples could be given. The India Dairy Program was the result of strong leadership and subsequent political clout at the top promoting a relatively high-specificity activity. The long period of success for Ethiopian Airlines and Ethiopian Telecommunications would have similar explanations.

The T & V system that has been used to improve agricultural extension is an interesting case. With strong support from the Bank, its simple design has succeeded in overcoming the low-specificity, noncompetitive nature of public agricultural extension. The approach has not met expectations everywhere, but its success in a number of countries eventually helped to generate considerable political support. A budgeting improvement program in Kenya was successful thanks to the excellent quality of a consultant, to the specific and relatively limited nature of the issue and the technology involved, and to the strong support from the relevant Bank manager. However, the program began to flag after that manager left, and supervision became infrequent. The Ghana, Jamaica, and Bolivia adjustment-related ID programs were relatively successful because of strong support by the heads of government, considerable resources invested by the Bank, a good project design, and relatively well monitored implementation.

Many other examples could be given about the decades of slow build-up of utilities, telecommunication companies, development finance companies, and highway and port authorities, in which several of these factors emerge as the key ones. Conversely, a parallel but longer litany of failures could be discussed, in which none of these factors was strong, or strong enough to overcome the negative weight of all the others.

Conclusions

Let us draw together some learning from World Bank experience in helping to reduce the gap between potential and actual institutional performance in developing countries. A large variety of activities get included under the rubric of ID. Some are minor, short-term exercises aimed at strengthening specific functions of individual agencies, while others are comprehensive long-term ID programs aimed at building up many sustainable institutions in the broadest sense. However, the predominant focus has been on investment or policy implementation, with at best a medium-term perspective. There are exceptions in some of the newer types of lending, especially sectoral adjustment.

Second, individual agencies continue to be the focus of ID programs, even in operations where several entities are involved. In most of these cases, the program is still an aggregation of the activities with each entity. Many of the programs pursued have been remarkably traditional, focusing on internal factors and, among these, most often on factors that are technical (e.g., management information systems, financial systems), easily defined, and more quantifiable.

Until recently, the treatment of human resource issues, such as personnel management or popular participation, has generally been more cautious and less comprehensive. Overall, there is still a supply rather than a demand orientation to most Bank-sponsored ID efforts, particularly those dealing with poverty reduction programs. There is more service delivery than beneficiary assessment, more extension service than community participation, and more attention to power distribution or road maintenance than to user associations. However, considerable reorientation has been achieved in recent years. Finally, the understanding of systemwide institutional functions is still in its infancy.

Third, there is an important learning process at work. In the last ten to fifteen years, the Bank has gone through some major rethinking of its scope of work, with each expansion in responsibility having its own implications for ID work. Just when the Bank thought that it had mastered what to do at the individual agency level for infrastructure and other traditional activities, it had to start dealing with the weaker agencies involved in social programs. Then, with policy reform, it had to relate to practically the whole public sector.

What is the evidence of this learning process? At a basic level, several mistakes often made in the past are seldom made now. Parallel project units independent from line agencies are avoided except in unusual cases. There is a clearer consciousness of the importance of institutional constraints, and program designs are simpler, without relying much on interagency coordination. There is greater awareness of the importance of a supportive, consistent policy environment for a particular agency or group of agencies before embarking on an ID program. There is a better sense of the long time horizon required for achieving institutional improvements.

But perhaps the most important learning is seen in the Bank's beginning to link more closely the five types of ID activities previously discussed. Synergy should result from the Bank's work in a particular country when there is a close link between ID programs for individual agencies or groups of agencies and systemwide undertakings, such as civil service reform. One of the clearer lessons is that it is seldom possible to achieve sustained progress in improving the performance of a particular agency without solving some systemic problems. How to link "micro" and "macro" institutional issues more closely is one of the challenges for future work in this area.

Fourth, in spite of the progress made, the broadening scope of ID activities has taken place haphazardly, for example with the Bank practically thrown into the macroeconomic management issues from one day to the next with the onset of structural adjustment operations. No planning or special preparation was made; the Bank was forced to try to absorb this expansion in scope very swiftly, not leaving much energy to evaluate and deepen the approaches adopted.

This does not mean that progress has not been made, but the pace has been probably slower because of the need to accommodate the rapid broadening in scope. There are indications that certain things should have been done differently. For example, insufficient sectoral differentiation was attempted in the design of programs, limited use was made of process approaches because of perceived time constraints, and macroeconomic management activities were perhaps too narrowly focused.

Fifth, the operations cycle is seldom applied in full for ID programs. A review of a sample country economic work in the last decade concludes that only a handful of studies have treated institutional issues sufficiently well to serve as a basis for sector work or project identification (Gray et al. 1989). Where adequate studies were done, this could be traced to staff or managers particularly interested in the subject.

The treatment of ID in sector work has probably gotten better, but it is still seldom adequate as a basis for project identification or design. One serious gap in many countries is the lack of institutional analysis at the national level that could serve as a basis for program or project identification. As a consequence, ID operations at first were little more than shopping lists derived from government requests that were then justified *ex post*. Design of ID components has often been treated as a residual, done at the last minute, perhaps during appraisal.

Perhaps the weakest part of the operations cycle is during implementation and supervision, a paradoxical fact since implementation is institutional development. At this stage ID really requires a special effort. The technical assistance role that Bank staff can play during supervision has proved to be decisive in a number of cases. Unfortunately, the Bank's effectiveness during supervision regarding ID components is probably declining, because many technical staff with expertise and experience in ID matters are retiring or leaving the Bank and have not been replaced by staff with a similar background. Also, a sizable proportion of the staff assigned to supervise institutional components of adjustment programs do not have experience or are not in a position to cope with the complexities of ID components.

An important question emerges from this review. If ID is defined as broadly as indicated at the outset, going beyond standard technical and organizational aspects, then how much ID is the Bank really promoting? And if it is not really ID, what is it? Milton Esman (1991) has outlined a scheme which disaggregates a complete ID program into seven types of components:

1. *normative*, requiring changes in attitudes and behavior
2. *technical*, in particular referring to technical skills
3. *economic*, covering mainly financial and material resources
4. *motivational*, focusing on incentives
5. *political*, basically meaning government commitment to the program
6. *organizational*, including formal and informal structures
7. *learning*, a process to be pursued throughout the program

To this list, one should add a *long-term horizon*, in which case the World Bank does not undertake yet much real or comprehensive ID.

Most programs deal with technical components only, and at best establish the basis for a learning process through monitoring and evaluation units (although the learning process implied by Esman is quite a different matter). Seldom does it go much beyond a superficial treatment of incentives (although these are constantly addressed in ID programs for individual agencies). Nor do ID programs deal much with political aspects or with changes to be achieved in attitudes and behavior.

ID programs at the individual agency level and some at the sectoral or subsectoral levels have been more complete than those for macroeconomic management. What the Bank does is tackle the issue of institutional development in a partial way. This is not enough, as suggested by the results of these programs.

To conclude, the World Bank has had an important role in attempting to reduce the gap between potential and actual institutional performance in developing countries. Unfortunately, there are practically no attempts at quantifying or even illustrating the full set of elements of a rate of return for institutional development programs. But all indicators suggest that truly successful programs—of which there are a considerable number—have extremely high returns.[6] In spite of the mixed record in this area, it would not be surprising that an *ex post* estimate of the rates of return on Bank-financed ID programs would conclude that these have been among the most important contributions to the "real" development of client countries. Besides, it is not clear what is the maximum rate of success that can be expected in developing countries in such a difficult area of work. Expectations should not be too high.

However, many decision makers are still not convinced about the kind of impact that the Bank can have in this area, and the Bank is not sufficiently well staffed or organized to maximize that impact. This is peculiar. If the Bank is going to make a contribution to development, then it inevitably has to get involved in institutional issues. In fact, that is what actually happens, every day and in almost every operation, whether advertised as such or not. Perhaps one day the skeptics will face reality.

NOTES

1. This distinction between institutional and organizational factors is analyzed in Chapter 11.

2. An earlier study based on a sample of 175 projects completed mostly in

the late 1970s arrived at the same pattern of sectoral results (Israel 1987). It showed a pattern by sector, subsector, and activity but not by country, except for a few cases. Although some sectors, subsectors, and activities have had consistently good or bad results over long periods in most countries, few countries have consistently had successes or failures in most sectors. The most successful ID programs were in industry, telecommunications, some utilities, development finance companies, industrial development banks, and "industrial" types of agriculture such as plantations. Mixed performance was found for other utilities (a rather large group), transport projects (ports and highways), and agricultural credit institutions. Poorer results were registered in most other types of agriculture, education, and railways. Additional projects for integrated rural and urban development suggest that many of them will also fall into this last category.

3. Enterprise managers may be able to insulate their operations from such interference as seen in some successful cases in Kenya examined in Leonard (1991) and in his contribution to this volume.

4. This variable has two aspects: (a) how specifiable are the *objectives* of a particular activity, the *methods* for achieving those objectives, and the *ways* of controlling achievement and rewarding staff, and (b) how specifiable are the *effects* of the activity—how long it takes for them to become apparent, how many persons are affected, how quickly, and how definitely as a result of the activity.

5. The Gal Oya irrigation project in Sri Lanka, funded by USAID, is a case where despite initial opposition at top levels of the Irrigation Department, eventually commitment was gained and a national program for participatory irrigation management resulted, documented by Uphoff (1992).

6. The Bank has not undertaken to calculate economic rates of return on ID investments, but a benefit-cost ratio of about 1.5 to 1 was estimated for investment in introducing farmer organizations to improve irrigation system productivity in the Philippines. The calculated rate of return for introducing water user associations in a USAID project in Sri Lanka likewise was found to be about 50 percent, a return on investment much higher than in most Bank-financed projects (see Uphoff 1986a: 27–30).

[Editor's note: Ironically, a World Bank design team working in Sri Lanka in 1982 declined an offer by the Agrarian Research and Training Institute to introduce and manage a similar farmer organization component in a major irrigation rehabilitation project being designed. This offer was rejected as "gold-plating," saying it would add too much to cost, despite being told what kind of rate of return was possible. Several years later, organizers were transferred from the USAID project to those schemes being renovated with Bank support to try to "retrofit" farmer organizations there because of operational difficulties resulting from this being only a "hardware" project. Unfortunately, the Bank's project had been (literally) "set in concrete," so it was harder to get the interest and involvement of farmers who had not been given any voice in planning the rehabilitation (Uphoff 1992: 237–38).]

7

The Strategic Setting of Administrative Reform: Thoughts on Roles and Crusts

John D. Montgomery

The protective crust that encircles most formal organizations and establishes their boundaries protects them against sudden shock. To serve that vital purpose, it must be thick enough to repel casual or transient invaders, yet porous enough to admit influences that an organization might find useful, tactically desirable, or inevitable. Without such a membrane, organizations risk losing their integrity, but when it becomes too dense, it deprives them of responsiveness and even the prospect for sustainability. In order to bring an organization's performance up to its potential, therefore, purposeful change agents have to estimate and balance its capacities for self-defense and responsiveness.

Not all crusts are identical, nor are they necessarily passive. When an intruder is recognized as an ally, the crust can yield to gentle pressure; when a hostile invasion is imminent, it hardens and sometimes mutates. A stranger bringing information may be allowed to enter after a period of quarantine. The active and passive effects of organizational crusts are ignored by administrative analysts and managers only at severe peril to efforts for constructive administrative reform.

External change agents seeking to improve administrative performance may have to serve many masters, each with its own purposes: a nation's political leadership, organizational client groups, or an international donor with aims of its own to negotiate. Dealing with the demands of these sponsors will influence the tactics of reform: change agents can become an organization's ally, or an invader, a resource for reform, or merely a messenger. By artful dodging, the same agent can play several of these roles simultaneously for different principals. The risks and opportunities entailed in these roles are important ingredients in an administrative counselor's recipes for change.

The following essay explores these themes, drawing on personal experience trying to introduce administrative reforms to raise the productivity of public services in Malaysia and Nepal, not entirely coincidentally with the expert advice and good company of Milton J. Esman, who has contributed so much to the theory and practice of development administration over many years. I also draw on lessons from my recent analysis and evaluation of the Management Development Programme of the United Nations (UN), which has sought to introduce administrative reforms in many countries.

The lesson drawn from these efforts to improve bureaucratic performance is that the *strategic setting*, the political context in which reforms are proposed and undertaken, is a crucial determinant of the feasibility and sustainability of productive changes. Accordingly, proponents of reform need to adjust their strategies and roles in order to succeed in particularized, politicized environments.

The Change Agent as Organizational Ally: Some Malaysian Experience

The best hope of improving administrative performance comes when the external agent plays a facilitating role allied to the purposes of interacting organizations. For example, this role can both advance an organization's parochial mission and serve major national goals; the change agent can link administration and politics as no internal actor can.

These complementary conditions are rarely present, however. In many situations, the agent of change is serving only one part of the government, and not necessarily the most authoritative part. In other cases, a powerful external sponsor is needed to challenge a domestic center of power that resists change (Klitgaard 1990). An alliance among various supporting forces can develop when the organization itself desires to change its structures or procedures but lacks political support for that purpose; by joining with others, the agent can gain access to information, funds, equipment, and moral support. Finally, there are cases when the motivation for change emanates from the highest domestic authority and is sustained by personal conviction and strong commitment from the apex of government, allowing the change agent to become an ally of political authority but not necessarily of the organization.

The most effective alliance is found when all three elements are mutually reinforcing: when an alignment of organizational, political, and external purposes permits the change agent to take advantage of the conventions of Western public administration (1) by encouraging civil service reform, (2) by offering better incentives to performance, and (3) even by introducing corruption-reducing procedures (Montgomery and Esman 1966).

Malaysia's administrative reforms in the 1960s came close to that perfect alliance. They made use of foreign advisers to carry forward a task that had been initiated by Tun Abdul Razak, a dynamic administrator who later in his career was compelled by reasons of state to divert his attention elsewhere. When he became deputy prime minister of Malaysia, he still embodied the national aspiration toward modernization, but he could no longer cover all fronts simultaneously. He had to rely on a civil service of which he was now only a distinguished alumnus.

As district officer near the beginning of his career, Razak had introduced the famous Operations Room, a management center from which he could monitor the progress of all projects under his jurisdiction by means of a simple but comprehensive reporting system known as the Red Book. As he rose in the service, and as the fame of his Operations Room technique spread abroad, he devised ways of expanding it from the district to the national level, where it was eventually computerized.[1] But the immediate success of the system had stemmed from his own involvement and ingenuity; he would sometimes descend personally and unexpectedly upon hapless administrators whose projects were lagging behind schedule. Such an action became increasingly difficult for him to take as his duties mounted and the scope of the system expanded.

The civil service under these conditions began to lose its energization and responsiveness. In order to accomplish especially important tasks, Razak began to bypass the system altogether by creating autonomous agencies that could avoid the red tape that characterized bureaucratic decisions. But this device, too, was soon to reach its limits—for when everything important became a special project, the special became routine. Tun Razak was the first to recognize that fundamental changes in the administrative system would be necessary if government organizations were to monitor themselves.

His 1965 appeal to the Ford Foundation for help in improving system-wide performance in the public sector brought a team of consultants to the country for a period of six working weeks. Razak himself had earlier approached a distinguished Harvard professor named Merle Fainsod for assistance, offering him a unique opportunity as a change agent.[2] Fainsod was a leading figure in comparative administration, but his zest for field operations was dimmed by declining health and limited time (he was also Harvard's expert on the Soviet Union and a major resource for advice on controversial issues within Harvard itself).

Fainsod's solution was to respond to Tun Razak's request by recommending me, his newest colleague, who had some knowledge of Southeast Asia as a region and of development administration as a discipline. But I, too, was engaged full time in university duties, and Razak's urgent call required action that could not wait until the summer break. It was my extreme good fortune, and that of Malaysia as well, that my gifted friend and closest associate in development research, Milton Esman, then at the University of Pittsburgh, could manipulate the trimester system there to coincide with Harvard's shorter spring break.[3] Together we could mobilize enough time for the expected six weeks of consulting. We immediately saw the assignment as the great opportunity it proved to be.

When we arrived in Kuala Lumpur it became clear that having such high-level sponsorship made us an ally of the civil service, which gave us access to ninety-seven officials whom we were able to interview in depth. Tun Razak himself spent hours with us and even convened his cabinet at an informal party to discuss our preliminary recommendations. We were able to meet as well with newcomers in the service, retired officials, and academic scholars of administration and Malay studies.

We had no expectation of providing a blueprint for reform in six weeks, but we were confident that the basic sciences of administration would point us to the key elements in the system that would serve as touch-points of reform. We analyzed the strengths and weaknesses of the country's management systems (stressing the strengths as launching points for change), digging most deeply into the budget system, the expenditure control system, the purchasing and inventory control system, the personnel system, and the career development systems. We analyzed the status of human resources in the Malayan Civil Service, the professional services, the clerical services, and communications and staff relations. We examined ministerial and departmental administration as well as state and local government, and documented areas of weakness that were already well known among the professional careerists in the country, as well as some that were not as obvious.

The major thrust of our recommendations was to put together a coherent program of reform and to propose institutional changes that would permit the system to carry out the recommendations we offered. We framed our suggestions as a series of steps that could be taken by various parts of the bureaucracy, and we closed by indicating a time frame within which to anticipate improvement in performance.

Some elements of the report could have been written by any competent team of administrative consultants; the state of the art was such that standard doctrine, applied appropriately, could enhance productivity, even in Malaysia's highly regarded civil service. But the political role of the Malaysian Civil Service called for deeper penetration into the nation's administrative system. Indeed, Malaysia's national leadership was ripe for conversion to the "modern" practices highlighted in our report. Still, even a friendly document's recommendations had to penetrate the crust that protected the system from the threat of change. The report went through many drafts as we sought to respond to the sensitivities as well as to the criticisms and suggestions we were made aware of right up to the last hours of our stay, with final touches worked out on the plane during our return home.

We were not surprised that Tun Razak liked the report: some of the basic ideas were his, and they were supplemented by insights and information we dredged out of the system he had understood well before he entered political office. We were surprised and gratified that the final report was published as an official state paper, bound in handsome blue leather with gold lettering on the impressive cover. If the glamour of a report was an indication of success, our mission was fulfilled.

But of course, there would be more to it. The report was read and reread throughout the service. For many years Esman and I found our names to be household words in the country, and incoming Malaysian students in our classes were always surprised to find us as mortal men, not icons.

Esman was able to follow up on the report by taking leave from his teaching duties in Pittsburgh in order to return to Malaysia on behalf of Harvard's Institute of International Development, then known as the Development Advisory Service. His comprehensive book (1972, esp. 135–245) based on a two-year effort at implementing the reforms we proposed describes the problems posed by the constant interventions of our friend Tun Razak, who kept trying to convert the long-term administrative planning unit we had recommended into a team of troubleshooters like himself in earlier days.

Perhaps because of Esman's presence, the internal leadership of that unit lacked the status and dynamic qualities needed for sustained reform. Razak regarded Esman as his point man for administrative reform, substituting him for the local leadership we had hoped the unit itself would generate. The report succeeded in introducing an effective change agent in the person of Milton Esman, though the ubiquitous Development Administration Unit we had midwifed was transformed several times over as its functions and its staff were absorbed in more permanent institutions of reform.

Administrative performance in Malaysia improved almost immediately. The agency that was created for sustaining and regenerating improvement, however, failed to develop a crust of its own. Despite this arrested development, the process of administrative reform continued through various channels beyond the one in which we invested most status and hope. That the process started with high-level sponsorship and support meant that it could metastasize once the main outside barrier to entry was breached.

The Change Agent as Invader: Some Nepal Experience

The least promising role for a change agent is that of unwelcome intruder into the sanctity of an organization's terrain. Changes that an administrative counselor is required by an external donor to implement, for example, may not benefit the organization or contribute to its mission. Reforms that reflect the mandate of internal political leadership are likely to permit some matching of political with administrative purposes, whereas foreign actors, even though they enjoy an initial advantage of authority and prestige, may have to sacrifice the likelihood of long-term sustainability even though the initial conditions were met. Reform becomes something of a hostage to internal dynamics even though the need for administrative reform remains.

A foreign donor, whether an imperial metropole, a bilateral aid agency, or an international bank, may require a government to act more efficiently, or less corruptly, or through a competitive market instead of central mechanisms. In such cases, the donor often dispatches its agents to the scene, with a special, often disruptive mission that may be entirely unrelated to the perceived needs of the organization to be affected. The change agent becomes an invader trying to penetrate the defenses of the bureaucracy.

Nepal presents such an extreme case. There repeated invasions of administrative experts have encountered a series of brittle, unyielding protective crusts. Nepal is an obvious target for the kind of reforms that are often linked as "conditionality" to foreign aid. Its complex and obscure government system has been essentially undisturbed by formal competitive politics, at least until the 1990 revolution. Its competing and overlapping public organizations make policy decisions largely uninhibited by parties and interest groups. These organizations are virtually governments in themselves; each is encrusted separately; they all but invite the donor to engage in the tactics of "divide and rule" because there is so little coherent resistance to piecemeal administrative changes. Yet the divide-and-rule strategy offers no sweeping victory, as change agents need to keep their ambitions simple and modest. Reforms are limited to remote elements in the system, where government agents are geographically separated and ideologically neutered.

Nepal has endured several decades of largely ignored advice for strengthening its administrative system, delivered by consultants from all over the world. Because of its spectacular beauty, Kathmandu has been a favorite place for technical advisers as well as for development banks and agencies.[4]

Administrative consultants have plied their trade in Nepal since the country opened its doors to outsiders in the 1950s. Don K. Price was perhaps the first, offering to his royal host, an absolute monarch, advice based on his experience with the Hoover Commission as well as his theoretical knowledge of public administration. His recommendations were, however, too sweeping for the times: the king decided that he did not want to be a constitutional ruler, or to splinter still further his already dispersed authority. A few years later, Merrill Goodall examined the system and published some of the earliest studies of that period.

A little more than a decade later, Aaron Wildavsky is said to have written his comprehensive review of Nepal's administrative needs[5] on the plane en route from his California base at Berkeley.[6] His study was rational, coherent, and just threatening enough to be ignored too (except among his American colleagues). In the ensuing years, consulting groups of various quality have presented reports on subjects ranging from municipal financing to the use of the computer in national planning, which, being confined to technical issues, could be adopted without threatening the rest of the disjointed government.

About the time that Wildavsky's analysis appeared, Milton Esman and I visited Nepal together under Ford Foundation sponsorship. We were to lead a seminar organized for the permanent secretaries of all the major ministries. They wanted to discuss the various current fads for improving administration—popular participation, decentralization, and even PPBS (policy, planning, and budgeting system). When Esman and I returned to Nepal sixteen years later to study its administrative systems on behalf of the UN Development Programme, the level of bureaucratic productivity had changed little.

During our 1972 visit we were also asked to meet with faculty members engaged in public administration training. They, like the secretaries, were a receptive, interested audience for discussing "academic" subjects. But when we returned in 1988, our task was to be somewhat more intrusive. We were brought in to explore ways of implementing a new set of government priorities proposed by the king himself in a series of speeches. These proposals had been well received by the business and scholarly elites and they coincided with a current international fashion: to provide for the basic needs of the entire population by the year 2000.

This "Basic Needs Strategy" (BNS) was intended to supplement, if not replace, the orthodox macroeconomic objectives that had dominated the planning exercises of the government for more than two decades. The benefits of the proposed BNS activities were intended to reach even the most remote villages, in many of which the government had no representation at all.

The question posed to us as administrative change agents was: how could government organizations in Nepal add to their important but conventional functions—maintaining government services, constructing infrastructure, and encouraging industrialization—a new and more complex form of public-serving, poverty-alleviating activities? These new responsibilities would be grassroots, populist programs that diverged sharply from the current development approaches.

The assignment forced us into a role quite different from that of our reform efforts in Malaysia. Conventional personnel and accounting procedures, modern organizational designs, and management information systems would not provide the answers to the one question the king insisted should dominate the new priorities: how should the ministries and other bureaucratic organizations in Kathmandu change their collective behavior in order to achieve the mandate of the Basic Needs Strategy? The changes necessary to achieve these goals were certain to be drastic and controversial. The government had already instituted a program of administrative decentralization, but its implementation had amounted mostly to heaping new reporting requirements on local government units and instructing them to carry out more national orders.

Several distinct bureaucratic crusts were firmly in place in the mid-1980s, when the BNS was prescribed. Indeed, by then there were at least four layers or concentric circles of almost independent governments in Kathmandu:

- the revitalized Rastriya Panchayat, the elective national legislature that was the nominal political center of the country, from which came its ministers and laws
- the Royal Palace itself, which had accumulated its own functional bureaucracies to oversee the nominal ministerial government
- less conspicuously but no less powerfully, the career civil service, which provided both managerial and policy continuity in the ministries
- the international agencies themselves, which were actually administering half a dozen or so regional integrated rural development schemes. This involved carrying out operations in various difficult-to-reach places through contractors whose planes and jeeps could reach the hinterlands more reliably than those of government agencies based in Kathmandu

All of these "governments" would defend their independence by asserting their own distinctive roles or by proclaiming and upholding their prebendary rights.

As itinerant change agents who had only a few weeks to spare, we could hope to do little more than analyze the administrative requirements of the new BNS development doctrine, hoping that our sponsors and the Nepalese colleagues we consulted in our research would carry our ideas forward. But the hope was vain; they never became effective allies for change. We were soon regarded as threatening invaders because in spite of our international status and the mandate from the royal throne, almost any serious reforms we would recommend had to reach far beyond the cosmetic improvements that the government's own administrative reform agency, our nominal counterpart, had envisioned as acceptable. Carrying out a BNS program would present potential losses and very uncertain benefits to all four of Nepal's effective "governments." It could be done only piecemeal and over years, if not decades.

The king's BNS proposal had been widely publicized as the country's new economic blueprint, and it was everywhere espoused as a plan that would remake the future. If actually carried out, however, it would shift authority over policy making and administration to provinces, districts, and villages, with only a supporting role left for Kathmandu in defining and providing basic educational, health, and agricultural services. It would impose a drastic change for the ministries involved. It would challenge the political supremacy of the national legislature and reduce the growing policy role of the palace guard. Moreover, it would constrain the free-wheeling operations of international lending and donor agencies. Ministries and the national legislature would have to devolve much responsibility to local governments (panchayats), which could then claim more staff and financing. Central ministries would have to change their personnel practices for recruitment and assignment to give priority to rural postings, making them the central feature in a typical bureaucratic career.

The king's custom of visiting rural areas and acting upon local complaints and suggestions would subvert the administrative discretion of palace bureaucrats. What if local voices began to dominate policy choices and if functions that were being performed in Kathmandu were relocated to a thousand dispersed villages? Even donor agencies, which hailed the BNS in principle, perceived problems in its practice. To implement such programs, they would have to underwrite current expenditures, compensating public servants for undertaking duty in remote areas.

Our final report, though formulated as carefully and narrowly as the new mandate would permit, presented threats to all major power bases in the country (Esman and Montgomery 1988). There was no way we could disguise the vast scope of change required; the only change that appeared politically acceptable would have to be incremental.

The organizational crusts of Nepal's governments began to move together like tectonic plates. The professional friendships we had established during the information-gathering phases of our study were now caught up in organizational rivalry. Everywhere there was resistance to decentralization of decisions about resources and personnel assignments.

As the implications of administering a Basic Needs Strategy became more obvious in the details of the report, even innocuous recommendations, however simple and conventional, became controversial—for example, position classification reform and performance-based pay scales. Such modest suggestions as using the case method approach in training future civil servants became a matter of contention.

Even the sponsoring donor agency was dismayed at the scope of changes implied by a serious approach to a Basic Needs Strategy when spelled out in detail. To will the end is not necessarily to will the means! Our sponsors decided that the report had to be buried, all ninety-six pages of it, to protect the challenged systems (including their own) against drastic threats to comfort, convenience, tradition, and power. Even curriculum suggestions, data on the present distribution of resources, and the basic needs status of the different provinces did not see the light of day. Future administrators would find it difficult even to obtain a copy of the report, whether to gain access to the data it presented or to avoid repeating the mistakes implied in our making overly ambitious suggestions.

In retrospect, the lessons from our unsuccessful reform effort in Nepal are clear enough. Perhaps most obvious is the desirability of concentrating on assisting organizations that already believe they would benefit from change, leaving unstated the need for change in other parts of the bureaucracy. A rifle is more effective than a shotgun, even when systemwide change is called for. A corollary strategy is to introduce new organizations supporting the reform that can quickly develop the "incrustation" required for self-preservation, once the first steps are taken. Though our recommendations in Nepal involved many different targets, it might have been preferable to avoid aggravating or alerting them all at once.

Second, it is distinctly hazardous to rely on a foreign sponsor like the UN or on isolated local experts for actual negotiation or implementation of reform. Influential internal support is essential, but consulting with cooperative locals as unofficial partners is no substitute for continuous interaction with leaders of the affected organizations. It should be part of the change agents' responsibility to see that the final product of their work is understood and appreciated by the local leadership.

Third, change requires tutelage, to gain acceptance broadly within the affected organizations. This process depends on extensive exchange and incorporation of ideas, usually through seminars and conferences. The most appropriate reinforcement takes place when the initial proponents of administrative reform can return to the scene as often as the organizational learning process requires it.

Finally, compromise should be viewed as part of the analytical task from the outset. Essential changes should be clearly separated from desirable details, which often have to be sacrificed to protect the larger outlines. Only when such details have been introduced as incremental improvements should their connection to the larger reform of systems involved be clarified and publicized.

Administrative invasions involve bureaucratic bloodshed; seldom have truly drastic changes occurred in a government's structure and operation in the absence of a political revolution or perhaps a colonial or military occupation.[7] Where there is little change in the structure of authority, administrative reform must be incremental, thus capable of surviving the neglect of indifferent political leadership, or the sabotage of a resistant civil service, or both.

The Change Agent as Resource: Some UNDP Experience

Administrative reform is less dramatic and controversial today than it was in the 1950s and 1960s. Economic planners and international donors increasingly recognize the importance of institutions and organizations for achieving the advantages of good policy. Favored doctrines regarding prices, markets, exchange rates, and trade agreements have proven insufficient stimuli for growth when institutions lag behind such enabling policies. Economic doctrines are neither self-starting nor self-enforcing. They require organizations capable of generating their own dynamics for influencing public values and expectations, creating the environment to support contract obligations, performing dependable public services, and sustaining the necessary physical and human infrastructure. Administrative reform is not the only action needed to make these innovations effective, but it is a major means to that end.

This recognition has produced new demands for administrative counseling to enable states to deal with their mounting problems. But these policy demands are not identical in different contexts. At least four types of situations—different strategic settings—stand out from experience, judging from recent international efforts in administrative reform (Montgomery and Wanasinghe 1991).

- countries undergoing transition from central planning to market-oriented economies that recognize the need for organizational change based on experiences in other countries
- governments seeking to restore war-devastated institutions that are prepared to go beyond organizational reconstruction
- political leaders, hoping to improve their government's performance so as to develop support for their regime, who are prepared to learn from

the administrative experience of countries like their own, but whose performance they consider superior

- finally, even governments not undergoing change that find their internal organizations can be improved by procedures and technologies that can accomplish new functions

In all of those cases, the principal missing ingredient for improved performance was better information on organizational alternatives. External advisers constitute a welcome source of assistance to such governments.

External agents can provide a critical and carefully adapted contribution to organizational change in these situations. Their role is likely to be perceived as technical rather than political; indeed, in the early years of technical assistance they would typically seek to maximize their neutrality, hoping thereby to increase their acceptability. But neutrality is not always a virtue; in adopting it, they sometimes risk exposing themselves to political naïveté. Ignoring politics altogether allowed external agents to fall back upon safe, tried-and-true conventions with little regard for the strategic environment in which administrative change was to occur. When eschewing politics, they passed up the opportunity to identify and deal straightforwardly with essential issues.

The myth of political innocence is disappearing, to be replaced by a more sophisticated awareness of politics as a dominant element affecting organizational change. In 1988, the UN Development Programme created a new organization to respond to requests for assistance in improving public and private organizations in member states. Within two years the new Management Development Programme (MDP) had received scores of requests and dispatched hundreds of consultants to assess the needs and prospects for managerial improvement. Most of that work was improvisatory but based on experience.

The MDP built up its consultant rosters slowly, beginning with names suggested by other UN organizations and gradually extending invitations to individuals who were new to the system. Consultants embarking upon these assignments had to set off with little notice; there was scant time for team preparation, no codification of the doctrines to be applied in the name of MDP, and no resources provided for research. The entire enterprise depended for its success on existing knowledge and experience that could be mobilized for immediate use. Understanding better the strategic setting of administrative change was a key emergent element in its operation.

In spite of the absence of an official doctrine, the approaches these consultants took during MDP's first two years showed distinct patterns of concern depending upon the policy environment in which they worked. Their proposals reflected both general doctrines of administrative change and specific awareness of the strategic context.

In the first group of countries in which MDP had launched significant projects, the basic elements of proposed administrative reform were familiar, but they were not identical applications of a uniform package, as had often been the case in the 1960s: twelve of the first thirty-six initial assignments involved components of macro planning for economic development; ten included efforts to encourage institutional capacity for private sector support; eight dealt with personnel and training of public servants, and six incorporated financial management elements. The technical *contents* of these projects did not differ markedly from those embodied in the reforms recommended for Malaysia and Nepal in the 1960s and 1970s, but an appreciation of their different strategic *settings* called for varied combinations of innovations.

What is emerging from an examination of these experiences is the possibility of analyzing the effects of strategic settings on the perceived need for organizational change. A detailed study of these settings showed that:

- nations engaged in making the transition from centrally planned to market-based economies required innovations that were somewhat novel in the toolkit of administrative consultants—improved private sector relations, facilitation of market processes, and the management of public enterprises
- where stable governments were calling for an overhaul of their administrative systems, a variety of more familiar "streamlining" and economic planning techniques could be used
- governments engaged in institutional reconstruction in the wake of war or revolution required special assistance in macroeconomic planning, financial management, decentralization, and civil service reform
- where no significant political reconstruction was under way and administrative improvements alone were requested, personnel and management training projects, along with decentralization and civil service reorganization, were considered sufficient, calling for only modest changes

No preconceived doctrine of strategic design informed these decisions: rather, they emerged from experience. MDP's experience in introducing administrative reforms offers a data basis for comparative research that remains to be systematically tapped.[8]

The Change Agent as Messenger

It is not always necessary to bring new technical information into a system in order to reform it. Recommendations for change can come from within as well as from comparative experience. Sometimes the reforms needed are already understood within the organization, only waiting to be revealed to the responsible leadership. The change agent, often perceived by administrative leaders as a vehicle for transmitting information downward, may perform a greater service by reversing the flow. Experienced consultants have long recognized that an invitation to extend downward the stated goals of a policy by instructing subordinate members of the system also presents the opportunity to bring policy-modifying experience upward from the operating levels of an organization.

Consultants who are invited merely to work out better procedures are expected to close the gaps between the intentions of the policy makers and the behavior of policy implementers. But experience demonstrates that if they can devise a management information system that reports on policy weaknesses and failures as well as compliance, advisers can improve procedures dramatically and fairly autonomously. The principal purpose of our Malaysia consultancy, for example, had been to bring a reinforcing message from the central government to subordinate administrators. But the study also showed to the center that certain control policies it had installed were inhibiting the course of development.

One of the lessons from recent behavioral studies of administrative performance in Asia and Africa has been a new appreciation of leadership emerging from the middle ranks of the civil service: the most respected administrative leaders were those who found ways of supporting initiatives from the field, not those who produced the most inspiring messages or the clearest directives.[9]

Not all information that is lodged in the experience of operating managers exists at a conscious level. Contrary to current cynical interpretation of "the bureaucratic syndrome," often reinforced by politicians, the greatest satisfaction managers reported in a systematic study of their motivation came from their sense of having rendered direct service to the public, not from the personal advantages they derived from their public positions. Satisfactory interactions with client groups proved to give the highest reward of public service.[10]

Conclusions

Some obvious lessons can be drawn from these direct personal experiences and from more objectified studies reported here, and they are familiar enough to appear proverbial. Administrative counselors should look outside bureaucratic systems when formulating recommendations. They should, for example,

- align political authority behind any administrative reforms being proposed
- focus initial reform efforts on points where the forces for change are strongest and design deliberate efforts to compensate for any identified weaknesses
- use ideas and language derived from the bureaucratic and political leadership in proposing innovations wherever possible
- create organizations for change that can sustain the pressures which reinforce institutional modernization
- help the organizational crust itself protect the desire and means for change
- take advantage of local informants and consultants as a source of information, especially about strategic settings
- make use of supportive elements with official standing to follow up on the plans for change
- rely on precise, detailed expositions, not axioms, in communicating administrative reform needs

Although most of this discussion has concentrated on the process of penetrating the crust that insulates organizations from change, it is also important to examine the characteristics of the crust itself. Its protective function, like other organizational features, is maintained in a strategic setting, which makes it troublesome as well as useful. A crust serves a valuable purpose for special-purpose "high-technology" units like planning agencies or politically important public enterprises, by insulating them from routine bureaucratic processes. But such special agencies achieve this at a cost to the public good when they become invulnerable to external pressures for change or when they become a self-serving drain on the public treasury.

The organizational crust affords protection for political experiments and pilot projects, gaining them at least temporary release from normal administrative controls during the honeymoon period (Quick 1980). But further gains in organizational productivity may require administrative discipline when the agency has grown out of the "infant industry" stage. To the change agent engaged in administrative reform, the crust is an obstacle to change when it insulates the sensitivities of independent organizations, and permits them to take on the quality of "governments" unto themselves, as we found in Nepal. To economic advisers trying to introduce a competitive market, the crust is a device that protects monopolistic organizations, haughty and aloof, against political or public responsibility.

Change agents, too, become encrusted by their experience and expertise, developing an immunity that makes it difficult for them to benefit from their own experience and that of others. There is a "paradox of success" that invites administrative counselors to return to earlier achievements, introducing remedies that might have worked in one setting but that are only marginally useful in the current situation (Montgomery 1961). Change agents, too, require a valid commitment to innovation that encourages penetration of their own protective crusts—an especially drastic form of self-criticism. External change agents must learn to work from within the system, using the resources they bring to it to penetrate its protective membrane, by providing information, incentives, and political reinforcement. Applying the same principle to one's self is an even more sensitive operation.

Few generalizations about that process go very far beyond common sense. But perhaps the most useful are those that link general organization theory and comparative administrative research to strategic analysis. The tailoring and trimming of the change agent's role to the strategic environment is the beginning of wisdom in closing the gap between public organizations' future potential and their actual performance.

NOTES

1. This process is described in "The Electric Red Book," a case study prepared at the Kennedy School of Government, Harvard University.

2. Fainsod had visited Malaysia several years earlier and offered the government informal advice on administration.

3. The timing yielded Esman several weeks of time more than I could manage, in recognition of which I listed his name first on the report that we submitted from my office. For reasons unknown to me, Razak reversed the order. Esman has since forgiven me for the unintended slight.

4. A detailed story of these reforms appears in Goodall (1966: 617ff).

5. This report, in polished form, appeared as "Why Planning Fails in Nepal" (Wildavsky 1972), reprinted in Rondinelli (1977: 52–65).

6. This reference is not intended as a reproach; good consultants who do their homework should know what they want to focus on before they arrive on the site. The quality of their field work is reflected in the difference between what is written before the country visit and what appears afterwards in the findings and recommendations. Wildavsky spent three weeks in Nepal and interviewed twenty-nine Nepalis. The report makes some reference to their opinions.

7. Exploring this experience was one of my first professional assignments (Montgomery 1957; see also Montgomery 1964).

8. In following up the Montgomery-Wanasinghe study, MDP has undertaken in-depth analyses of the sustainability of the innovations it had recommended with respect to these different kinds of strategic settings.

9. See Montgomery (1986). My book on administrative behavior (Montgomery 1988) draws similar conclusions from a different data base.

10. Montgomery (1988: Chapter 4) summarizes the evidence for this conclusion.

8

Alternative Understandings of Performance Gaps

Louise G. White

The evident gap that exists between the potential and actual performance of public bureaucracies in developing countries presents analysts and advisers with some acute challenges. For decades, Western countries have been channeling technical assistance to developing countries to assist them in improving their capacity to manage social and economic change. Much of this aid has gone for reforming and improving the capacity of public bureaucracies. Two current trends are challenging these efforts.

First, there is widespread concern that public bureaucracies have not only failed to promote development, but have even in some respects impeded development, doing more harm than good. One common response has been to reduce the scope of the public sector. Concurrently, a second trend, largely external, is constraining choices. The global political economy has been following its own logic and consigning much of the developing world to an increasingly marginal role if not to a new dependency. The result of both trends is a growing fear that while bureaucratic reform is desperately needed, these countries do not have the luxury of waiting to develop public institutions that are capable of promoting and managing their development. The only recourse, according to this reasoning, is to rely on markets rather than bureaucracies to bring about economic development. Bureaucratic reform is too uncertain and its time horizon is seen as too long.

There has been a range of responses to this reasoning. A few governments have wholeheartedly adopted the logic of the market while others have rejected it or claim it is politically suicidal. The majority, however, are groping toward a more pragmatic response. They are trying to craft their own compound of public and private responses to economic problems and are showing a willingness to explore new roles for the public sector.

There is a rough consensus emerging that the real issue is not too much or too little government. Rather government needs to stop playing roles better suited for the market, such as running industries and managing trade and commerce. At the same time, government needs to become more active in other roles such as developing infrastructure and providing for health care and education (Colclough and Manor 1992). Given the importance of this second set of roles and in spite of current rhetoric about privatizing the public sector, the problem of performance gaps in public bureaucracies continues to be critical (Esman 1991).

Coping with Complexity and Uncertainty

What do we know about the reasons for performance gaps and strategies for overcoming them? There is no single answer to this question, as seen from the variety of explanations and approaches presented in this volume. This essay identifies six perspectives in the literature that have been particularly influential in shaping how we view public bureaucracies, their potential for promoting development, and the reasons why they often fail. It lays out their major assumptions and focuses on how each understands the nature of public sector organizations and their role in development. Each perspective implies a diagnosis of and way for dealing with shortfalls in bureaucratic productivity.

Identifying and comparing these approaches (models) brings some order to the variety of prescriptions that abound in the development arena. However, the effort to construct models raises the specter that Hirschman (1987) warned against, namely the danger that models can be a "hindrance to understanding" and to our efforts to bring about change. Hirschman was concerned that paradigms may prevent us from looking for varied opportunities for change, particularly those that a given model does not anticipate. This danger, in Hirschman's view, is particularly strong in theories that attempt to explain and deal with economic and social change in developing societies. Since theories tend "to convert the real into the rational or the contingent into the necessary," they lead us to assume that "the backwardness, injustice and oppression are in reality far more deep-rooted than had been suspected" (1987: 177).

After reviewing the half dozen models that inform much current doctrine about development and that shape our thinking about the role of bureaucracies, we will return to Hirschman's concern. One way to respond to his warning is to seek multiple opportunities for change by designing institutions and procedures in ways that account for and accommodate the respective strengths and weaknesses of different models. "Hybrid vigor" can be derived from combining contrasting modes of perception and operation, from amalgamating several orientations.

Such a conclusion will not be entirely satisfactory to everyone. Those who are concerned with closing performance gaps are looking for effective ways to intervene to promote development. Some will naturally prefer the clarity of single models and the consistency of their prescriptions. Multiple frameworks and competing perspectives are unsatisfactory at best and frustrating at worst. Discourses after all are unpredictable and messy.

This essay argues that development is sufficiently complex and uncertain that it cannot be addressed through any single approach. It is more fruitful to understand several approaches and to let them contend with each other, sharpening analysis and energizing practice thereby. An appropriate response in particular instances is more apt to emerge out of such an encounter than out of any single approach.

Introducing Models

Thomas Kuhn's analysis (1970) of the prevalence and inevitability of paradigms in the physical sciences has been applied also to the social sciences. This essay uses more common terms such as models, approaches, and perspectives to avoid the semantic debate over how best to define a paradigm, and to suggest how all of us use such constructs to understand the world around us. These terms all suggest a set of assumptions about which aspects of reality are important and how they relate to each other. These assumptions serve as lenses or frameworks through which we view the world. They are useful because of what they point to and what they omit; they direct our attention to certain factors and relieve us from having to focus on others. Thus they help us sort through the "blooming and buzzing confusion of reality," to use William James's graphic description, and they help us manage and cope with this reality.

William Siffin (1980) articulated this pragmatic approach to models when describing an experience with theorizing about institution building, an enterprise in which Milton Esman played a leading role. Siffin recalled his serious doubts about the utility of the body of theory that he and his colleagues were developing. He was therefore pleasantly surprised when a practitioner reported having found institution building theory useful:

> You know [the practitioner said] if I had known about certain of the items in that model when I was running a project in Sierra Leone, I can see how I would have done certain things differently and they would have worked better. I find that those terms—those ideas—give me some handles to use, and keep me from overlooking some important things. (Siffin 1980: 4)

Siffin discussed how models can sensitize a practitioner to certain factors and relationships "as he shapes his own strategy in his own particular situation. The fact that the model doesn't tell him in any detail how to do that, or what to do, is more advantage than limitation. Why? Because the model would probably be wrong if it laid out a detailed prescription. In this sense its value lies in its weakness" (Siffin 1980: 5).

The next section describes six perspectives that have influenced our understanding of the role that bureaucracies play in promoting development.[1] Each presents a different focus for understanding how public organizations operate, more or less productively. Each implies certain prescriptions and values and indicates some source of change which accounts for dynamism (or lack thereof) in the real world. Table 8.1 summarizes the six perspectives and how they differ from one another.

The first two perspectives emphasize the role of the *manager*; the third and fourth focus on the *organization* within which managers function; and the fifth and sixth perspectives give special attention to managers' interactions with their organization's *environment*. As one moves vertically down the table, moving from the first to the sixth perspective, the centrality of the manager for explaining outcomes decreases.

In models one and two, managers are regarded as relatively autonomous. If they develop appropriate strategies, it is expected that they can improve their organization's productivity. Models three and four, on the other hand, by focusing on organizational settings, assume that organizational design and procedures have a major influence on bureaucratic performance. Hence these models would improve performance through making changes in the organization. Models five and six, which pay more attention to the environment, look particularly at managers' settings and the way these create constraints on organizational performance.

Perspectives on Bureaucratic Performance

Strategic Planning

This model, elaborated on by Goldsmith in the following chapter, assumes that managers and agency staff are motivated by policy and organizational goals. This makes it important for managers to develop rational, analytic skills to formulate appropriate goals and to devise plans to accomplish them. Original versions of this approach stressed the value of long-range planning and drew on economic models such as cost-benefit analysis. Simon (1947), however, cautioned that long-range planning and economic models generally overestimate an individual's capacity for handling large

TABLE 8.1
Six Perspectives on Improving Organizational Performance

Perspective	Focus	Prescription	Values	Sources of Choice
Strategic planning	*Managers*: Analytic skills	Rational planning Interactive planning Strategic thinking	Maximizing Satisficing	New ideas Learning process
Managing anarchies	*Managers*: Leadership skills	Improvisation Purposive muddling Capture opportunities	Satisficing Openness	Leader Circumstances Unforeseen opportunities
Bureaucratic process	*Organization*: Operating procedures	Organizational incentives to link problems and information	Predictability Satisficing	Monitoring results
Political economy of institutions	*Organization*: Decision rules Incentives	Decision rules to respond to fixed preferences and incentives Competition Coproduction	Efficiency Responsiveness	Competition Responsibility
Political process	*Environment*: Policy process	Build coalitions Policy leadership Find convergent interests	Negotiated agreements	Interaction among interests
Social learning	*Environment*: Community Beneficiaries	Mobilize constituencies Public debate Experimentation and feedback	Learning	Emergent social energy and new preferences

quantities of uncertain and complex information. Decision makers, he observed, are more apt to look for satisfactory means of meeting policy objectives rather than for practices that maximize goal attainment.

Simon's maxim that "satisficing" is more realistic and effective than trying for maximum or even optimum programs anticipated the legion of failed plans gathering dust throughout the third world which aimed at ideal evolution of economies. The pragmatism of Simon's proposition has led to modifications of the rational model that take the realities of management and organizational practice into account.

Current expressions of this approach are associated with "strategic" planning or thinking. These emphasize the importance of goals, planning, and analysis, but with more pragmatism and flexibility than was true for the earlier spate of five-year plans. Whereas traditional planning centered on forecasting the future, current versions focus on learning as much as possible about the current environment of an organization. Persons involved in the process of management are to develop visions or goals for the organization, and then design strategic plans for accomplishing these goals, given the constraints and resources recognized in their setting.

Proponents generally emphasize the role of leaders in developing a vision and sense of purpose within an organization and the need for all involved to be committed to the goals and strategies. Thus many of the activities associated with this model stress the value of developing a consensus about appropriate strategies among all those involved, often referred to as stakeholders. It is also important to define clear and measurable objectives so that one can tell how much progress is being made (Brinkerhoff 1985, 1986; White 1990).

Performance gaps will arise if there is not enough structure and content to guide organization members throughout the implementation process. But gaps will also arise if there is not enough flexibility for staff to redefine objectives and respond to new opportunities and problems as they arise (Brinkerhoff and Ingle 1987). Technical assistance consistent with this model focuses on workshops and the use of technical advisers to introduce new ideas and ways of analyzing organizations' situations and conceptualizing opportunities.

Managing Anarchies

In line with this model, development activities are characterized by a plethora of activities and participants. In such a setting it is difficult to formulate and pursue clear goals and strategies. The focus is still on managers, but they are seen more as leaders who capitalize on opportunities than as deliberate analysts who set and achieve objectives (Cohen 1986). Success depends more on their ability to seize on and benefit from opportunities than on analytical ability and steadfast implementation. Goals in fact reflect more an iterative statement of what an organization is able to achieve than a guide to action.

This approach is consistent with Hirschman's description of the "hiding hand" in development. In *Development Projects Observed* (1967), he observed that plans easily obscure opportunities that may arise as a project is carried out, and he documented cases where managers had been able to take advantage of unexpected developments. Leaving room for the dynamic of the "hiding hand" (not the same thing as Adam Smith's "hidden hand") is particularly important with social development activities, where the costs are immediate while the benefits are remote. This creates a bias against proceeding with such activities.

Proponents argue that many bureaucratic problems arise from a failure to understand the complexity and the lack of rationality in the policy arena. Goals are, in this view, never as clear or specific as we like to think. Supporters interested in a particular policy may get diverted by another priority, leaving managers without necessary backing. Policy solutions may be pursued not because they are ideal for a particular problem at hand but because they suit other goals. Ideas and policy goals thus may lose touch with what is actually going on in the system.

Prescriptions for handling these situations include decentralizing where possible and being willing to proceed with minimal consensus. Intuitive actions, being attuned to unanticipated chances, and less structured approaches become more acceptable. Because this mode of operation is not very specifiable or clear-cut, it has seldom been explicitly adopted in official circles. Still, many of these ideas are reflected at least implicitly in proposals for development work such as that of Johnston and Clark (1982), warning against trying to implement fixed blueprints and follow prescribed plans.

The model gives attention to leadership and the power of ideas to engage people. While other models view managers as organizers or as political brokers, this model is more interested in interactions among leaders and in the ways they influence each other. "Leaders interact with other leaders and are coopted into new beliefs and commitments. The leadership role is that of an educator, stimulating and accepting changing world views, redefining meanings, stimulating commitments" (March and Olsen 1984: 739; see also Reich 1988). Administrative leaders in this view, while constrained, can become decisive political actors, influencing and shaping policy debates and programmatic activities in a fluid environment.

Bureaucratic Process

This model shifts our focus from managers to organizational processes. Organizations are not seen as places where members come together around goals that inform and coordinate efforts, but as composed of subgroups, each with its own interests and perspectives. The role of managers is to apply organizational incentives that will enable members to satisfy their own interests at the same time they contribute to the programmatic purposes of their organizations. Managers, therefore, need to spend less time developing rational and flexible program strategies, and more time supervising and managing organization members (March and Simon 1958; Simon 1973).

One field report from Africa uses pointed words to articulate this explanation of administrative performance and to describe appropriate remedies for bureaucratic lapses.

> The problem [with development project administration] is not one of lack of training or insufficient personnel but one of conviction, discipline and close supervision. . . . In almost every instance, the cadre in the field is already overtrained for the jobs they have been assigned. The problem is not that they can't do their jobs but that they don't do them. An initial remedy for this problem would be a structural reform which provided tighter employee control and supervision. (Wentling 1981: 15)

It is important to appreciate that in this view, persons are not doing something "wrong" but simply doing what makes sense for them from their vantage point. If organizations are considered as systems of incentives in which members make contributions and receive rewards in return, managers should focus less on training and on getting agreement on goals, and more on improving the system of incentives within the organization (Heaver 1982).

This model tends to stress economic or material incentives, which are seen as means for improving on otherwise highly personal styles of supervision. According to a field study of an Indonesian project, "The development of a professional group secure in its own competency and with a sense that it has earned certain benefits, rather than being dependent on the benevolence of the director, is a move in the right direction" (cited in VanSant and Weisel 1979: 26). The model seeks to be very "realistic" and to offer clear prescriptions, such as redirected incentives and well-established routines to encourage and channel desired behavior.

A problem with this remedy is that routines can become red tape, can work against development goals, and can make change and flexible responses more difficult. Rewards to government personnel for increasing farm output, for example, encourage them to focus their assistance on helping more advantaged farmers; the consequence of this is to pay less attention to hard-to-reach small farms which need assistance most. Rewards to be effective have to be linked to an individual's productivity, which may be hard to do, since many development outcomes are hard to measure and seldom attributable to any one source. Supervisors therefore often end up measuring effort expended rather than the results obtained (Leonard 1977; Benor and Harrison 1977). This is inconsistent with this third model's premises and makes it difficult to operationalize.

Recent proponents have recommended that staff should collaborate in devising the standards for evaluating and rewarding their work (Chambers 1974). Another way to improve bureaucratic performance is to involve local organizations in all aspects of government programs so that intended beneficiaries can evaluate the productivity of activities (Esman and Uphoff 1984).

The Political Economy of Institutions

This model is particularly concerned with institutional rules for making decisions. Like the bureaucratic process model, it has been influenced by a concern with economic incentives and efficiency. It focuses, however, more on applying economic models of individual choice to understand decision making and organizational activities. True to its economic origins, it is premised on "methodological individualism," seeking to identify institutional rules that will come closest to enabling individuals to achieve their preferences. Individuals' behavior is predicted, according to maximizing economic principles, in terms of what will improve their economic and social positions at the lowest cost to themselves.

Given these assumptions, bureaucracies are much more apt to impede development progress than markets are, even with the admitted imperfections in the latter. For one thing, bureaucrats themselves are usually more oriented toward enhancing their own positions or budgets than accomplishing development goals. Bureaucratic rules typically allow officials to extract from members of the public what are referred to as "rent" (Krueger 1974). Where the supply of a good or a service is determined by bureaucratic allocation rather than by market competition, this creates through monopolistic control some margin of value which can be pocketed. For example, a bureaucratic rule that limits the number of import licenses for a particular commodity provides an opportunity for agents who control the issue of licenses to reap the windfall value that results because market forces have not set a price for the license that equilibrates supply and demand. Such "rents" are thought to explain a large amount of graft and corruption in developing societies and to reduce the amount of social value produced by the bureaucracy.

Second, bureaucracies typically have much higher transaction costs than do markets. Transaction costs include all the time and effort expended on meetings, negotiating agreements, designing regulations, and so forth. It is much less costly simply to rely on market rules and competition to stimulate efficient performance and responsiveness to public preferences according to this scheme.

Some versions of this model recommend privatizing as many activities of public organizations as possible. Other versions explore ways to incorporate some elements of the market into public activities. "The objective is to improve performance in public sector institutions by institutional reforms which offer some important efficiency elements of markets, which increase incentives by enhancing competition, choice and accountability, in a non-market setting" (Lamb 1982: 3).

One means for doing this would decentralize activities to bring them closer to the users, assuming that this will lead users to be more active in expressing their needs and wants and thereby make service-providers more responsive. Another proposal would organize users so that they are responsible for maintaining a particular public activity, such as a road. A third approach would delegate actual production of goods and delivery of services to third party or private units that compete among themselves (Israel 1987).

This approach has stimulated the development community to ask a whole new set of questions rather than assume that public sector organizations are the only, or best, vehicle for achieving development goals. Some recommendations are based on a narrow version of economic analysis in which preferences are fixed. They are primarily interested in critiquing public institutions as inefficient and unresponsive and in prescribing privatization. Others have applied the approach more broadly and used it to design institutions to accommodate changing preferences and to encourage innovation (E. Ostrom et al. 1990; V. Ostrom et al. 1988). They are more apt to look for a *mix* of public and private institutions, appreciating that government units play a role in forming preferences, and are not simply responding to them. In this version of political economy analysis, credence is given to Perrow's suggestion (1986: 257) that we should not simply assume that all behavior is self-interested. It is worth asking which institutions call forth self-interested behavior and to consider which reinforce more group-oriented thinking.

Political Process

This model assumes that a manager operates in a highly political arena, one that encompasses political interests both inside and outside of an organization. Politics is not strictly contained within the process of policy formulation; it is "an unending process of resolving ambiguities and clarifying priorities" (Stone 1980: 20.) Knowing program goals is less useful in this view than is understanding the interests of various stakeholders, appreciating the power positions of each, and examining how they interact. These interests not only constrain what a manager can do, but also reward one who develops a broad repertoire of skills including negotiation, persuasion, and leadership within an invariably highly politicized environment.

This model can be interpreted in very different ways. Often it suggests that dark forces of political will and chicanery are more influential than any particular thing that managers can do. Policies and activities are not right or wrong, rather they are more or less successful in accommodating a sufficient number of relevant interests. Efforts that are rational and purposeful will not succeed unless politically nourished. This gives great influence to special interests and organized elites, the more so where the broad public is poorly organized (Bates 1981).

Johnston and Clark observe, in criticism of this view, that attributing development failures to politics is "one of the truest but least useful observations that can be made" (1982: 13). One conclusion can be that managers should avoid politics and should define their role in apolitical, neutral terms. This supports technocratic solutions to development problems, however, and many are suspicious of these. Alternatively, better decisions and policies may emerge from interaction among varied interests, rather than allow a single person or organization to set the policy. Competing political interests are not only an important part of a manager's arena, they can also have salutary effects on the outcomes of public sector decision making (Allison 1969).

Recent interest in this model has led to strategic analyses of the political terrain, in terms of participants' pursuing what is politically rational from their perspective, with the political arena described systematically as a set of transactions (Grindle 1981; Warwick 1982). For example, a manager intent on helping the poor could try to persuade policy elites that at least in the long run, it is politically beneficial for them to assist the poor.

Understanding public organizations' environments in this way could enhance managers' political skills. It is assumed that interests can and do change, and that an important part of the bureaucratic process is informing and persuading others and building new coalitions of interests. In this sense, the model is more realistic and interesting than an economic model which assumes fixed and narrowly defined interests. According to the model, managers need to explore how much leeway they have to redefine goals and seek a broader coalition of interests, while not threatening potential opponents. They need to undertake a political analysis of their situation and the possibilities of acquiring more resources, increasing "room for maneuver" (Yates 1985; Schaffer 1984; also preceding chapter).

One study of the administration of a rural project attributed its success to the manager's informal political skills:

> He relied on informal discussion in non-business locations to create an atmosphere conducive to agreement and coordination, and to incorporate the views of important people who were concerned about the issues being considered. Significantly, the influence of these persons over project outcomes was based less on formal authority than on their ability to exert behind-the-scenes power. Common mechanisms included dinner meetings at village festivals and other traditional social encounters. (Honadle and VanSant 1985: 35)

By focusing on the utility of such political skills as negotiation, leadership, and interpersonal influence, the model is able to go beyond a simplistic claim that the pervasiveness of politics undermines management effectiveness.

Social Learning

While this model also emphasizes the manager's larger environment, it focuses less on contending political interests and more on potential value commitments of community groups and members of the public. It is not enough for managers to learn by adapting to community demands or by consulting with clients, as is proposed in the other models. Direct involvement in program design and implementation by community groups and beneficiaries is essential, and the role of managers is to design and oversee a process that promotes such involvement.

Development management is seen as an activity involving norms and ideas designed to energize publics to improve their future life chances. On the one hand, they need to be engaged because public agency personnel lack sufficient knowledge and insight to deliver all the kinds of services and products that are needed and wanted. Publics also need to be energized so they can act on their own behalf and assume responsibility for their future. A large part of the development task, therefore, consists in mobilizing new constituencies to tap their energy and creativity. Interactions between bureaucrats and publics encourage a process of social learning and increase everyone's capacity for effective action.

Support for this model comes from a number of case studies that show how bureaucracies or nonprofit groups can effectively organize constituencies and stimulate self-help action, learning with and from intended beneficiaries about appropriate development strategies. A study of the National Irrigation Association in the Philippines analyzes how that agency sent community organizers into villages to set up associations and assist them in working with engineers to improve their irrigation systems (Korten and Siy 1988). A similar undertaking in Sri Lanka showed how young organizers trained as catalysts to help create "social infrastructure" increased the efficiency and equity of water use (Uphoff 1986, 1992). Both studies detail not only the impact on the local communities, but also the learning that took place within the bureaucratic agencies as they interacted with community groups.

This model is sensitive to the role that power plays in development, both the power of bureaucrats to dominate the poor and the power of elites to coopt services and benefits. Thus it stresses the need to enhance group capabilities and solidarity and for groups to interact reciprocally with program agencies rather than be organized as autonomous units. Second, the public organizations have to be reoriented toward working with the poor and not simply doing things for the poor (Korten and Uphoff 1981; Uphoff 1988). Third, bureaucracies are encouraged to experiment, to learn from what they do even to the point of being willing to "embrace error" (Korten 1980). Such learning has to be achieved within government agencies, not just in isolated project units.

To what extent are these reasonable expectations? Korten (1990) has become less hopeful that public bureaucracies can and will raise their productivity and has begun urging the nonprofit sector to assume a larger role in development activities and to demonstrate its value to the government.

Adapting Models to Deal with Complexity and Uncertainty

It is tempting to treat developing countries as objective entities with definable problems that can be dealt with if one can just identify the right solution. This way of thinking is particularly tempting for development assistance organizations that continually have to justify their use of funds and have their own organizational needs to address. But the search for a single "right" approach is misleading for two reasons. First, development programs are part of an increasingly complex world that resists our intentions to understand it and shape it exactly to our purposes. Second, many things we do create unanticipated opportunities, which make fixed or simple strategies unwise. Uncertainty is a theme which is getting increasing attention in development administration, as seen, for example, in the contributions to this volume by Schmidt and Goldsmith. As Chairman Mao advised us, each solution creates its own, new problems; so strategies should try to anticipate the unexpected.

Both concerns, complexity and uncertainty, underscore the value of bringing multiple perspectives to bear on any problem. They suggest the importance of being open to new ideas and possibilities, avenues of approach that can be generated by the variety of models discussed in this essay. There is no single or even predictable set of causes for the poor performance of many development organizations. Nor is there a single lever or strategy that can improve the situation and raise productivity.

We noted above Hirschman's fear that those concerned with development will limit their vision and reduce their range of options, becoming unduly constrained by using models to understand development. He fears that models will persuade us that the situation we are explaining with the model is inevitable, therefore leading us to underestimate our chances of making desired changes. This is a legitimate concern. It has more evident validity in the current context where efforts are so often made to simply apply ready-made prescriptions drawn from neoclassical economics. This theoretical model offers seductive, all-encompassing explanations. In fact, many are tautological and do not fit well with the varied, even "perverse" outcomes observed in the real world. Academic disciplines have served us poorly insofar as they place people inside their paradigms and presume that people cannot reflect on them critically.[2]

In fact many successful efforts in the development arena are grounded in more than one of the approaches outlined in this chapter. There are many instances of pragmatic, eclectic strategies succeeding based on a combination of actions that derive from different perspectives: collaboration on goals, formulation of plans, consensus building, exercise of leadership, negotiation among different groups, and community involvement.

This essay proposes that strategies for raising the productivity of public organizations proceed as "hybrids." First, concerned parties should be engaged in discussions about ways to approach their problems and opportunities. One way is to bring together teams of people operating on the basis of these different models to critique and stimulate each other. Second, none of the models should be treated as a set of "how to" prescriptions. Rather, they should be used as open-ended frameworks that lead participants to ask questions and look for diverse opportunities. Drawing on various models can produce better designs for rendering technical assistance to deal with specific problems. The role of external advice is less one of offering expertise in the form of specific solutions, and more one of encouraging and structuring discussions to generate and assess options.[3]

Models remain an important element in such discourse. A purely pragmatic, incrementalist approach that eschews models and theories, relying solely on feedback and marginal adjustments, is not sufficient to bring about the kinds of changes and innovations that are currently needed in the development context. Such models as presented here are useful for posing questions about one's situation and for generating new perspectives.

Models invite one to view problems and to approach opportunities from new angles. Referring back to Table 8.1, they lead those involved to ask if the situation will be more amenable to managerial initiatives, to an organizational innovation, or to modified actions in response to an assessment of one's environment. They should prompt both normative discussions about appropriate values and empirical discussions about presumed causes of change. To repeat the observation of the development practitioner cited earlier, models or theories "give [us] some handles to use, and keep [us] from overlooking important things."

A final and difficult question has to be faced. The strategy described here, critical discourse among interested parties to draw together insights from the several models, can be time consuming. Given the crippling economic problems confronted in most of these countries, is there time to design a realistic and feasible set of actions and approaches for each situation? There may not be time in some of the more difficult settings. We can predict that where time pressures seem so acute, the temptation will be strong to adopt a ready-made solution based on a particular model. But will implementation of a prescription derived from a single diagnosis be wise because it is hasty? Such a course of action will be particularly subject to the pitfalls identified by Hirschman—any single model presumes inevitability and presents a limited set of options. The complexity and uncertainty associated with all of our efforts to promote economic and social development begs for the discipline and patience to explore, critique, and draw on several models, and to engage all major participants in the process of change in crafting an approach that is appropriate to the given situation and the opportunities, evident or veiled, that present themselves.

NOTES

1. This set of models is described in more detail in White (1987). Separate chapters there review the relevant literature, describe cases that illustrate their application, note problems arising from each that have arisen in practice, and discuss ways in which each has been elaborated and developed beyond its initial formulations. The present formulation differs somewhat from my earlier presentation, largely stimulated by some suggestions from Norman Uphoff.

2. While Kuhn (1970) did not state specifically that we cannot step outside our paradigms and look at them critically, his formulation of the role and power of paradigms left the way open for others to assume that we cannot.

3. For one strategy for conducting such a dialogue to design and implement policy reforms in developing countries, see White (1990).

9

Effectiveness versus Efficiency in Organizations: Insights from Strategic Management

Arthur A. Goldsmith

Economists usually define productivity as the amount of output that organizations get per unit of effort. To the extent that public organizations are less productive than they could be, this is seen as a lack of *efficiency*. Public organizations are thought to misuse inputs or underemploy factors of production. More than private organizations, they are believed to waste scarce resources because of overstaffing, rigid work rules, failure to innovate, and so forth. From the economists' point of view, raising productivity is a matter of squeezing additional output from the inputs available. How to produce is seen as essentially an internal problem, with the enterprise needing to learn to "work smarter."

Management specialists prefer to look at productivity more broadly than this. They are apt to be concerned also with organizational *effectiveness*, with what is being produced, and whether those goods and services give satisfaction to consumers. Productive organizations need to be responsive to their markets, not just narrowly efficient. Too often government agencies are neither effective nor efficient. From a management perspective, the solutions to productivity problems in public organizations can lie as much outside the enterprise as inside it.

Barnard (1938) was the first to draw attention to the distinction between being effective (the degree of accomplishment of objectives) and being efficient (the ratio of inputs to outputs) in organizations. Drucker's definition of these terms has become classic: respectively, "doing the right things" versus "doing things right" (1974: 45).[1]

Effectiveness and efficiency are not mutually exclusive, of course, They can be reinforcing. Still, no necessary connection exists between these two qualities, between the making of valuable and useful things (effectiveness) and producing them at least cost (efficiency). Often companies are blinded to shifts in demand by satisfaction with the skill at turning out familiar outputs. Levitt (1960) calls this disability "marketing myopia." If the outputs are not wanted, the inputs are wasted no matter how skillfully they may be employed. Over the long haul, successful companies are usually more demand-oriented and thus are "doing the right things."

A body of practical analysis known as *strategic management* has been developed specifically to help managers lead their organizations to greater effectiveness.[2] Although strategic management emerged first in the private, profit-making sector of industrialized countries (Ansoff 1965; Andrews 1971), government and nonprofit entities are beginning to use the framework to improve their effectiveness (Bryson 1989; Koteen 1989).

This chapter will draw on ideas from strategic management for use in public agencies in developing countries, which is an arena where these concepts have yet to be applied systematically (though see White 1990). My focal point is the output side of the productivity equation. I use strategic management as a lens to bring into sharper relief two aspects of low productivity that are endemic in third world bureaucracies: their capture by unintended beneficiaries, and their lack of accountability, discussed by Blair in Chapter 2. I also will highlight parallels between the strategic management framework and earlier work by Esman.

The Private Sector Example

Care must be exercised when applying any management theory to novel social settings. Public organizations, especially in developing countries, confront different challenges than do most American or European business firms. Still, concepts drawn from business and economics—the market, supply and demand, investment, capital, and infrastructure—can provide broad insights into many organizational processes (Ilchman and Uphoff 1969). Productivity is no exception.

In a market, buyers and sellers come together and exchange resources. During the ensuing series of interactions, factors of production are combined to make specific outputs—useful goods and services that can be consumed or used for subsequent production. A system of rewards and penalties, primarily financial gains and losses in the private sector, determines what gets produced and how. Though public sector organizations lack the same "bottom line" as will constrain private enterprises, market-like forces are still at work, signaling increases or decreases that will bring supply and demand into line over time.

On the supply side, public organizations similarly need to obtain ample inputs, which they can turn into outputs, to "stay in business." On the demand side, they must have "buyers" with the ability and willingness to purchase (or at least use) those outputs. Demand is usually more diffuse in the public arena compared to the private, and it is often effected through political means (voting, lobbying, and so forth) as opposed to direct purchases, but it is just as important. Without sufficient consumption of its product, a public organization will accumulate unwanted "inventories," unused supplies of goods or services.

Depressed "sales" to the public, cumulating in weakened political support, can obstruct the gathering of additional resources needed to maintain operations. This feedback mechanism does not mean that votes or pressure group activities, any more than purchases in the private sector, always lead public organizations to produce a socially optimal combination of outputs at least opportunity cost. The privileged and powerful can frequently outbid other possible customers for the outputs they want. "Effective demand," another name for purchasing power, whether economic or political, can modify the quantity or quality of inputs supplied. This closes the circle. Still, as long as they have access to inputs (particularly budget and personnel), organizations can continue to produce supplies that may not be wanted by all or most of the public.

In business, it is standard practice to distinguish between exogenous and endogenous influences on demand, between factors that are external to the firm and over which managers have no control, and those factors that managers can manipulate. The same distinction can be made for public organizations. There are many uncontrollable factors in their environment that affect demand. The national political system—whether it allows citizens freedom to direct civil servants, and whether it allows those officials the autonomy to respond—is pivotal. Political systems can make it difficult for a public organization to learn about, let alone to fulfill real consumer needs. Yet, outside the most repressive states, public managers usually have some latitude to figure better ways to meet demand. A crucial way to achieve greater productivity in public organizations is for decision makers to take full advantage of those openings.

Strategic Management

Strategic management provides tools for managers to understand and adapt to exogenous demand, broadly defined as threats and opportunities posed by the organization's environment. This mode of analysis was formulated to aid private companies to manage their strategies for maximum profit, but its observations and recommendations can be made to fit most formal organizations with only minor adjustments.

Because they are goal-seeking social units, all formal organizations by definition have strategies or basic game plans. "Strategy" represents the basic pattern of decisions crafted by managers for achieving important objectives. It is distinct from day-to-day operating decisions and short-term tactics, and reflects the organization's mission or raison d'être.

While strategies can be found in every organized entity, they differ widely in merit and usefulness. One difference between high- and low-productivity firms is the degree to which strategy is made plain and taken seriously by members (Mintzberg 1978). The better performing organizations have strategies that are internally consistent, and that take account of the environment—the company's competitors, its suppliers, and its buyers (Porter 1980). Above all, highly productive firms employ coherent rationale and have a rationalized process for picking a course of action.

Strategic management as a self-conscious discipline formulates guidelines for defining an organization's mission and goals appropriate for its setting, and for implementing and controlling the resulting plan of work. Because strategy is universal in formal organizations, it gets "managed" everywhere, if only accidently and haphazardly. The purpose of strategic management is to coordinate actions and aim them at a common set of long-term objectives, to gain an advantage over rival firms or organizations. Strategic management techniques thus direct decision makers' attention to the "big picture" and try to break down the conventional boundaries among administrative functions—marketing, finance, personnel, and so on, to take a more holistic view of potential resources to be utilized.

Managing strategy is a process, not an event. It requires internal and external monitoring. Though strategies ought to fix a steady course, they need to be adjusted and occasionally overhauled as new information is received. Supervisors need always to be thinking about how to build on the organization's strengths and capitalize on the opportunities that come along, while minimizing weaknesses and overcoming threats to the organization. Managing strategy is thus more than making plans; it involves figuring out how to execute them. These are all entrepreneurial functions, not administrative ones.

The main precepts of strategic management are three: First, know what business(es) you are in and want to be in. Second, pay ongoing attention to external factors—technological, economic, political, and social—that affect the organization's ability to get where it wants to go. Third, make and maintain a fit between those external factors and internal organizational variables—people, processes, structures, and so forth.

While strategic management is ongoing, strategic decisions are apt to be extraordinary and infrequent, involving substantial assets and affecting large parts of the organization. Because they make commitments of resources, strategic decisions will have long-term ramifications, are hard to change after they have been made, and thus should not be taken lightly.

Private sector examples include decisions about mergers, acquisitions, or restructuring, any of which can alter a corporation in fundamental ways for years to come.

Despite contemporary strategic management's roots in private sector experience, it corresponds to the work on public sector institution building presented by Esman and his consortium colleagues twenty years ago.[3] Like strategic management, institution building focused on organizations that had been purposefully constructed by "change agents." The underlying assumption in the work by Esman and his colleagues on institution building was that technological or socioeconomic change needs to be promoted, protected, and nurtured by formal, mostly public sector organizations.

Foreshadowing contemporary strategic management theory, Esman's model undertook to explain how an organization can productively and sustainably mesh with its environment. The internal variables were similar: leadership (entrepreneurs and managers), doctrine (shared objectives), program (an operational game plan), resources (inputs and outputs), and structure (patterns of authority and communication).

A key concept in the institution building model was *linkages*, that is, transactions between the organization and its environment. These are the focus of strategic management, too. The major distinctions between institution building theory and strategic management are the level of abstraction (strategic management is more concrete) and the ease of application (strategic management has evolved a standardized tool kit for analyzing and interpreting an organization's environment and proposing the most suitable strategies).

Stakeholders and Demand

Strategic management implies a theory of rational choice at the micro level. The people running organizations are assumed to be purposeful and generally interested in finding workable solutions to their organization's fundamental problems. The aim of the framework is to get those decision makers to consider all relevant possibilities before they enter new markets, abandon present product lines, or take other fateful steps. A forethoughtful strategy, properly carried out, is the key to a healthy, growing organization.

Managers' individual rationality, however, does not mean that the units they head have a unified set of preferences, or can act in a logically consistent manner. No organization is completely controlled from above and moves in lockstep. The reason is that there are always diverse constituencies pressing claims for an organization's outputs. Managers cannot rule by decree, but must consider the competing needs and desires of these interested parties, some within and others outside the organization.

Within the past decade, the term *stakeholder* has started to appear in business strategy texts to describe companies' constituencies (Freeman 1984).[4] Broadly speaking, stakeholders are individuals or groups that stand to gain or lose by an organization's performance and that can affect its actions in significant ways. The term refers to any group with a legitimate stake in or claim on the operation of a company or other entity. Taken together, stakeholders determine whether strategies work or fail. Managers must therefore learn how to handle the critical stakeholder groups. Even more than in the private sector, managers of government bodies have to accommodate diverse constituencies who have competing demands—a condition that presents both opportunities and constraints.

All stakeholders are not equal. Included are both resource providers (patrons) and resource users (clients). Mintzberg (1983) emphasizes that providers and users exist both inside and outside the organization. External constituencies include owners, suppliers, consumers, partners, competitors, and the public; internal ones comprise top and middle management, skilled and unskilled operators, and support staff of all kinds. Among these categories, high-status and low-status constituents may be distinguished. The balance of influence between providers and users, insiders and outsiders, elites and rank-and-file varies widely from organization to organization. The common thread is that stakeholders engage in the tactical use of power to retain or obtain control of resources and to shape organizational outcomes to their satisfaction.

Inevitably, they come into conflict with one another and with the strategy and goals espoused by the formal leadership of the organization. Some external stakeholders, for example, may try to capture the lion's share of an organization's output for themselves. Similarly, in striving to enhance their position, internal stakeholders may choose tactics such as to ignore or only play lip service to new directives, or to create informal codes of conduct that are not supportive of the enterprise's avowed mission. The result is that the realized strategy diverges from the one managers intended, perhaps with devastating consequences.

Successful strategic management thereby turns largely on managers' skill in organizational politics. It entails leadership, negotiation, bargaining, and the formation of alliances. Effective strategies are ones that win genuine backing inside and outside the organization, so that intended and realized plans do not stray too far from one another.

Traditionally, management theory has advised corporate executives to put the interest of one stakeholder group—the owners—ahead of all others. The paramount *stated* goal of corporate America usually is to give owners a high return on their investment. All managers need to do, it was taught, is to maintain earnings. To be sure, to keep owners happy, the quest for profit commonly forces companies to satisfy various secondary stakeholder groups with a legitimate interest in what the company does. Still, the common advice was that "the social responsibility of business is to increase its profits," as Friedman (1971) proposed in the title of a well-known article. By making money, companies were thought to naturally discharge their obligations to other groups in society.

Modern strategic management theory debunks this simplistic view. A company is a coalition of interests, of which owners are only one constituency. Like any coalition, it can break down. Stakeholders join the coalition represented by a company to get something of value, giving up resources in return to the organization which it can use to maintain itself or to expand. Not only do stakeholders assert a rightful claim to influence what the company does; sometimes they have the power to destroy or severely harm the organization for failing to deliver value *as they define it*. Groups besides owners hold this power.

Customers are critical. Should these stakeholders become estranged and drop out of the coalition, the organization will be stricken, as Dow Corning was in 1991 after users of silicone breast implants decided they had been misled and affronted by management. A counter example is that of Johnson & Johnson, which went to great lengths to reassure the users of Tylenol that this product was safe after several consumers were poisoned by tampered pills in 1982. Johnson & Johnson won consumers back through these efforts.

Employees and their unions are also important stakeholders. They exchange labor for wages, good working conditions, job security, and other benefits, and can threaten to withhold labor, by striking, from companies. Employees' demands for company resources can lead to clashes with owners and managers, often with harmful results for the company. Enmity from its labor constituency was what finally forced Eastern Airlines to be liquidated. Cooperation from workers, on the other hand, allowed Chrysler Corporation to cut wages and survive financial crises in the 1970s and 1980s.

Many other examples of stakeholders—creditors, community groups, government regulators, and so on—helping or hurting business organizations could be cited. While most of these stakeholders share a common interest in a firm's survival and prosperity, their backing cannot be taken for granted and must be continually renewed. The same argument applies to public organizations in developing countries; they have to earn support by meeting stakeholders' needs.

Organizational Culture

Strategic management argues for building an organizational "culture" to support its mission and game plans. All organizations have a unique culture or personality, a set of assumptions and beliefs that guide decisions and actions. This is the analogue of organizational "doctrine" highlighted in the institution building model. Organizational cultures can either bolster the chosen strategy or work against it. In particular, a supportive body of beliefs and customs in an organization can be a way to harmonize the interests of various stakeholders.

Peters and Waterman (1982: 75) find that the best companies are marked by a sense of identity and pride. Companies, and by extension all organizations, with a positive ethos can better pursue clear ends and can alter their methods if those ends prove elusive. The most useful shared value are ones directed toward the marketplace and customer needs.

The effects of organizational culture are clearest inside some high-performance organizations, when workers and administrators get caught up in "superordinate goals" and work for the good of the whole (Pascale and Athos 1981). This banding together seems to bolster efficiency and adaptability in the production process. That companies can capitalize on honest and conscientious relations with their internal stakeholders has become a cliché in business affairs and is currently in vogue as a leading principle in the so-called Japanese school of management. A similar idea appears in Esman's institution-building model, which stressed the benefits to an organization when its members judge the organization itself, and not merely its products, to be valuable—that is, when it becomes "institutionalized."[5]

Less recognized is that an organization's culture spreads to external stakeholders. This helps explain the phenomenon of "goodwill," which even gets quantified on corporations' balance sheets. Those companies that are celebrated for quality, reliability, or creativity have a competitive advantage, and thus their value is priced above that of their tangible assets. As Hirschman (1970) pointed out, the seemingly intangible loyalty of clients can give an organization concrete benefits, such as greater freedom to raise prices, to reduce services, or to impose other sacrifices to enable it to survive real crises.

One must avoid the populist fallacy of believing that the attitudes of people, either those on the inside or the outside, are necessarily the crucial factor of production. Organizations need conventional inputs, too. Objective changes in the external environment can overwhelm even deep-seated feelings of camaraderie. What McGregor (1960) once labeled the "human side" of organization is only one determinant of performance, though a significant one. Further, cultures can turn dysfunctional and prevent organizations from adapting to changes in their environment.

Shaping, or reshaping, a supportive culture is a difficult task, but studies agree that in companies it starts at the top. Managers set the tone for how things are done, reinforcing it with myth and symbols and by the allocation of rewards and status. Leadership's reactions to critical incidents and organizational crises speak louder than words (Schein 1985). Public managers often have less freedom to change organizational cultures, but the task is feasible even in public organizations.[6]

Unintended Beneficiaries

One of the most intractable problems for public organizations in developing countries is the problem of unintended beneficiaries. Their stated purpose is often to serve low-status, outside stakeholders, who are to benefit from health, extension, marketing, schooling, and other services. Yet these organizations seem invariably to favor outside stakeholders who are neither low-status nor needy (Leonard 1982a). The analytic methods of strategic management suggest how and why disadvantaged members of the local community find themselves excluded.

Outside stakeholders can exercise influence on public organizations firsthand through commercial exchanges and authority relations, or circuitously through political manipulations. This second path of influence weighs heavily with public entities. While poor clients are entitled, in principle, to a voice in what these organizations do, normally they lack direct access to decision makers. More powerful outside constituencies are likely to pursue their own interests and have easier access. The result is conflicting demands on the organization for its outputs. Unless there is strong political direction in support of the poor, or there are biases in favor of the poor built into the organizational design (Leonard 1982b), it will not be clear which set of needs is to be met, those of the needy or of the influential (Brinkerhoff and Goldsmith 1992). When program operators get mixed signals, the claims of more advantaged groups, not intended beneficiaries, are likely to prevail.

To complicate matters, consumption of many government outputs is done collectively. Education, health care, agricultural extension, and many other things supplied by government have characteristics of public goods. The use of an agricultural innovation, for example, does not usually diminish its availability, nor can other farmers easily be excluded from employing it. Poorer farmers not fully appreciating the benefits accessible from such an innovation, or lacking the complementary inputs needed to make it pay, will as individuals demand less of the new technology than well-informed individuals want. The consequence for organizational productivity is that clients, acting alone, will not express adequately their need for public goods. Associations have to be set up that can speak for them as a group.

The problem is that while people ought to form lobbying groups to advance their interests, they have difficulty rallying themselves for collective ends. Olson (1965) has explained how associations that could make effective demands on public organizations may collapse or not be created as the result of "free riding." Potential beneficiaries figure that their own interest is best served by avoiding contributing to the formation or maintenance of associations, expecting that others will bear this cost. This thinking will encourage everyone who is "rational" to take advantage of others' exertions.[7] Mutually beneficial outcomes that can be produced by collective action, like the expansion of agricultural knowledge, are forgone, and self-interest broadly understood falls victim to self-interest narrowly conceived.

Conservative analysts like Huntington (1968), who worry about the danger of excess claims for services overwhelming the public sector in developing countries and destabilizing their polities, are off the mark. Demand is usually too low. The greater cause of poor performance in the public sector is the indifference, and even the active discouragement, of client groups toward public organizations that are supposed to work for them. Lack of political demand explains part of the poor performance of public agricultural research institutions in Africa compared to India (Goldsmith 1991). Without feedback and support from their would-be clients, organizations will begin to serve alternative groups. Into this uncertain situation may step elite stakeholders, who have strong incentives to preempt benefits.

Happily, such an outcome is not predetermined, as Uphoff and Esman (1974) and Esman and Uphoff (1984) have shown in their studies of rural local organizations. Low-status clients frequently have the capacity to found their own associations and to create new channels for representing their interests. Strong demand cannot guarantee productivity in government organizations—demand does not necessarily create its own supply—but it is a prerequisite for sustained acceptable productivity.

Lack of Accountability

The strategic management framework helps clarify a related fact about the performance of public organizations. There is a widely observed tendency for their managers and personnel to avoid reaching out to serve intended client groups, and to concentrate instead on their own administrative matters. This lack of accountability is not just a problem for developing countries. Osborne and Gaebler (1992) note that government agencies everywhere need to be made more "customer-driven," to focus more on outputs than on inputs to succeed.

Lack of accountability is a corollary of the problem of unintended beneficiaries, just discussed. Why are public managers not more proactive, assessing better the "market" for the public goods they produce? Why don't those goods reach their intended consumers? Private sector managers are less likely to behave this way. In business, the need to abide by consumer demand is axiomatic; profits and losses keep attention fixed on how products are used.

The reason public managers are apt to be reactive and inward-looking is due to their incentive structure. They are not required to be as responsive as their counterparts in the private sector. A dwindling or unhappy public clientele can be masked by subsidies and monopoly power, while shoddy service does not necessarily force a public enterprise out of business. Nor for that matter is excellent work likely to yield commensurate rewards for employee stakeholders. This lack of market signals guiding public organization behavior makes it important to introduce what Israel (1987) calls "market surrogates" as a way to keep managers' eyes fixed on consumers' needs. Pluralistic politics, where competitive political "markets" empower citizens, are probably the best such surrogate.

The market's discipline is not perfect, of course, and unproductive behavior is found in commercial enterprise. Note, for example, the excessive pay that American executives can claim in good times and bad, or their use of "poison pills" and other devices to preserve their jobs when faced with hostile takeovers. None of these devices increases output or enhances the deployment of resources in their firms. Still, on balance, competition helps keep organizations focused on how to use inputs more efficiently and effectively.

Organizations need signals and other communications from outside about what to do, or else they cannot be most productive. Parsons (1956) correctly observed that because organizations use resources that have alternative uses elsewhere, the appropriateness of their activities and the usefulness of their output is constantly being reassessed. The ultimate cost of losing touch with consumers or citizens is shown forcefully in the collapse of state institutions in the Soviet bloc during the late 1980s. Most of these institutions looked solid, even powerful, on the surface, but they were really atrophied internally because for a long time they had not been serving the population's perceived interests. They had been highjacked by the "new class," the *nomenclatura* of communist officials who used public organizations mainly as vehicles for maintaining their own power and perquisites.

The Soviet experience is a reminder that high organizational productivity requires managers really to listen to the wishes of external stakeholders who consume or otherwise use organizational outputs—and not just to the internal stakeholders who produce them, important though their support is also. When shielded from competitive pressure, managers are apt to preside over the evolution of wasteful or self-serving practices—a course of action Soviet bureaucrats brought to its logical conclusion. The need to monitor outside stakeholders is why "excellent" private corporations go to such lengths to "keep close to their customers," while not forgetting to seek "productivity through people" on the inside (Peters and Waterman 1982).

Implications for Public Organizations

Strategic management evolved primarily as a guide for action. It suggests decision makers ought to consider the following points to overcome the twin problems of unintended beneficiaries and unaccountability, which reduce public organizations' productivity, and to develop strategies to enhance public sector performance.[8]

- *Think like an entrepreneur*. Public managers are apt to have the mind set of an administrator, to worry mostly about "doing things right." Raising productivity requires a more entrepreneurial outlook that seeks most assiduously to figure out what are "the right things."
- *Market your services*. Every enterprise needs to know what value its clients place on its services, and how that value can be increased. Then programs need to be tailored to meet such expectations.
- *Decentralize*. To hasten decision making and bring it closer to the clientele, authority needs generally to be devolved downward in the organization.
- *Cut red tape*. To speed turnaround time, an organization's paperwork and reporting requirements need to be reexamined and reduced to the minimum necessary.
- *Introduce competition*. Monopolies have little inducement to be highly productive. To spur productivity, some public sector services can be privatized or opened up for bids among private contractors.
- *Reward results*. To motivate workers, civil service rules should be altered to allow for performance-based compensation.
- *Encourage participation*. A supportive organizational culture is critical for high productivity. Stakeholder involvement (employees and clients) is the foundation for such a culture.

Strategic management is not a panacea for boosting the effectiveness of public organizations, any more than it is for private organizations. Strategic management may not even be feasible in some settings. There are political systems that will never consider allowing the administrators of government enterprises enough autonomy to make strategic decisions. Yet, some effort to make public managers think and act more strategically must be part of any endeavor to raise public sector productivity.

NOTES

1. Barnard's and Drucker's suggestion is similar to the difference sometimes pointed out in economics between a firm's static efficiency (its ability to maximize profits under stable conditions) and its dynamic efficiency (its ability to adapt to rapidly changing circumstances).

2. Older, overlapping terms are "business policy" and "long-range planning." "Strategic management" is the preferred term today because it implies a broader orientation and a focus on implementation. This approach grew out of case writing and research in U.S. business schools. Because it addresses complex problems, encompassing many variables and much ambiguity, strategic management borrows from many disciplines, such as microeconomics, industrial sociology, and political science.

3. See Esman (1972a and 1972b). These essays, as well as other chapters in those two volumes, summarize work sponsored by the Inter-University Consortium on Institution-Building, which Esman directed in its formative years. The institution-building model continues to have influence in development administration thinking (see Goldsmith 1992).

4. Stakeholder theory emerged from social science analysis of business organizations, which suggested that the firm could better be understood as a form of community rather than as property. The seminal work on this is March (1962).

5. This is discussed at greater length in the following essay by Norman Uphoff.

6. This is seen in the study of the Philippine National Irrigation Administration (Korten and Siy 1988). See also the Kenyan examples in Chapter 3.

7. Of course, if everyone is as "rational" as this, the public good of associations will not be created and nobody will be able to free-ride, which makes such thinking fallacious (see Ostrom 1990).

8. These ideas grow out of work by Brinkerhoff and Goldsmith (1992) on strategies for sustainability in development projects and institutions.

10

Advantages and Disadvantages of Hierarchy: Exploring the Limits of Bureaucratic Reorientation and Reform

Norman K. Nicholson

The inadequacies of development bureaucracies have been featured prominently in the literature on rural development. Innumerable projects and texts have been dedicated to correcting the perceived defects of public organizations. This is surprising given the vital role foreseen for state bureaucracies in the earlier literature on development. Following Max Weber's line of analysis, many virtues were proclaimed for hierarchical organization. But now we see in it mostly vices. Somewhat surprisingly, current institutional economics theory, in trying to explain the productivity of firms, explores and finds conditional economic value in hierarchical authority systems. What can be said about the contribution of hierarchy to organizational performance?

This essay will examine the possible benefits of hierarchical organization in the public and private sectors. It will review a number of rural development functions to assess whether and why hierarchy may contribute to bureaucratic productivity, and when it does not. We hope to learn from this what is likely to make reform efforts for the public sector more effective or ineffective.

The Role of Bureaucracy in Development

Which institutional arrangements will be most conducive for supporting development has long been a topic of debate. Beginning in the 1950s, village-level organizations promoted through community development programs received support. However, given the prevailing view that stressed the "traditional" character of villages, their residents were assumed to lack not only the skills and knowledge required for development, but also the appropriate values, institutions, and incentives for modernization. The conclusion drawn was that impetus for progressive change would have to come from outside the community.

Various external stimuli were proposed: village-level workers who would bring in new agricultural techniques, literacy, and improved health; roads and expanding markets to bring new ideas and opportunities; rural-urban migration to integrate the villagers into the modern culture and economy; and an expanded civil bureaucracy to furnish a wide range of public services. From the 1950s through the 1970s, there was a continual search for better institutional arrangements that could link the center to the periphery, serving as a channel for modern technology and ideas to reach the so-called traditional communities at the periphery. The ideal institutional arrangements were seen as something like a hose—a unidirectional flow of inputs from a central reservoir to the parched communities below.

Both in theory and practice, the dominant institutional strategy of development planners included expansion of the public bureaucracy. The key arguments shaping this view are seen in the essays in an influential volume on this subject, *Bureaucracy and Political Development*, edited by Joseph LaPalombara (1963):

- Major changes in either developed or developing nations were inconceivable without the massive intervention of government. Infrastructure and other public goods and services will be the main stimulus to growth.
- In an era of "nation building," when national integration is critical, the bureaucracy acts most purposefully in the national interest, making it the best vehicle for implementing state policy.
- The bureaucracy is the most effective institution to assume responsibility for social transformation because it is the main source of professional, technical, and entrepreneurial skills to do the job.
- The bureaucracy is essential for political integration, providing a check on divisive and particularistic political forces. It is an instrument for mobilizing the fiscal resources that can finance a flow of social services and benefits to encourage political loyalty.

Contributors to that volume, it is true, did not embrace all the assumptions of the Weberian model of bureaucracy. LaPalombara (1963: 9–14) considered the administrative structures in the USSR or in Vietnam, while different from Western models, to be nevertheless functional and "modern." The political autonomy and instrumental rationality favored by Weber for the bureaucracy were frequently absent in development settings and might even be dysfunctional. "Traditional," that is, particularistic, elements which might persist and shape modern bureaucracies could even prove useful. Political and policy neutrality could hardly be expected of the top modernizing elites. Even corruption, poor sharing of information, and limited political accountability could be tolerated in a transitional stage (1963: 59–61). In this view, the bureaucracy was crucial not so much as an efficient and rational form of organization, as Weber argued, but as a modernizing national elite.

While interpretations and explanations might differ, the basic assumption that the bureaucracy was essential to progress in contemporary nations remained unchallenged. Its modern technical skills and its embodiment of development goals were central to institutional strategies. State agencies were needed to facilitate credit flows, allocate scarce resources, provide fiscal inducements to economic growth, and stimulate democratic institutions. Where there were too few skilled professional public managers to get these jobs done, more would have to be trained, fast.

These considerations shaped the agenda for practitioners for nearly three decades. The expansion and enhancement of bureaucratic effectiveness was taken as a critical development priority. Administrative reform and training became standard projects in development portfolios. Public bureaucracies expanded at exponential rates (Edgren 1987), and expenditure on civil servants' salaries and establishment became the dominant component of governments' budgets, after the military.[1]

Unfortunately, a fundamental conflict existed in this literature, between the expectations of political liberalization (democracy) and development. There were limits to the speed with which the bureaucracy could be expanded and to the resources available for its use. Citizen demands, it was said, were not so limited and could overwhelm the state, or corrupt it, when the realities of scarcity were confronted. It was argued, rather ironically in light of current budget crises, that developed polities had the institutional capability to balance citizens' demands and governmental capacity. Not so in developing countries. The best way forward was to find ways to limit and filter popular demands, on the one hand, and, on the other, to gradually develop responsible institutions that could balance bureaucratic power.

A second set of concerns accompanied these early theoretical arguments. How could the bureaucracy be made politically responsive without being corrupted? How could it make difficult resource allocation decisions without losing its standing and acceptance as a national elite? How could its enormous power be kept in check? Issues of democratization, popular participation, and political control of the bureaucracy took on new saliency once the power and critical developmental role of the bureaucracy were so emphasized. Democratic advances, therefore, had to be tackled as a corollary element of institutional development.

For development practitioners, therefore, the agenda of the next twenty years was essentially set by the end of the 1960s:

- to expand the bureaucracy into new areas, especially rural areas
- to increase the professionalization and skill level of that bureaucracy
- to link the bureaucracy better with client groups, making it more responsive and more effective
- to balance the level and scope of popular demands for public goods and services with the resources and the capabilities of the bureaucracy

Much effort in development administration has been directed toward administrative reforms to deal with these issues, while bureaucratic reorientation efforts have attempted to change administrative culture and alter incentives (Korten: 1988: 117–42). Increased public participation has been particularly encouraged to improve the design and implementation of development projects.[2] However, these concerns have begged a more basic question. Are the efficiencies expected of hierarchical authority systems such as bureaucracies likely to be achieved in the course of carrying out rural development activities? Let us consider this question.

In a survey of comparative administration, Heady (1966: 20) defines "bureaucracy" in terms of three structural features: (1) hierarchy, (2) division of labor, with resulting specialization, and (3) recruitment on the basis of expertise. He defends such a "structural" definition on the grounds that the "behavioral" characteristics of bureaucracy vary immensely and are what we need to explain. In addition to these three features, one commonly finds one more common feature: (4) routinization of tasks.

Following Weber, Heady gives priority in his definition to the factor of "hierarchy." Bureaucracy is seen as a "scheme of interlocking superior-subordinate relationships . . . intended to provide direction, cohesion and continuity" (Heady 1966: 16–20). In both the economics and sociological literatures, "division of labor" has been thought to increase efficiency because of the benefits of specialization and returns to scale (assuming some adequate coordinating mechanism). Recruitment based on expertise and routinization of tasks follow logically from the establishment of a division of labor.

To understand the contribution which bureaucracy can make, we must assess the value of hierarchical authority relationships in development efforts. That bureaucracy is ubiquitous in developing countries is obvious.

Increasingly, however, it appears that bureaucracies may have been introduced too broadly for carrying out many development tasks, have been expanded excessively, and have added significant net costs to the development effort.

The question to be answered is what types of activities are well suited to performance through hierarchical relationships, and which might better be left to other forms of organization? The average productivity of public administration can be increased by its doing less of things it does not perform well.

An Economic Theory of Hierarchy

We will review here local organizations, local businesses, and development bureaucracies as alternative systems for organizing economic operations and exchange. To the extent that many small merchants, for example, interact with multiple farmers in a competitive environment, their economic activities approximate the market exchanges portrayed in neoclassical theory. Where individual farmers develop long-term, personal relationships with individual merchants, a system of formal or informal contracts evolves. In many cases, these contract relationships include a variety of services, such as marketing produce, providing inputs, and advancing credit.

Local organizations offer an alternative, and diverse, set of contractual arrangements for securing a variety of goods and services. Some of these organize local self-help activities, others mediate between villagers and the market or the bureaucracy. Where they succeed in these undertakings, local organizations are presumably preferred by farmers to market arrangements, or to "traditional" arrangements with merchants.

A third alternative is for the bureaucracy to provide services under a "contract" relationship between villagers and the state that is authoritative and essentially hierarchical for coordinating economic activities. Leaving aside the fact that such a relationship is frequently imposed on farmers, we may ask in what circumstances does this, in fact, offer the most efficient way of structuring exchange?

A valuable and sustainable authority relationship, as Lindblom suggests (1977: 18), is one that introduces in place of direct control a "rule of obedience" (authority) which, once established, substitutes for control as long as it stands. *Authority is valuable in exchange relationships because in comparison with other coordination mechanisms such as bargaining, it greatly reduces transaction costs at the time of decision.* Once granted, authority can be exercised for all decisions that come within its prescribed scope for a specified period of time.

It should be stated that authority relationships need not be structured hierarchically in superior-subordinate terms. Authority can be divided and shared, rather than centralized. So although hierarchy is a common way of structuring authority relationships, it is by no means the only way. And hierarchy is by no means limited to the public sector. An advantage of hierarchy, Lindblom argues, is that it permits organizations to maintain an extraordinary level of division of labor and specialization.

However, hierarchy is not without associated costs and pathologies. It is not the only way to achieve high levels of division of labor, and there may indeed be diminishing returns to high levels of specialization. This uncommon assertion casts new light on how best to go about raising productivity in public—or private—organizations.

The Causes of Hierarchy

The current literature on institutional economics explains the existence of hierarchy as a logical extension of the emergence of long-term contracts. Under various circumstances, the transaction costs of market exchange induce individuals to negotiate longer-term contracts, to avoid continuous inconvenience. Transaction costs are defined as "the costs of deciding, planning, arranging and negotiating the actions to be taken and the terms of exchange when two or more parties do business; the costs of changing plans, renegotiating terms, and solving disputes as changing circumstances require; and the costs of ensuring that parties perform as agreed" (Milgrom and Roberts 1990: 60). The following discussion draws heavily on their exposition and that of Williamson (1985).

A simple example illustrates the point. Like many homeowners, I fertilize my lawn periodically. When thinking this is needed, I drive to the local garden store, buy the fertilizer, and apply it. Alternatively, I could avoid this effort and take advantage of the presumed expertise of a specialized lawn care firm by calling it for service each time I feel fertilizing is required. At the peak of the season I might have trouble getting the firm to come immediately, and the price of spot contracts at that time might be high, as would be the firm's cost of making a special trip to my neighborhood.

But there are a multiplicity of firms that I could call, and I do not consider the timing of my lawn care very crucial anyway. It will probably be cheaper and less time-consuming for me to sign a seasonal contract with a specific firm. A neighbor of mine, who is frequently away from home for several years at a time, and who cannot monitor the state of his lawn during the summer, has signed a multi-year contract. Longer-term contracts clearly reduce transaction costs, for firms as well as for homeowners.

Negotiating long-term contracts unfortunately presents difficulties according to Williamson (1975: 39–40), when specifying all of the contingencies involved in complex activities, among multiple parties, in uncertain and changing environments. Even if one could anticipate all contingencies, the cost of negotiating responses to all contingencies in advance may be higher than taking care of any one eventuality that actually occurs in the future. If circumstances change drastically, the benefits from executing a particular specific contract will be negated, and all negotiating costs are thus wasted.

All long-term contracts are by nature incomplete. In practice, as Milgrom and Roberts suggest, "parties content themselves with an agreement that frames their relationship—that is, one that fixes general performance expectations, provides procedures to govern decision-making in situations where the contract is not explicit, and outlines how to adjudicate disputes when they arise" (1990: 62).

The risks involved in long-term contingent contracts are increased by the human penchant for opportunism. In any exchange relationship, individuals may misrepresent their intentions or products and take advantage of monopolistic situations to drive up prices. When a contract is only a "framework" and there are changing circumstances, opportunities abound to seek personal advantage at others' expense. Individuals may even work to alter circumstances so as to force renegotiation to their advantage. Any farmer recognizes that at harvest time, with his crop at risk and labor demand at its peak, he is vulnerable to a strike by harvesters and to pressure for higher wages. This would create a landowner preference for long-term tenancy agreements instead of wage-labor contracts, for example.

When the costs of negotiating multiple contingent contracts and the risks and costs of enforcing them considerably exceed the gains in efficiency that such contracts would provide, one may decide to forgo the exchanges. Alternatively there may be some way to reduce transaction costs and risks, perhaps at the same time realizing the benefits of increasing returns to larger scale. Williamson (1975) proposes for such purposes the institutional innovation of a hierarchical authority system.

Contracts which set up authoritative hierarchical relationships are common, even outside systems of state authority. The modern firm is a ubiquitous hierarchical system of contracts. We are interested here in the circumstances where hierarchy appears to be economically efficient and perhaps to be preferred to either market or to more "democratic" arrangements for undertaking productive processes.

The form of a contract can vary from being a highly specific and short-term contract to being long-term and contingent, to being embodied in a hierarchical authority system. Williamson suggests three conditions that govern the choice of efficient contractual arrangements: (1) asset specificity, (2) uncertainty, and (3) frequency (1985: 52–63).

Asset specificity. When an asset that is the subject of exchange has little market value outside the relationship at hand and is critical to the user's productive process, the risks of opportunistic behavior on the part of the provider are high and the cost of seeking alternatives can be exceptionally costly. This encourages administrative arrangements invoking authority. The assets in question may be sunk capital investments, specialized human capital, or even fixed and unique sites. For example, canal irrigation is a high-cost, fixed asset which establishes a unique interdependency among users and owners/investors. This may explain why neither businessmen nor farmers have been enthusiastic about irrigation systems that are privately operated and why systems that have functioning user associations are the most efficient.[3]

Uncertainty. Whether this is attributable to a changing and unpredictable environment or to human opportunism, it always makes contracting difficult. Formal organizations are a common solution. For example, the risks and uncertainties of lending to small farmers in developing countries partially explain the primitive state of rural capital markets and the virtual exclusion of the formal private organizations (banks) from rural lending unless special institutional arrangements are made.

A further problem is posed, Williamson suggests, when external circumstances change and give reason for changes in the contract. In these circumstances, the rules for renegotiation, the status of prior contract obligations, strategic bargaining behavior by parties to the contract to exploit the situation, and information costs all pose fundamental problems. When simple exchanges are involved, such changes pose much less problem. But with high specificity of assets and where alternative arrangements are costly to establish and maintain, the problems of contingent contracting can become intense, making authoritative management more attractive.

Frequency. Where opportunities for disagreements about the division of benefits from an exchange relationship are recurrent, it pays to invest in agreements or procedures that reduce the extent and risk of negotiating costs. This is presumably why standardized land and labor contracts are common. Without them, each farmer would have to negotiate with each laborer each season (or even repeatedly throughout the season) to determine the terms of employment (Matoussi and Nugent 1989). Standard contracts can anticipate the probable events of yield and price variability and can make standard adjustments periodically as factor prices change. Especially where frequency is combined with asset specificity, high value, and uncertainty, investment in more complex organizational arrangements becomes warranted.

Williamson concludes that when the high cost of transacting specialized assets restricts the options open to either or both of the parties to a contract, and when crucial information is costly to obtain or unevenly distributed, the risks and cost of implementing a long-term contract will be high. These circumstances give the parties unique leverage, and the probability of opportunistic behavior on the part of actors becomes high. Attempts to guard against opportunistic behavior and to preserve the exchange relationship raise the costs of negotiating, monitoring, and enforcing contingent contracts.

Economists, ever concerned with cost as well as benefit, can see how bureaucratic arrangements will reduce such opportunistic behavior, allowing parties to take advantage of their unique positions in a negotiated but then settled way. Such arrangements also alter and strengthen attitudes toward cooperation, encouraging greater output and initiative from individuals, rather than just give the minimum effort to meet contract obligations (Williamson 1985: 80). Hierarchical organizations minimize transactional problems through integrated systems of long-term contracts, such as for labor supply, that are internal to the organization. These have the effect of reducing information costs, altering and diversifying incentives, and reducing uncertainty and risk.

A hierarchical authority relationship establishes what amount to long-term contracts between management and labor. The employee agrees to accept orders from the employer over an extended time period across a certain range of situations, within a generally defined scope of duties, in exchange for a specified salary and agreed perquisites, subject to internal disciplinary actions.

Establishing long-term contracts through authority relations is a superior institutional arrangement in Williamson's analysis to the alternatives: either attempting to purchase the specific work inputs daily in spot markets, or having to manage complexity and uncertainty through a detailed set of contingency contracts, an impossible task. In a bureaucracy, private or public, work contracts are standard and are negotiated only infrequently, typically at the time of entry to the organization.

With authority operating, one does not have to specify all the contingent situations and work tasks in advance, since the relationship permits incremental responses and adjustments. Williamson suggests that there is evidence of an evolutionary trend toward such hierarchical arrangements even within free market systems. Increasing scale and division of labor multiply the efficiency gains possible through authority relationships over and above the costs these arrangements entail.

Costs of Hierarchy

Against the efficiency gains derived from hierarchical organization, one must, of course, weigh some well-known disadvantages. At some level, as Lindblom argues, certain tasks become so complex that they defy rational analysis and control. Either there is never enough information or there is far too much to process. Decisions never catch up with reality, and central management becomes unwieldy and inefficient.

Lindblom further argues (1977: 69) that authority systems, public or private, are fundamentally flawed in their attempts to produce goods and services because they are unable to determine efficient levels of output and prices. Production decisions need to be made at the margin. The question of whether bicycles are more important than eggs, for example, is a silly question. Only at the margin can one meaningfully ask if one more bicycle is more valuable than the equivalent addition to egg production. Authority systems have no mechanism for making a myriad of such marginal choices with full and flexible knowledge.

Further, since governments fund the bulk of the benefits they produce from general revenues, there is no link in people's minds between costs and benefits, which is the key to efficient market exchanges (Wolf 1988: 63). In such circumstances, costs invariably rise, and pressures for efficiency are reduced. The larger the bureaucracy, the greater the gap that can arise between costs and benefits.

An additional problem arises with greater complexity of objectives. As Israel (1987) points out, public organizations today seek to attain policy goals that are increasing in generality and number. A rural development program must typically seek increased productivity, equity, environmental sustainability, and financial viability. Activities are dispersed and hard to monitor. The standards of performance for many key actors are difficult to measure. Cause-and-effect relationships between programs and goals are far from clear, and payoffs may be far in the future. Israel argues that it is not so much the complexity of tasks per se which defies bureaucratic organization, but the lack of specificity in the production function and in the definition of the task or problem (1987: 52). Institutional changes to overcome these deficiencies can, he suggests, be induced by introducing competition or some surrogate form thereof.

Competition will force public organizations to focus their goals, to market their products' attributes, and to reduce costs, thereby forcing organizations to increase the specificity of their production functions (Israel 1987: 93). To the extent that they buy inputs and sell outputs in competitive markets, hierarchical systems may be able to approximate efficiency pricing in internal transactions through appropriate mechanisms. Certainly private firms do this continually, or they fail. However, most of the public bureaucracies which are involved in rural development buy fertilizer in monopolistic and controlled markets, disperse outputs without competition or with heavy subsidies, purchase imported goods at favorably biased exchange rates, and secure capital from subsidized sources or directly from tax revenues.

State fertilizer corporations, for example, in many countries operate as monopolies, purchasing imported petroleum products with overvalued foreign exchange, selling fertilizer to government agencies which distribute it at predetermined prices, without private competition, to preselected groups of farmers growing specified crops. Such public organizations can perform effectively: fertilizer will be produced and used, dams will be constructed, and schools will remain open. But the concern is that the resources of the economy will be used in increasingly inefficient ways as noncompetitive authority systems expand.

Wolf (1988: 66) has coined the term "internalities" to describe a source of inefficiency in public organizations which is presumably as strong as in private bureaucracies unrestrained by market competition. Internalities serve the *organizational* goals, as opposed to the *program* goals, of the bureaucracy. Wolf comments that these goals implicitly "become elements in the utility functions that agency personnel seek to maximize" (1988: 67). To the extent that programs have significant discretionary elements, are unchecked by competition, or, in Israel's terms, lack specificity, the scope for such displacement of program goals by the private goals of organization members becomes quite large.

With the expansion of bureaucratic interference in the economy, a further source of inefficiency has now been widely recognized—rent-seeking. Rents are defined by Tollison (1982) as a kind of windfall—as the margin of profit derived from an investment (of land, labor, or capital) above what would accrue from the next most profitable investment. Competition will ideally drive rents down to the average return on investment in the economy. However, specialized, nonpublicly traded assets may provide opportunities for capturing rents, because the asset cannot, in fact, be reinvested in an alternative use.

Almost universally, capital-intensive irrigation systems, being sunk infrastructure, create opportunities for such rents. Government may produce rents by restricting entry into an industry, limiting competition, and increasing profit levels, for example, by restricting access to import or export licenses. Alternatively, government may control or subsidize the price of a commodity, thereby increasing the demand for it but reducing its supply (e.g., subsidized fertilizer, cement, or credit). Whoever controls the distribution of the commodity can appropriate the potential profit generated by the gap between excess demand and restricted supply (Bates 1981).

Rents are unproductive income transfers from the society as a whole to a minority of "rent-seekers" who reap the benefits of governmental regulation. They are created by the separation of costs from benefits which is characteristic of government programs. If beneficiaries had to pay the full cost of their benefits, there would be no "rent" margin to appropriate. As bureaucratic control expands and restricts private competition, opportunities for rents grow. Competition, in contrast, should increase supply, drive prices down, and reduce windfall profit levels.

The internalities Wolf points to are a form of bureaucratic rent. Buchanan (1975: 159–61) makes this point clearly. As a power elite of some importance, bureaucrats favor the expansion of their programs and the resulting opportunities for promotion, enhanced influence, and better perquisites. Successful selling of an agency's program to the budget office and to the legislature is a key bureaucratic skill. If rents are transferred into private hands, the recipients can be expected to provide enthusiastic support for agency programs. To the extent that the bureaucracy is less efficient than private alternatives or expands services beyond what would be supported by true efficiency prices, any additional expenditure to sustain the bureaucracy encourages "bureaucratic rent-seeking," a socially unproductive income transfer.

For an increase in hierarchical authority to yield social efficiencies, either or both of two conditions must prevail:

- The shift from some form of contingent contract to a hierarchical contract must yield significant reductions in transaction costs.
- There must be significant economies of scale that will compensate for the increased administrative costs.

Let us consider these two issues in turn.

Contingent vs. Hierarchical Contracts

To assess experience with development bureaucracy, we must understand that local, small-scale, membership organizations in rural areas frequently do manage effectively the production or provision of important collective goods. The need for such goods and services motivates members' participation. The efficiency of long-term contracts, once established, does not imply that rural residents will necessarily prefer hierarchical authority systems as mechanisms for implementing long-term relationships, however. Contrary to earlier expectations based on bureaucratic theory, the more efficient use of resources through centralized coordination of various rural development activities undertaken by these public organizations has not always appeared. In fact, the imposition of central coordination seems to have reduced economic efficiency and undermined the effectiveness of local organizations in many cases.

Elinor Ostrom's *Governing the Commons* (1990) offers a valuable analysis of the institutional arrangements most likely to produce successful community-level management of common pool resources.[4] Coordinating the exploitation of a community's natural resources such as forests or water takes place in complex and uncertain environments with large externalities, and it entails high risks. For most economic exchanges, the failure to establish institutional arrangements that reduce transactions costs under prevailing circumstances simply reduces the number and value of transactions.

With natural resources, however, institutional failure leads to the destruction of the asset—the tragedy of the commons. Conventional theory has posited as alternative systems to avert this outcome either private ownership of the resources at risk, or hierarchical authority systems. Only recently have common pool resource management regimes which are voluntary and participatory been analyzed and endorsed.

Problems of measurement of resource status and benefits, plus the significant externalities involved, make a private-property solution difficult and spot contracts in market exchange costly. In a developing country context, income distribution effects are also a matter of concern, not resolved by private transactions. Consistent with Williamson's analysis, hierarchy appears to be the best solution. But Ostrom objects to this dichotomy and makes the following observation: "[These models] are useful [only] for predicting behavior in large-scale CPRs [common pool resource regimes] in which no one communicates, everyone acts independently, no attention is paid to the effects of one's actions, and the costs of trying to change the structure of the situation are high" (1990: 183).

Ostrom makes the following arguments:

- Considerable human capital is available in the experience of villagers who have managed the resource locally, and this is vital to successful exploitation and maintenance of the resource.
- So long as villagers retain property rights to the resource, they are motivated to maintain it. There must be a clear set of rules that define users and their rights, the appropriable attributes of the resource, and the mode and limits of exploitation.
- To adapt efficiently to changing circumstances, changes in the rules must, at least in part, be under the control of the users, and rules must be alterable at modest transformation costs.
- Under these conditions, user commitment to the rules is reasonable, contingent on a similar commitment by other users, and assuming that monitoring of use and graduated sanctions for noncompliance will be available at modest transaction cost.
- This common pool resource management strategy will be adhered to so long as perceived long-term benefits of cooperation exceed those of defection from the arrangements, i.e., of individual exploitation.

These arguments are relevant to our consideration of the performance of bureaucracies, especially those engaged in rural development. The above terms are consistent with a contingent-contract system, based on clearly defined common property rights, locally negotiated and managed, with low transaction and transformation (rule-change) costs. However, such a system, voluntarily organized and maintained, may not be thought sufficient to guarantee resource conservation. So people may look to public organizations to take over responsibility. The typical result of bureaucratic expansion into managing local affairs, however, is to: (a) shift the rules of local organizations from contingent contracts toward hierarchical authority systems, (b) redistribute income toward elites in the form of rents, and (c) increase transaction costs.

When the owners of a common pool asset become integrated into a hierarchical management system, their property rights are effectively transferred to the state, or at least become less precise. Since the exploitation of the resource is generally on an individual basis, and cooperation is required only to preserve the stock, the exercise of authority is essentially restrictive, offering no positive rewards. With such incentives, users will be motivated to maximize their current income streams rather than to preserve the asset (Williamson 1985: 137–38). Williamson's analysis directly links such shifts in incentives to poor maintenance of capital assets, either physical or natural, a recurrent problem in development projects (1985: 157).

In the face of changing circumstances, Williamson comments, parties to a contract need some way to make adjustments in which all have confidence (1985: 76). However, the costs of applying and changing the rules (transformation costs) may increase rapidly with increasing hierarchy. Bureaucrats find it virtually impossible to monitor and discipline all local practices. They are also tempted to apply national standards, policies, and programs across the board at local levels, which introduces inefficiencies. "Influence costs" within the bureaucracy are added to the transaction costs and grow with the length of the chain of command (Milgrom and Roberts 1990: 80).

Uncertainty also arises as bureaucrats apply their discretionary decision authority with incomplete information to vague and outdated rules. As costs and risks rise, Ostrom argues, those with the most information, farmers or other local residents, are discouraged from attempting to alter and improve management practices and rules, since control has been taken over by the state. Informal systems of management intended to improve upon government control can be undermined by local evasion and are difficult and costly to maintain in the face of official disapproval.

Villagers' benefits from common pool resources depend on the preservation of the asset which, in turn, depends on the action of others. Unlike in Williamson's firm, submission to authority does not guarantee individual cooperators an income. This still depends on individual enterprise and on the action of others. This is most obvious in the use of irrigation water or in fishing where individual entrepreneurial skills and knowledge are essential.

When hierarchical authority is ineffective for monitoring use and imposing sanctions, there is little incentive to maintain the authority contract. In short, nothing is gained by transferring decision authority to others. Rather, as Ostrom argues, management systems less hierarchical and more consensual will be more effective, based on the knowledge that the benefits of commitment are contingent on the specified behavior of others, that detection is probable, and that redress is local and low cost.

Economies of Scale

Although hierarchical authority systems can exist with any scale of economic organization, the traditional justification for expanding the scope of development bureaucracies has been the need to coordinate public and private development activities over broad areas, often national in scale. The efficiency gains to be expected from expanded bureaucratic control should directly relate to increasing returns to scale in the particular activity under consideration.

The most evident factors increasing economic returns to scale are specialization and the division of labor. Gains can be realized whether the division of labor is geographic, leading to long-distance trade and specialized market centers, or within a specific social-economic unit such as the feudal manor (North 1981) or the modern firm.

The development of factor markets on a broader scale permits greater efficiency in the utilization of land, labor, and capital as they can be allocated to the most productive uses. Historically, North comments, institutional innovations that increased the mobilization and mobility of capital, that lowered information costs, and that spread risks broadly were critical to capturing the efficiencies of increased scale (1992: 125). It was the belief of development practitioners in the 1960s and 1970s that rapid expansion of rural administration could jump-start the process of economic integration and provide institutional arrangements for supplying capital and information and reducing risk.

As noted already, Williamson (1985) emphasizes the advantages arising from opportunities for control when explaining the expansion of hierarchical management systems. North, in contrast, stresses the management efficiencies deriving from division of labor and from the combination and coordination of factors in the production process—the economies of team production (1981: 41). Both agree, however, that reducing the need for face-to-face exchanges in traditional markets, with their substantial transaction costs, permits rapid economic integration and growth.

We should not assume that growing complexity and division of labor necessarily yield efficiencies for all activities—or continuously over infinitely increasing scale (Williamson 1975: 46). Information-processing costs over increasingly complex networks become excessive, in particular where interpersonal communication is vital to cooperation. North echoes this argument:

> The greater the specialization and division of labor, the more steps [there are] in the production process from initial producer to final consumer and the greater the total costs of measurement. . . . The choice of organizational form will be influenced by the characteristics of the good or service and by the technology of measurement of its attributes. (1981: 41)

The net benefits from hierarchical authority systems will derive from the advantages of economies of scale and reduced market transaction costs set against the rising organizational costs of bureaucracy.

North reminds us that there is no guarantee that institutional innovation and incentives will materialize to realize potential economies of scale (1990: 119–22). False starts and mistakes are all too common. Both in the private and public sector, hierarchies may grow beyond the scale where benefits outweigh costs, or changing circumstances may render them obsolete. This is presumably why incrementalism continually emerges as a basic operational principle in the rural development literature.

Technological economies of scale are a significant variable in economic organization. Large fixed-capital investments such as dams, roads, specialized machinery, and research and development investments may be prohibitively expensive for smaller firms and organizations. It is worth noting that although large national bureaucracies have become the norm in all sectors of rural development, there is no particular reason to believe that there are uniform technical economies of scale across all sectors. This deserves examination as a strategy for improving the productivity of development administration.

Checking Theory against Experience

Why has experience with rural development bureaucracies frequently been negative? The foregoing analysis suggests that hierarchical authority systems, whether in the public or private sector, can reduce transaction costs, encourage economic integration, and facilitate coordination of economic activity in appropriate circumstances. To realize these gains, however, one or both of the following characteristics must be present.

- First, there need to be clear gains in efficiency produced by shifting from a "contingent contract" structuring of long-term exchanges to a hierarchical authority equivalent of contract.
- Second, quite evident economies of scale must result from the operation of the bureaucratic organization.

We begin by acknowledging the substantial consensus that has emerged in recent years on the importance of participatory local organizations for the success of a broad range of rural development activities (Bryant and White 1982; Esman and Uphoff 1984; Honadle and VanSant 1985). With or without bureaucratic intervention, such organizations appear to be critical for efficient and effective provision of goods and services. This fits with Williamson's proposition that economic efficiency can be achieved through nonmarket transactions where individual transaction costs are high. Some lessons from the literature on local organizations and their contribution to rural development include:

1. Local communities have knowledge which is critical to the achievement of development goals. They also have clear understandings of their interests, are sensitive to the cost/benefit ratios of cooperation, and possess considerable organizational and managerial capacities. Communities need not depend on the claimed superior wisdom and capabilities of bureaucrats.
2. External resources are not the most important factor in the success of local organization. Rather, the internal processes of groups appear to be more determinant—their mobilization of local resources, their management of conflict over scarce resources, their reduction of risk, and their coordination of community effort to produce collective goods. When a bureaucracy tries to manage such tasks, this tends to encourage corruption and rent-seeking behavior, rather than promoting successful performance.[5]
3. Members' participation in organizational affairs entails costs, which are continually weighed against the benefits that members may derive from participation. So the benefits of cooperation must be clear and direct. Performance must be easy to monitor, and enforcement of obligations must have relatively low cost. As a consequence, simplicity and transparency in the rules, low-cost and informal management techniques, and leadership accountability will contribute to local organizational performance and sustainability because these features reduce members' transaction costs. Externally designed or dominated organizations almost always increase these transaction costs, often prohibitively for all but the most favored villagers.

4. Self-generated procedural rules, as opposed to rules imposed according to some blueprint by an external authority, are an important feature (Esman and Uphoff 1984: 218). Ostrom, discussing institutions for managing common property resources, argues along these lines that effective organizational rules must be locally generated because the exploitation of such resources requires so much site-specific knowledge about the character of the resource, rights to access, and workable appropriation and enforcement rules (1990: 88–102). The ability of such organizations' members to alter their rules in response to changing conditions is critical to success.[6]

These four conclusions lead to an important insight: successful local organizations appear to be rational responses to economic conditions and not simply manifestations of traditional ways of doing things. This means that participation in development activities should be understood in terms of cost-benefit considerations on the part of program participants. The transaction costs imposed when organizations are externally designed or dominated include: insensitivity to individual needs, cumbersome procedures, and inflexibility for responding to local conditions. Successful local organizations exhibit the form of "contingent contracts" more than of hierarchical authority systems.

To apply an empirical reality check to this theoretically constructed argument, we will examine several specific kinds of rural development activity—provision of agricultural inputs, agricultural credit, and irrigation—which can be taken as examples of the kind of functions which need to be performed.[7] All of these functions have experienced expansion of administrative control. This analysis will explore whether, in fact, employing hierarchical control produces sufficient economies of scale and reduced transaction costs to justify bureaucratic management.

Goals of equity and national political integration have frequently been given as reasons for this mode of organization. This justification may be important and even sufficient. Our concern here, however, is whether gains in efficiency appear sufficient to warrant hierarchical institutional arrangements.

The economic inefficiency of bureaucratic management has been seen as its greatest weakness and a significant disincentive to local participation. The factors focused on for assessing the appropriateness of public sector responsibility will be:

- the extent of dedicated assets
- uncertainty and risk

- information costs and asymmetry
- economies of scale

Agricultural Inputs

Dedicated assets. The provision of agricultural inputs (fertilizer, seed, and pesticide) and getting recommended packages adopted by farmers has been a common function of rural development bureaucracies. However, there appear to be no specialized assets involved, at least on the marketing side, which favor bureaucratic provision.

Uncertainty and risk. There is uncertainty and risk associated with the high cash cost to farmers of using modern inputs and also with the unpredictable impact of weather and volatile markets on farm income. However, the literature on the "green revolution" suggests that assured irrigation will considerably reduce the weather risks. On-farm or cooperative storage facilities while they cannot remove market risks can reduce price fluctuations. Input subsidies clearly reduce the element of financial risk to the farmer. But as the cost to the farmer is unrelated to actual crop yield, the subsidy represents a fixed income transfer from general revenues to recipients. Further, to the extent that recipients resell inputs on the black market, risk is not actually reduced for users. Finally, the uncertainties of bureaucratic rules and supply, combined with the factional politics of access to subsidized benefits, may well *add* to the uncertainties of access and to the risks of those who lack access.

Information costs and asymmetry. It is virtually impossible for a bureaucracy to monitor the final use of agricultural inputs, which explains the rise of active black markets whenever such regulation is attempted. It also explains why areas with intensive programs providing input packages frequently do no better than comparable areas without such a program, unless the area is simply flooded with inputs.

Economies of scale. There are no obvious returns to scale in the retail marketing of agricultural inputs in developing countries. Inputs are easily divisible and transportable by existing infrastructure. At the wholesale level, there may be some economies of scale associated with transportation, finance, and storage, but none of these appear to be associated with investment in specialized assets that would dictate a hierarchical relationship with clients. It appears more efficient to have markets rather than bureaucracies aggregate demand and to rely on cooperative organizations or commercial contracts for distribution in a competitive environment.

There seems to be no reason why spot markets or simple seasonal contracts (like my lawn care) would not be adequate to manage efficiently the retail supply of agricultural inputs. In fact, agricultural bureaucracies seek to regulate inputs for a variety of reasons, the most prominent of which is to regulate agricultural practices, cropping patterns, and prices for broader national policy goals. This clearly increases transaction costs in the interests of perceived distributional gains, with the increase in transaction costs to the farmer dealt with either through subsidies, public monopoly, or both. Such practices create significant rents, which *increase* rather than decrease the incentives for opportunism. Significant energies get expended to capture intermediary local organizations (e.g., cooperatives) and to influence bureaucratic managers. To prevent this, both farmers and the bureaucracy must increase their monitoring activities to assure that organizational leaders remain honest.

Agricultural Credit

Dedicated assets. In agricultural credit, a detailed knowledge of the credit risk associated with individual clients is a specialized asset, especially when customers have few assets and where there are no specialized credit reference services. This makes long-term relations between the farmer and the lender desirable and suggests how intermediary credit organizations like cooperatives linked to sources of capital can increase efficiency.

Uncertainty and risk. These factors facing the lender are considerable in rural credit systems. There is little available credit information on small farmers; they have few assets to serve as security; and it is virtually impossible to ascertain how they use the money. Loans can easily be diverted into consumption, reducing the probability of repayment. Repayment rates can also be adversely affected by weather and agricultural prices. In practice, such risk is commonly absorbed by the government or an international donor.

Information costs and asymmetry. Information constraints are critical in rural lending. Local money lenders reduce risk by having an intimate knowledge of the client, imposing high interest rates, and maintaining long-term and complex relationships with their borrowers. Bureaucratic lenders and formal commercial banks find it impossible to match these relationships without making significant investments in local intermediary institutions and other transaction costs.

Economies of scale. There can be significant returns to scale in rural credit schemes through pooling of risk and financial intermediation. However, rural credit institutions in the third world perform almost no intermediation function.[8] Moneylenders rely mostly on family finances and have no access either to local savings or to broader capital markets. The high transaction costs of rural lending dissuade the commercial banks from entering rural markets unless backed by government coercion or subsidies. Public sector programs perform no financial intermediation functions and are typically simply a conduit for donor funds. Neither the informal nor the formal sector appears to operate with very high efficiency.

The hierarchical relations which typically do exist between the bureaucracy and credit intermediaries (and by extension between intermediaries and their clients) exist largely for directed credit. This increases transaction costs to farmers, which are offset by subsidies or monopolies, creating rents. As with agricultural inputs, rent-seeking significantly increases transaction costs and tends to redistribute benefits to the powerful.

Small intermediary organizations have a significant advantage over larger organizations in knowledge of clients and in monitoring repayment. With appropriate sets of rules, they can prevent credit from entering the black market or from being diverted from production to consumption purposes, the two major problems with directed credit programs. However, these problems are quite independent of the information problems associated with assessing individual credit risks, and both would be eliminated by pricing credit at market rates (Adams et al. 1984). There do not appear to be any obvious reasons for intermediary institutions to be linked hierarchically other than for meeting audit and reserve regulations.

Irrigation

Dedicated assets. Canal irrigation systems fall within the category of specialized assets in that such investment is site-specific, has no alternative market value, and is accessible only to those with land along the canal. In many parts of the world, irrigation is needed to make farming possible or to extend the growing season to second or even third crops. Even where rainfall is normally sufficient, irrigation provides increased water control, reducing risk and permitting the cultivation of higher-value crops and the use of costly inputs. The ability to give or withhold water, therefore, provides important opportunities for extractive behavior by those who control the supply. Almost universally, therefore, societies evolve some form of collective rather than private management of irrigation systems. In view of the importance of irrigated crops to the state, public bureaucratic management is common.

Uncertainty and risk. Since water is extremely valuable for agriculture, the farmer values predictability and control of supply highly. Any hierarchical system suffers from rigid controls, cumbersome decision making, and inadequate information about demand, all of which increase the economic risks to the farmer. It is not uncommon in "green revolution" areas, for example, for farmers to invest in costly tubewells to supplement water supply even when canal irrigation is available, in order to reduce risks.

Information costs and asymmetry. Information paucity is quite characteristic of irrigated agriculture. While water is valuable however and whenever it is delivered, *efficient* use of water demands that its application be both timely and in correct quantity for optimal effect on particular crops in particular fields. *Only* individual farmers have that level of detailed information. Therefore, management systems that maximize farmer control are optimal from his perspective. Accurate monitoring of use is difficult, however. Use is dispersed, monitoring devices are expensive, and cheating is hard to detect. Poor maintenance of structures and frequent water stealing further increase risk and uncertainty and detract from the collective value of the asset.

Economies of scale. Clearly there are substantial technical returns to scale in irrigation, although these vary depending on topography. At a minimum, the integrated management of a watershed, controlling flooding, storing water, and distributing it throughout the growing season to farmers not only provides for higher community income, but also preserves the land base more effectively against erosion or salinization.

The management of a ground water basin provides similar economies of scale, assuring the preservation of the asset. For canal irrigation over long distances, the water would simply not be available to farmers without large-scale investment and management. In all cases the capital and labor investments to create and maintain the system are lumpy and large relative to the resources of the local economy. The technical economies of scale, therefore, are set by natural conditions.

The returns to effective management of irrigation water are very high. Hierarchical arrangements, however, do not generally encourage efficiency. Typically water is heavily subsidized and, although this is not an irreconcilable obstacle to efficient management, when distribution is poorly monitored, rent seeking by persons strategically placed to do so is encouraged. Incentives are then directed toward maximizing rents, not efficient water use.

This could be remedied by charging users for the water they receive according to market prices matching supply and demand. Farmers themselves are best situated to monitor use of water and assess demand. Experience suggests that water is used more efficiently and systems are maintained more effectively when local users control not only the distribution of water, but also the *rules* of distribution and monitoring. As mentioned earlier, the rules of successful user groups typically take the form of contingent contracts rather than those of an authority system, largely because of the transaction costs and adverse incentives associated with bureaucratic management.

Authority Relationships and Alternatives

In most developing countries, the role of government in the economy generally, and in rural development specifically, expanded rapidly in the 1960s and 1970s. Rural infrastructure—roads, irrigation facilities, and electrification—was funded, designed, and managed through national development programs. Health, nutrition, and family planning services were similarly centralized. Even the marketing of goods such as fertilizer and seeds, and even of crops themselves, was often undertaken by government.

Given the complexity and interdependence of many of these activities, the use of bureaucratic hierarchy was not an unreasonable institutional strategy for providing coordination and discipline in the system. The ultimate expression of such an approach was found in integrated rural development programs that commonly created a super hierarchy that stretched down to the local level and had the authority to coordinate the several ministries' activities. If one compares the relationships and interactions of villagers, local organizations, and bureaucratic agencies in the rural development activities described above, interesting contrasts appear with the economists' model of the firm.

Imposed Hierarchy

The first difficulty experienced was when such programs transferred the hierarchical authority relationship which characterized the internal structure of the bureaucracy to its relationships with its clients—the farmers.[9] Prices were set by the state, cropping patterns were mandated and enforced by public authority, and supplies of key commodities were directed to preferred groups in the population. Development plans, project designs, and project funding of local communities were approved by the state in accordance with national priorities. Thus the bureaucracy attempted to decide and coordinate in considerable detail the economic activities of its rural population.

Civil servants explicitly accept the hierarchical authority of the bureaucracy by virtue of the labor contract they agree to upon entering the service. Farmers, however, enter into no such contract. They are brought into a hierarchical relationship with government agencies simply by being a farmer who needs services that are bureaucratically controlled.[10]

Rent Seeking

Hierarchical relationships produced certain motivational problems. Concentrated authority itself imposes risks and costs on subordinate participants. In the modern firm, however, the worker's own assets are not at risk, and he is compensated (in wages) for the internal transaction costs. This is quite different from the villager who puts his own assets at risk and bears most of the transaction costs when dealing with government-sponsored organizations. Participation in local organizations was the "price" set for getting external resources. The element of subsidy in the pricing of the resources and the high demand for scarce inputs made the costs well worth the effort. At the same time, rural elites were the persons most likely to take the risks, pay the costs, and appropriate the benefits. Their motivation was not to optimize the efficiency of their farms' production, however, but to expand access to scarce goods and services so that these could be exchanged or recombined for maximum profit. The presumed efficiency of a hierarchical system through reducing transaction costs and increasing incentives of workers to engage in more productive effort does not have the same effect in relations between a bureaucratic agency and its clients.

Controlling Opportunism

The authority relationship has not, in fact, been perceived so much as a "contract" with the government but more widely as an expression of the police powers of the state. Development resources were seen as externally controlled and were perceived locally as windfalls, being managed as such by development agencies. The rules of indigenous organizations, which typically regulate property rights and the contributions of local participants and restrain opportunistic behavior, have little relevance to the games which yield external windfall rents.

In contrast, if external resources complement or supplement indigenous resources and if villagers have some control at modest transformation cost over the rules of exchange, one can expect that existing collective management practices will be applied or incrementally adopted to incorporate the new resources into the collective management system. However, new activities, such as formal credit programs, expanded irrigation systems, and marketing arrangements may require considerable experimentation to establish management systems and sets of rules that make them effective local organizations.

Coproduction

Development bureaucracies are not simply producers of goods and services which are marketed to farmers. The existence of authority systems provides considerable discretion to the managers and permits the substitution of their preferences for that of clients or subordinates. This imposition of management preferences is a particular problem when development bureaucracies are self-consciously responding to national goals rather than local priorities. This problem increases to the extent that local organizations become agents of the bureaucracy for applying regulations, promoting national programs, or pursuing complex social goals which complicate incentives for members.

Increased productivity and rural income is *one* of the goals of the bureaucracy. However, the ownership of productive assets is fragmented. Farmers own labor and land; the state owns key inputs and services. In a market exchange situation, this would be no particular problem, assuming modest transaction costs. In a firm, the ownership of key productive assets is internalized, assuring the coincidence of authority and appropriate incentives. However, bureaucratic managers have neither the powerful price incentives of the market (they have limited *direct* control over the income of the farmer), nor do the bureaucratic incentives of status, wages, and discipline suffice to assure coordination. Actual institutional arrangements produced a problem of *coproduction*.[11]

Ostrom and Ostrom define "coproduction" as a situation in which the users of a service also function as coproducers: "Without the intelligent and motivated efforts of service users, the service may deteriorate into an indifferent product of insignificant value." (1991: 189).

For example, a doctor may find it difficult to keep his patients healthy without their intelligent cooperation, such as taking prescribed medications, exercising, and eating a good diet. The doctor cannot "produce" health. Only with patients' active participation will the desired outcomes be attained and maintained.

Rural development activities have the same dynamic. An agricultural extension agent cannot "produce" a bumper crop, unless the farmer acquires better inputs, uses them appropriately, protects the crop, and harvests it fully. Schools can be built and teachers provided, but education will not result unless parents send their children to school and those children diligently learn what is taught. Roads will not create benefits unless people purchase and use vehicles or pay for transport services. The tools that bureaucracy has habitually used to motivate its coproducers have been subsidy, regulation, public education, and monopoly. These do not always get the initiative and cooperation needed for coproduction.

Information Costs

The bureaucracy has very limited capacity to monitor the performance of farmers and the actual use of those resources which it attempts to direct and regulate. A key element of transaction cost presumably redressed by hierarchical authority systems has been the asymmetric distribution of information among parties to an exchange. Authority is to deal with the costs of gathering information on demand, timing requirements, product specifications, and performance under a contract. Management has typically had the authority to structure working arrangements to facilitate monitoring and to require routine reporting, and to control internal communication channels to disseminate information.

Virtually none of this structure applies to rural development activities. Farmers can steal water from canals, can use production credit for consumption purposes or even re-lend it at higher rates, and can divert fertilizer to the black market without much fear of being found out. Lower-level bureaucrats providing the services are scattered in small towns and villages, and villagers are notoriously hard to supervise. It is equally difficult to gather and process information on farmer demand—quantity, product specification, and timing.

Diversity

The great diversity of local conditions defies the logic of national programs. Agriculture requires quick responses to time-bound and site-specific conditions, and hence flexibility to make farm-specific decisions. Insofar as responses require outside resources (such as fertilizer, electricity, water, and pesticide) the supply and mix of inputs must be equally flexible. It has been simply impossible for bureaucratic agencies to match the micro-level knowledge of the farmer. Decision making within the bureaucracy has been too cumbersome, and the management of goods and services too inflexible. Agricultural production and farm incomes suffered as a result.

This problem gets aggregated in the design of infrastructure systems, logistical systems for inputs, credit, and marketing arrangements. Without the knowledge of farmers' constraints and requirements, such systems are designed according to policy needs, technical standards, and bureaucratic convenience. Railroad schedules, budget cycles, routine administrative reporting, and processes have seldom corresponded to agricultural cycles.

Transaction Costs

Within the firm, the entrepreneurial tasks of assembling and managing factors of production have, for the most part, remained with the farmer, who faces *increased* transaction costs in assembling inputs from both the market and the bureaucracy. To this has been added the necessary costs of persuading managers to make appropriate decisions.

Democratic theory has generally focused on the costs of influencing public *policy*. All other things being equal, significant changes in policy might well be worth the cost involved in transforming the rules. But the discretionary power of local bureaucrats in most areas of development administration has meant that the persuasion costs are recurrent, individualized, and in many cases significant just for getting policy applied to individual and specific cases.

As a result, villagers' motivation to participate in the new organizational structures is reduced. The local development literature is clear that villagers' incentives to participate are increased to the extent that they control the terms of the contract (that is, the rules of the organization) and that benefits clearly exceed the transaction costs of membership.

Conclusion

The structure of the ownership of assets (not much discussed), the enormous costs of bringing adequate information together with decision authority, and the often perverse incentives built into dealing with bureaucratic structure, all mean that authority systems commonly function poorly and frequently do not increase efficiency in rural development activities. This is an awkward relationship for both parties. The bureaucrat is motivated to continually increase regulatory controls on inputs and outputs he does not own or directly control. As monitoring and other costs rise, farmers find that transaction costs increase rather than decrease.

Experiments have proliferated to correct these defects. The problem was generally understood at first to be how to motivate farmers to commit themselves enthusiastically to government programs, and second, how to improve the flexibility and appropriateness of development efforts within a bureaucratic model. Institutionally, solutions centered on decentralizing the bureaucracy and creating local participatory organizations. However, these efforts have continued to leave program, as contrasted with project, initiative in administrative hands and to impose considerable transaction costs on the project design, approval, and implementation process.

Bureaucrats have conducted "needs assessments." Villagers have engaged in extended consultation with officials. Training and organizational reforms were introduced to increase bureaucratic learning. Projects were required to comply with standardized design and reporting formats. In short, the use of the hierarchical authority model has required considerable investment in institutional development, and there has been an increase in transaction costs to counteract a basic problem of institutional design—that stemming from the effects of establishing authority relationships between villagers and government development agencies.

The central question is whether the efficiency gains of hierarchical organization—detailable in theoretical terms—offset those costs? Analysis suggests they do not as a rule. Local control of government agencies, channels for mediation between the bureaucracy and villages, or access to external resources, however useful these may be as by-products, do not stimulate successful local organization and do not increase economic efficiency. Rather, they compensate for the increased transaction cost of bureaucratic institutions.

Increasing the productivity of public organizations thus faces limits that are intrinsic in the imposition of imperative control. If bureaucratic agents acted strictly according to "the rules," improved performance could be prescribed. But we know that the incentives which all parties to the bureaucratic connection face will bias behavior in ways that are more self- than public-serving.

Bureaucratic performance can be improved to some extent by competition and cooperation with private, market-oriented institutions or with voluntary, self-help organizations. Israel's concept of "market surrogate" roles and incentives (1987) offers some avenues for improvement. But the most promising avenue for serving public needs and interests more fully will be to allocate functions better among the institutions of the state, the market, and civil society.

NOTES

1. See Bryant and White (1982: 30) and World Bank (1983: 102).

2. See Honadle and VanSant (1985), Esman and Uphoff (1984), and Israel (1987) for reviews of the literature.

3. Where owners and operators are the same persons, as in many privately owned systems in the western United States, an altogether different set of contract relationships prevail. Some form of user association is important in this case as well as where the owner-operator (usually the state) and water users are different, as the transaction costs with unorganized individual users are prohibitive.

4. The term "common pool resources" refers to a community's natural resource base of water, forests, fisheries, and pasture land that is managed collectively rather than through private, individual ownership. Although specific to common pool resources, Ostrom's findings are consistent with other studies of a wide range of local participatory organizations.

5. Esman and Uphoff found in their quantitative analysis and evaluation of

150 local organizations across the third world that very close linkage of local organizations with the government was negatively correlated with their success (1984: 143).

6. Esman and Uphoff suggest that majority rule is not an adequate decision rule or conflict resolution device for assuring effective local organizations (1984: 218). The explanation may lie in villagers' preference for avoiding long-term transfers of authority to an external agent and for instead making contingent commitments that maintain a specific set of behavioral and appropriation rules so long as it is beneficial to do so and others conform to these mutual agreements as well.

7. The discussion of agricultural inputs draws on Nicholson (1984); for agricultural credit, on Adams et al. (1984), Asian Productivity Organization (1988), Fry (1988), Patten and Rosengard (1991), and Von Pischke (1991); and for irrigation, on Repetto (1986), Korten and Siy (1988), and Ostrom (1992).

8. This refers to the mobilization of private savings to finance the making of loans, benefiting both those who want to save and those who want to borrow.

9. One of the generalizations from organization theory that is most apt here is that organizations tend to re-create externally (i.e., in their environment, among those with whom they deal) the same values and social relationships that predominate internally.

10. I will not go into constitutional level arguments here that citizenship itself entails an implicit acceptance of authority relationships. Rather I will point out that insofar as no alternative sources of credit, agricultural inputs, tax revenues, cement, etc. are available to individuals or the community, any desire to "modernize" production has forced acceptance of a hierarchical relationship with government agencies. In some cases the choice was involuntary, as when the state required that a certain acreage be planted to a specified crop (e.g., cotton) and marketed through the state marketing board.

11. Milgrom and Roberts (1990: 87) suggest: "Our general proposition is that *any* centralization of authority . . . creates the potential for intervention by central authority. These costs need to be weighed against the benefits of centralization to determine the efficient extent and locus of authority."

11

Revisiting Institution Building: How Organizations Become Institutions

Norman Uphoff

One of the puzzles in the organization theory literature is why there is so much ambiguity and confusion between the terms "organization" and "institution." Various definitions have been offered for each, but none has been widely enough accepted to keep the words from being used interchangeably and casually, as if they were synonyms. If institutions and organizations were indeed the same thing, of course, we would need only one of these words, not both. But both persist, suggesting that people mean to denote something different by each term. Understanding better their relationship will, I propose, give us insight into the productivity of public organizations, and how this can be improved.

Public organizations are generally referred to as "institutions," whereas private ones are not. Part of public organizations' productivity derives from their being institutions, because this status means they will be contributed to and complied with by members of the public more readily than if they are "only" organizations. Even individuals who are not particularly or directly benefitted by institutions defer to them, if only because of the respect that others display toward them. Institutions are given the benefit of any doubts, as long as they retain their acceptance as institutions, so long as they remain intrinsic, valued parts of the social, economic, and political landscape.

Conversely, whether an organization is regarded as an institution depends in part on its productivity, on its serving some valued purposes over time. So causality runs in both directions. Part of the puzzle of public organizations' productivity lies in this two-way relationship, in the nexus between organizational and institutional status. The latter contributes to productivity but also derives from this. It is unfortunate but true that institutional status and legitimacy can dissipate. They are not permanent. With the decline in respect for authority which is seen across many institutional fronts—not just for governments but also for institutions of higher education and religious institutions, for example—and with the majesty of the state less awesome, public organizations are less and less appreciated as institutions and increasingly a category of organizations.

Distinguishing between Institutions and Organizations

The term "institution" has a schizophrenic existence, standing on the one hand for revered and respected things like supreme courts, central banks, or universities, while at the same time, often used as a term of approbation, referring to things that are thought to be outdated, unresponsive, aloof.[1] "Organization" encounters similarly divided opinion, being regarded usually as something good and essential, but at times as something constraining and dehumanizing (e.g., Townsend 1970).

Public organizations stand in a special relation to the people they serve, a relationship that is different from the one private organizations have to customers or clients. For one thing, public organizations like ministries or government agencies can invoke the *authority* of the state to enforce their decisions, whereas private organizations like clubs or businesses depend on voluntary compliance or on commercial contracts. Further, public organizations can claim *legitimacy* for what they do because their operations presumably contribute to some larger public interest, though such a claim may be contested. To the extent that this claim is accepted, it strengthens the ability of a more legitimate institution to get cooperation. Compliance is not necessarily or always coerced, as implied whenever authority is exercised because the threat of coercion backs up decisions declared in the name of the state. Weber recognized that compliance rests on a range of motivations, from normative judgments to self-interest to compulsion (1947: 324). Organizations that are private need to "purchase" compliance with quid pro quos of some sort, or if they get voluntary cooperation, they have no right to expect this or compel it. Acquiescence cannot be demanded for decisions that are "private" and thus nonbinding, outside of the scope of the state.[2]

Legitimacy is both a cause and effect of organizational productivity, and it is a resource essential to the evolution of organizations into some sort of institution. This insight from the analysis offered by Milton Esman and his colleagues in the Inter-University Consortium on Institution Building deserves elaboration. An institution is a special kind of organization, one which, according to Selznick (1957), is infused with value beyond the technical requirements of the task at hand. As such, the organization is accorded legitimacy by some, many, or all of the members of the public, who accordingly acknowledge an obligation to comply with and support its decisions. To the extent that people grant legitimacy to an organization regarded as an institution, this constitutes a kind of credit. People will comply with less direct inducement or enforcement than otherwise. Legitimacy enhances an organization's ability to accomplish its goals. Other things being equal, the more legitimacy that is accorded to it, the more readily and freely people will support an organization's needs and interests.

But such a willingness to comply and cooperate reflects previous accomplishments that led people to value the organization in more than an instrumental way, crediting it for more than what it does for them directly and in the short run. The organization's performance and existence meet with approval because these correspond to values held within some, most, or all of the public. An institution is appreciated for producing many dispersed and indirect benefits, over and above immediate personal gains, which are also important for an institution's standing. The total net advantages resulting from an institution, for society at large as well as for individuals, are thought to justify its existence over the long run even if, once accorded legitimacy, it manifests some shortcomings. People give an institution the benefit of any doubts they might have about its right to demand cooperation, at least within certain limits.

Institutionalization—acquiring the legitimacy, the respect, and the durability of an institution—is a process. In fact, it is not an irreversible one, not an "up" escalator. Huntington has described institutions as "stable, valued, recurring patterns of behavior": "Organizations and procedures vary in their degree of institutionalization. . . . Institutionalization is the process by which organizations and procedures acquire value and stability" (1965: 378).

To the extent that institutions lose legitimacy, respect, and durability, they become less "institutional" (Brinkerhoff and Goldsmith 1992). If they lose institutional status altogether, they become only organizations or procedures, sustained for their instrumental value by those who benefit directly and immediately. Organizations lacking legitimacy, except from members or direct beneficiaries, are more liable to dissolve and disappear compared with those that are appreciated and approved, implicitly if not explicitly, as institutions.

Just because an organization gets called an "institution" does not necessarily mean that it has the power and productivity of an institution. In many developing countries, we have indeed seen a process of "de-institutionalization," when organizations or practices that enjoyed institutional standing previously have had this status attenuate and eventually disappear, because of inadequate performance, unfulfilled expectations, or changing values and beliefs.[3]

To understand this process better, we need to make some simple but clear distinctions between organizations and institutions, while recognizing that the two terms overlap. In the world around us, there are: (a) some organizations that are not institutions, and (b) some institutions that are not organizations. Further, there are (c) some organizations that are at the same time institutions, and vice versa. These categories can be clarified with a diagram (Figure 11.1) and some examples (Table 11.1). They make more visible and tangible the differences implied between organizations and institutions when a consistent effort is made to distinguish between them. Other things being equal, an organization that is also an institution will have more scope and effectiveness, while an institution that is also an organization will have more predictable and enforceable effects.

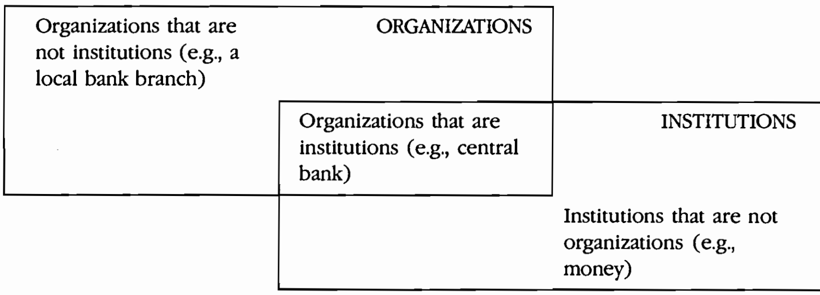
How can these three sets be delineated and reconciled conceptually? The following definitions, consistent with much if not all of the literature, differentiate these categories.

- Organizations, whether institutions (Table 11.1, column II) or not (Table 11.1, column I), are *structures of recognized and accepted roles.*[4]
- Institutions, whether organizations (Table 11.1, column II) or not (column III), are *complexes of norms and behaviors that persist over time by serving collectively valued purposes.*[5]

This distinction corresponds to that proposed by Knight, who acknowledged two different kinds of institutions. The first kind, which "may be said to be created by the 'invisible hand' [where] deliberate action hardly figures," corresponds to the third column in Table 11.1. The second kind, Knight said, is "deliberately made," the type shown in the second column. As examples of these two types of institutions, he suggested language, an institution with no deliberate origin, and the Federal Reserve System, which is a created institution.[6]

Public organizations are not necessarily, automatically, or fully "institutions," even though they are commonly described as such. Some may not actually be respected and enjoy substantial legitimacy from the public. How much legitimacy is needed to qualify as an institution? There is no agreed criterion, partly because we have no way to measure legitimacy. We know, however, that some things are valued more and others are less valued, either by more or by fewer people, as being right and proper and thus

FIGURE 11.1
Overlapping Relation between Organizations and Institutions



deserving to be complied with and perpetuated. To the extent that an organization enjoys institutional status, we can say that it has been—or can be—more productive than organizations that lack such status according to individual and societal values.[7]

Our language, unfortunately, is more qualitative than quantitative, encouraging us to classify things in one category or another, saying that something either *is* an organization or is *not*—or that it *is* an institution or is *not*. Figure 11.1 and Table 11.1 and the definitions they represent suggest that some things can be *both*, with the categories overlapping.[8] Along these lines, organizations and institutions should both be understood as matters of *degree*. Things can be *more or less* organized, just as they can be *more or less* institutionalized.[9] One can say that a structure of roles (or a complex of norms and behaviors) either exists or does not, but this is a forced either/or construction of reality. It is often difficult to make such a statement even if

TABLE 11.1
Different Categories of Institutions and Organizations

I **Organizations that are not institutions**	II **Institutions that are also organizations**	III **Institutions that are not organizations**
A firm of lawyers	The Supreme Court	The law
A surveying firm	Govt. Land Registry	Land tenure
A tutoring service	Oxford University	Higher education
A tax advice office	Revenue Service	Taxation
An auto workshop	General Motors	Private enterprise
A union local	United Auto Workers	Collective bargaining
A specific family	The family	Marriage

there is agreement on the criteria. Organizations, though not institutions, can be intermittent, operating and existing in one period and not another, such as an emergency relief volunteer group. Institutions can be latent, becoming evident only under certain conditions, such as the kind of volunteer effort just mentioned. In some societies, there are complexes of norms and behavior which are widely understood and accepted, so that a disaster evokes predictable kinds of collective action.

A structure of roles may be considered by most persons to be too informal or too intermittent to be a "real" organization, yet it can nevertheless exist to a certain (unclear) extent. Similarly, if a complex of norms and behaviors is not (yet?) widely operative, one has to decide *how much* patterning or *how long* a period is needed to justify assigning it institutional status. A well-respected organization which is very influential within a limited area, say a secondary school in a rural community, could be considered a localized institution, but not a widespread one because its influence is negligible or very weak at regional or national levels. If one considers as "institutions" only national entities, this would not qualify because it was purely local. But this is a matter of definition, not reality.

Cut-off lines for scale or significance are very difficult to draw. Institutional status is more a matter of concepts than of facts. More important than saying whether or not an organization or institution exists, very much a matter of judgment, is knowing *how* effective and durable it is, in *what* ways, and also *why*. The definitions offered above were constructed so that organizations and institutions could be treated in terms of degree and in a dynamic way, rather than be restricted by essentially static, classificatory terms.

Dimensions Affecting the Productivity of Organizations and Institutions

Recognizing that organizations and institutions are related, though distinguishable phenomena, what are the main factors affecting their ability to produce outputs, benefits, goods and services, new ideas, well-being, or security? Organizations are, practically by definition, intended to be productive because they are established by their members or by sponsors to achieve certain goals, in reliable, predictable, efficient, and cost-effective ways. To say that an effort is "disorganized" is equivalent to saying it cannot achieve its goals, that it therefore cannot be productive in the way it was intended to be. Our challenge in trying to help raise the productivity of public organizations is to help them become more goal-oriented and effective, that is, more "organized."

One way to avoid tautological reasoning is by disaggregation. Our definition of organization focuses on roles and structure. In a highly organized setting, there will be a high degree of consensus on *roles*—what they are, what responsibilities they entail, who should occupy them, what sanctions are applicable, and so forth. Where the expectations of persons performing in roles and of those who interact with them are highly consonant and consistent, behavior and outcomes become highly integrated, regular, and predictable. Organizations accordingly vary in their degree of role consensus. Simply put, as a limiting condition, where there is no role consensus, there is no organization.

Concurrently, the *structure* within which roles operate can vary according to the degree of formality, the extent to which roles and rules are written down and legally recognized and sanctioned. Organizational decisions are more enforceable with the backing of formal-legal rules and sanctions, not just social pressure and consensual expectations. There can be written rules, by-laws, a constitution, and so forth that specify relationships and responsibilities and allocate authority, or the structure can operate according to traditions, precedents, or cultural expectations. Organizations can of course operate according to combinations of informal and formal provisions, and indeed most do, placing them somewhere between the extremes of informality and formality.

Taking the two dimensions of structure and roles—and the degree of *formality* and *consensus* associated with each—we can construct a matrix, as shown in Figure 11.2. It is drawn as a field without borders to convey better that these are matters of degree more than kind. This analysis indicates that organizations with high consensus on roles and formal structure (IV) are "more organized" than any others, and organizations with low role consensus and informal structure (I) are the "least organized."[10] If there is too little consensus and structure, indeed, they will not qualify as organizations, point A in Figure 11.2. Point B represents a situation of maximum organization.

A formal structure with low consensus on the duties, powers, and filling of roles (II) is generally understood as less organized than an informal structure which nevertheless has high role consensus (III). II is a purely formal organization, existing on paper, a hollow shell rather than a social reality, while III represents an informal organization where people can move into and out of roles smoothly and where roles empower and affect behavior. That III is considered more organized than II reflects our understanding of an organization as a structure of *roles*. The vertical dimension (roles) is more salient than the horizontal dimension (structure) when it comes to determining the relative ranking of III versus II. A continuum of *degrees* of organization, collapsing two dimensions into one, would be:

IV > III > II > I.

FIGURE 11.2
Dimensions Making for Organizational Productivity

		STRUCTURE Informal	Formal
ROLES	*A*		
	Low Consensus	(I) Informal organization, little shared consensus on roles and functions (minimal organization)	(II) Formal organization, little shared consensus on roles and functions ("paper" organization)
	High Consensus	(III) Informal organization, widely shared consensus on roles and functions ("traditional" organization)	(IV) Formal organization, widely shared consensus on roles and functions ("modern" organization)
			B

With formal structure and little or no role consensus (II), one is less able to achieve goals and be productive than with an organization that operates informally, having high consensus on roles, their powers, limits, or obligations (III). Adding formal structure to the latter (IV) increases organizational productivity in that, ceteris paribus, consensus bolstered with formal powers can accomplish more than one with comparable consensus but *without* any formalization.

This discussion of roles and structure can be made considerably more specific. An interdisciplinary working group seeking to strengthen the capabilities and performance of farmer organizations (often referred to as water user associations) for improving management of irrigation systems identified from the literature and from experience four organizational tasks that are ubiquitous and essential. These were: (1) decision making, (2) resource mobilization, (3) communication, and (4) conflict resolution.[11]

These four tasks are performed *to a greater or lesser degree* within any organization, and they can be performed *either formally or informally*, with written rules and prescribed roles or by tradition and consensus. To the extent that *more* of these activities are undertaken on behalf of an organization—and are undertaken *more frequently and regularly*—it can be considered to be more organized. Persons acting in decision making, resource mobilizing, communicating, or conflict resolving roles create an organization.[12]

Considering organization in terms of a set of basic tasks performed by people in roles, formal or informal, gives specificity to the concept of organization. These tasks apply to public organizations as much as to private or voluntary ones. They are functions that can or need to be performed at different *levels* within an organization. They can or need to be undertaken with regard to a given level (intralevel decision making, resource mobilization, communication, or conflict resolution) or dealing with problems between levels (interlevel decision making, resource mobilization, communication, or conflict resolution). The productivity of organizations can break down in any one of these functional areas, within or between levels, and formally or informally, if there is no consensus on the scope of roles' responsibility or on who should fill the roles.

Similar analysis can be done for institutions. An important characteristic is whether or not an institution is an *organization*—or better said, the degree to which it is an organization, that is, the degree to which it has roles. This characteristic affects the extent to which it can make and enforce decisions. An institution which is not an organization, or is minimally organized, is limited in what it can purposefully accomplish. A nonorganizational institution, for example, land tenure, cannot engage in planning and self-modification as can an institution based on a structure of roles. For the sake of analyzing variation in and productivity of institutions, the set of alternatives in Figure 11.2 can be converted into a continuum, from less to more organized, shown on the horizontal axis in Figure 11.3.

The other major variable affecting institutions' productivity is the degree of *legitimacy* which they enjoy from some, many, or all of the public. As suggested already, possessing more legitimacy means that the institution will be more fully, reliably, and cheaply complied with. Even persons not regarding an institution as particularly legitimate will be more likely to cooperate because others support it as right and proper. Here again, we have differences in degree, presented simply as differences in kind along the vertical axis in Figure 11.3.

Taken together, these two dimensions create a continuum of institutional power and productivity from type I to type IV, with the full range suggested in Figure 11.3 by a line between A (where no institution can be said to exist, having neither legitimacy nor organization) and B (where both are extensive). As with similar analysis of organizations, the case of widespread legitimacy but little organization, with minimal structure or roles (III), represents a more institutionalized situation than where there is much organization but negligible legitimacy (II). The ranking IV > III > II > I reflects the fact that legitimacy is a more crucial defining characteristic of an institution than is its being an organization.

To return to the categories shown in Table 11.1, case III in Figure 11.3 corresponds to the third column, that is, institutions that are not organizations, while case IV represents the second column, institutions that are also organizations (and vice versa). Case II, on the other hand, presents some ambiguity since if its legitimacy is minimal, such a situation represents an organization that is not an institution, which falls in the first column in Table 11.1. Such conclusions are best stated in terms of degree, however, rather than kind because that is the nature of the phenomena.

FIGURE 11.3
Dimensions Making for Institutional Productivity

		ORGANIZATION	
		Less	More
	A		
LEGITIMACY	Limited	(I) Roles ambiguous and structure informal, with limited legitimacy (hardly an institution)	(II) Roles clear and structure formal, with limited legitimacy (organization that is not much of an institution)
	Pervasive	(III) Roles ambiguous and structure informal, but pervasive legitimacy (diffuse institution)	(IV) Roles clear and structure formal, with broad legitimacy (institution that is an organization, and vice versa)
			B

What are the implications of this analysis for understanding and increasing the productivity of public organizations? First, thinking of them in nominal terms is not very useful. Classifying them as organizations, public or not, tells us little about their performance capabilities, since organization is best understood as a matter of degree. The structure of organization itself varies in terms of how formalized, elaborated, and articulated it is. This contributes to organizational capacity, other things being equal. But other things—particularly the acceptance, recognition, and strength of roles, around which structure evolves and revolves—are seldom equal. Roles create mutual expectations and obligations, patterning behavior according to some combination of incentives, sanctions, norms, and ideals.[13] Some of the potency of organization comes from the internal structuring of relationships and expectations, but much of this depends on how it relates to its environment.

This conclusion is reinforced when the process of moving from the status of being (just) an organization to that of being an institution is considered. Organizational qualities are part of the profile of an institution, at least of the kind that development administration is concerned with. Over and above such capacities, the degree of legitimacy an institution enjoys from some, most, or all of the public is a crucial factor affecting its productivity. The conundrum, posed at the beginning of this chapter, is that this is a reflexive variable, since legitimacy reflects productivity as well as enhances it.

Public organizations are advised not to take legitimacy for granted, as Goldsmith discusses in his chapter. They need to consider the usefulness of their output, whether planning, regulation, protection, or other public services. Because they have a public charter and can invoke public authority to promulgate and enforce decisions, government agencies can claim that their actions are ipso facto legitimate. But such a claim need not and may not be accepted by everyone. To the extent that no or only nominal legitimacy is accorded, a public organization is simply an organization, not an institution, complied with for purely utilitarian reasons, not because of any normative obligations.

How does a public organization acquire and maintain institutional status? By meeting societal norms and expectations. In a heterogeneous society, these may not be consistent enough to satisfy everyone. But still, some degree of consensus is likely to provide a cognitive and ethical basis for institutions to operate. Where consensus is lacking, as in the sad cases of Yugoslavia or Somalia, we see the dissolving of institutions—stable complexes of norms and behaviors that served collectively valued purposes—practically before our eyes, even as organizations—structures of roles—persist, however lamely and inadequately.

Institution Building Revisited

The focus of institution building (IB) research has been, following the definitions discussed above, organizations that were becoming or could become institutions. This analysis was guided by Selznick's suggestion, now widely accepted in the organization theory literature (e.g., Perrow 1986), that institutions are infused with value beyond the technical requirements of the task at hand. People value institutions over and above the direct, immediate benefits they derive therefrom. Because they are accorded legitimacy from various sources, institutions are more than simply instrumental mechanisms.

For an organization to acquire institutional status, imbued with intrinsic value, its performance needs to meet some combination of normative and instrumental expectations from various sectors of the public. Government organizations speak in the name of the state, which asserts its superordinate authority and thus claims legitimacy for all its actions, within whatever consensual or constitutional bounds have been set. However, the state itself may lack legitimacy—from certain ethnic groups, from disaffected political factions, or from a younger generation unimpressed by ancient claims of authority. While authority and legitimacy are claimed on behalf of the state and its implementing organizations, these claims are in fact likely to be contested, at least by some. While authority and legitimacy are presented to the public as absolutes (the state has a monopoly on authority; the state's decisions are completely legitimate), in fact, both authority and legitimacy are better understood as matters of degree (Uphoff 1990).

The institution building literature undertook to explain how institutional authority and legitimacy could be established and maintained. It identified five elements of an IB strategy, starting with *leadership* and including *doctrine*, *resources*, *internal structure*, and *program*. The first—leadership—corresponds to the *management* variables addressed by the first set of approaches which Louise White has delineated (1987 and above), while the other four elements encompass the *organization* itself, White's second set of variables. Doctrine, resources, internal structure, and program respectively represent the organization's culture, its inputs, its system of roles for converting inputs into outputs, and its outputs. The first element thus shapes the other four, with a view to achieving organizational goals. One of these goals is to maintain the organization. To the extent possible, organizations' leaders usually want also to expand, enhance, and even institutionalize the organization.

To do this, an organization aspiring to institutional status and stability must attend to its relations with its *environment*. Such relations are a major concern of IB analysis, which assesses them in terms of an organization's *linkages*. These are exchange relationships between the organization and various external sectors or groups which receive resources (outputs or benefits) from the organization and which contribute other resources (inputs or means of production) to it. Exchanges include material resources (land, labor, or capital as inputs; goods and services as outputs) as well as nonmaterial ones such as information, status, and particularly legitimacy (Uphoff and Ilchman 1972). Resources can be exchanged on a quid pro quo basis, but often, reciprocation is more tacit than explicit, with persons contributing to and receiving from an organization in some ongoing, approximate balance.

Linkages according to IB theory can be categorized in four ways:

- *Enabling linkages*—exchange relationships through which an organization (institution) obtains the resources it needs to begin and maintain operation, particularly authority and financial resources (budget), but also personnel, information, etc. These linkages are most often with government agencies, legislative or executive.[14]
- *Functional linkages*—reciprocal exchange relationships with those key groups which are essential for accomplishing the tasks of the organization (institution). These linkages are particularly important for acquiring economic resources (capital, labor, etc.) and information, but other resources can be involved in exchange. Functional linkages are entered into and maintained with suppliers, employees, customers, clients, inspectors, and so forth.
- *Diffuse linkages*—those relationships with the wider public, which may not be directly involved in supplying material inputs or acquiring outputs of goods and services, but which provide across-the-board cooperation

or acquiescence which permits the organization (institution) to be effective. These groups do not get direct benefits so much as indirect security, facilitation, improvements, or other outcomes of value.

- *Normative linkages*—these are the most amorphous but ultimately the most critical relationships for an institution, because these provide the generalized legitimacy that an institution needs to attain and maintain such status. To the extent that many groups throughout the public value the institution for its direct and indirect benefits, they have an emotional and intellectual connection to it, and are prepared to support its maintenance and make sacrifices for it.

As these descriptions indicate, the first two kinds of linkage are more tangible and demonstrable. The resources they involve are "harder" ones, like goods and services or grants of authority. The latter kinds of linkage depend more on "softer" resources, ones based on attitudes, ideas, and values—for example, status and legitimacy. All linkages involve exchanges of information.[15]

The output of an organization, its program, is what most directly concerns the various members of the public with whom it interacts and on whom it depends for its success and perpetuation, that is, becoming an institution. Programmatic content will gain or forfeit public appreciation according to how well it meets people's needs and expectations. But at the same time, an organization's status will be affected by the effectiveness and efficiency with which benefits are produced through an internal structure of roles. And support will be enhanced by the adequacy of outputs, just as it is adversely affected by their insufficiency. So the three elements of *program*, *internal structure*, and *resources* affect an institution's ability to maintain productive and strong linkages with its environment, securing both material means as well as normative backing.

The element of *doctrine* differs from the others in that it covers all of them, by establishing norms and expectations for what the organization should and will do. The productivity of a doctrine derives from its directing and concerting people's efforts and ideas toward appropriate goals, providing both justifications and motivations for collective action. If well-conceived and well-articulated, it will influence external actors (those with whom linkages are maintained) as well as persons within the organization. At the time Esman and his colleagues proposed "doctrine" as an important factor affecting organizational productivity and legitimacy, helping to make an organization into an institution, it was not well apprehended. Now that analysts of the business world have discovered the importance of "corporate culture" (Deal and Kennedy 1982), which is essentially the same thing, the significance of doctrine should be more easily appreciated.

Leadership in an organization has responsibility for formulating and articulating its doctrine, managing its resources and internal structure, and carrying through a program. It also initiates and maintains the various linkages needed to ensure an adequate flow of resources to the organization, funds, personnel, and information of course, but also status and legitimacy produced and provided according to people's values and attitudes. That these latter resources might be thought of as "soft" resources (Uphoff and Ilchman 1972) does not make them less significant. Indeed, these are the resources which most clearly distinguish organizations from institutions. The former can operate basically with "hard" resources—financial resources, authority, and force. Institutions require the operational buoyancy coming from a reliable supply of status and legitimacy, especially the last.

As noted above, the IB model encompasses all three focuses of analysis and action that White drew typologically from the development administration literature: the management perspective, the organizational perspective, and the environmental (contextual) perspective. Leadership, the first element in the institution building model, is needed to manage those factors internal to an organization (doctrine, resources, structure, and program) and external factors (linkages), putting them together in some productive, sustainable configuration.[16]

Can one say that one perspective is more important than the others? No, all are necessary and none is sufficient. Leadership initiates and shapes relationships, but it has limited degrees of freedom. Not all leaders aspire to institutional status for their organizations if these groups operate according to essentially instrumental considerations and incentives, with no transcendent values involved. But having diffuse and normative linkages with broad sectors of the public will enable an organization to be more effective in its activities, and more efficient in its performance because people will cooperate out of some sense of moral obligation, not just individual self-interest. To the extent this occurs, an organization is, or is becoming, an institution. If it continues to build up normative credit by meeting people's values and expectations, the process of institutionalization will proceed.

This understanding of institutions and organizations, particularly relevant for public organizations, shifts analysis and evaluation from a preoccupation with an organization's internal matters and relationships. The productivity of public organizations cannot be understood, let alone improved, by focusing simply on efficiency and effectiveness issues based on internal goal-setting, as discussed in Goldsmith's chapter on strategic management. External appreciation and support, analytically assessed in terms of linkages, are themselves critical for efficiency and effectiveness, reflecting a program and doctrine which are "in sync" with the various providers, customers, clients, and others. These persons interact with the organization on a regular or intermittent basis and give it the opportunity to become more than something of value only to itself.

I started with the observation that greater legitimacy permits an organization to become more productive, but it also reflects an institution's past and present productivity. This point should be emphasized in conclusion. An institution's *fit* with its environment—its correspondence to the instrumental and normative needs of all those people who can help it succeed or who by indifference or obstruction can make it decline—is crucial. The case studies and analyses which precede this chapter all point to this conclusion. The challenge of enhancing the productivity of public organizations entails management of both the organization and its links with its environment.

These are the main focuses of concern in the development administration literature as White has shown. Too often, analysts choose to emphasize one more than the other, deeming it more critical for success or considering it more of a constraint. The IB model does not play favorites. More than two decades ago it identified the principal variables governing the effectiveness of organizations that were or could be also institutions. It did not use the more contemporary and problematic idiom of "productivity." In a world where we are ever more conscious of resource constraints and of the need to achieve sustainable improvements, we find this idiom gaining ascendancy. If they are related more closely to the concerns of productivity, institution building concepts become more interesting again.

Given current policy and intellectual concerns, the terms "institutional development" and "institutional sustainability" are currently more popular, for reasons explored by Goldsmith (1992). But neither has an analytical framework as amplified or as encompassing as that developed for the study of institution building, undertaken as a special task of development administration starting in the 1960s. It does not specify the criteria by which productivity can be assessed, but it identifies the multiple means by which it can be improved from whatever level an organization or institution is starting.

NOTES

1. Prince Claus of the Netherlands, speaking to the Society for International Development in that country, stated: "There can be no cooperation without institutions, and the development of institutions must be at the core of our concerns about the future." But he added: "Many of them at the local, national and international level look hopelessly inadequate and vulnerable, serving only to deny or resist change, rather than to catalyze it" (ISNAR File Service, May 10, 1991).

2. The state may enforce private decisions that come under the rubric of "contract" if its laws stipulate conditions that make such decisions into public matters and for sanctions to enforce them.

3. Huntington (1968) lamented that in developing countries the public had too high expectations of its institutions and was prone to make excessive demands for benefits. When such demands were not met, this would create disillusionment and disorder. While such outcomes have occurred in LDCs, their cause is more arguably the shortcomings in institutional performance than excessive demands from the public.

4. This definition of "organizations" applies equally to formal or to informal organizations, as discussed below.

5. See Uphoff (1986: 8). Economists, following the lead of John R. Commons, have tended to identify institutions with "rules" rather than with "roles," which are more commonly the concern of sociologists. The following formulation offered by Frank B. Knight, an economist, bridges this disciplinary divide.

6. Knight's discussion is cited in Ruttan (1978: 328). This same distinction is made by Crozier and Friedberg (1980), who compare "organized systems," which are diffuse and less formal patterns of interaction such as the examples given in the third column of Table 11.1, with "organizations," which are presented in the first and second columns. Young (1982) when analyzing natural resource management made a similar contrast between "social institutions" (corresponding to column III) and "explicit organizations" (columns I and II).

7. We are dealing here, as in so much of life, with what are best understood as "fuzzy" sets, which correspond more or less to some set of criteria that may themselves be somewhat flexible or ambiguous. On the increasingly appreciated concept of "fuzziness," see McNeill and Freiberger (1993) and Kosko (1993).

8. In column II of Table 11.1, one can call these *organizations* that are also *institutions*.

9. A few families have become institutions, like the Kennedys in the United States or the royal family in Great Britain. Any of the organizations listed, like a law firm, can become an institution, at least to some extent, e.g., a long-established Washington law firm can become accepted as an "institution."

10. The cells are numbered rather than named because any labels are liable to misunderstanding, attaching designations of kind to what are intended to be understood as matters of degree.

11. See Uphoff (1986a: 37–53). It was later recognized that this set parallels Talcott Parsons' "pattern variables," which he proposed as universal functions of all social systems: goal attainment, adaptation, integration, and pattern maintenance.

12. Some might think of enforcement as a coequal function, but it is actually accomplished through some combination of these four functions. So it is not listed separately.

13. That roles can be created and have great productivity I learned from experience with introducing water user associations in Sri Lanka. How the roles of "institutional organizer" and "farmer representative" were conceived and introduced, with dramatic impacts on agricultural productivity and on social relations, is recounted and analyzed in Uphoff (1992).

14. As not all institutions are in the public sector, we need to appreciate that private sector institutions will have different kinds of enabling linkages, such as with

stockholders, donors, or sponsoring agencies, than will institutions in the public sector, which depend directly on state authorization and support. Private institutions include organizations like General Motors, Harvard University, and the Ford Foundation.

15. This expanded understanding of organizational resources is elaborated in Ilchman and Uphoff (1969), and also in Uphoff (1990). The latter gives justifications from the literature for such an analytical approach.

16. This statement makes clear that the IB model covers only institutions which are also organizations. There is no leadership for an institution which is not an organization, like money or land tenure.

12

Applied Organization Theory in Development Administration

Norman Uphoff

In the preceding chapters we have traversed the terrain of development administration from concrete problems of rural development in Bangladesh to conceptual elaborations of institution building theory. Many aspects and sources of productivity in public organizations have been addressed. Bringing together country case experiences and conceptual reformulations produces many insights into contemporary development administration. Here we take stock of where these insights lead with regard to raising productivity in public organizations, with special concern for those in developing countries.

The Challenge of Change

It is fashionable to reinvent things these days. This could be seen as further evidence that the social sciences and political discourse follow fads. But this new orientation is not likely to fade from view like previous enthusiasms. Our concern with reinvention represents more than a passing fancy for a new term. It reflects a growing appreciation that we need to come to grips with the changefulness which now pervades our world. Organizations need to become more responsive to their environments because these are themselves continuously altering in multiple ways. This makes reinvention appropriate for any purposive undertaking, such as development administration. In a similar way, concern with systems approaches to analyzing and understanding social and natural phenomena has taken root over the last forty years as we have come to appreciate more how interconnected phenomena are. The idea of continuing reinvention is rooted in an understanding of the kind of world we live in. This has implications for what constitutes knowledge and for what is required to apply knowledge to practice. It calls into question the essentialist and reductionist assumptions that have underpinned most of Western scholarship and too frequently the framing of policy alternatives.

This is not the place to go into the merits and demerits of postmodernism and deconstructionist thought.[1] Most who work on problems of development administration I believe have found this literature too often self-referential and opaque. Yet despite its aggravating obscurities and self-created difficulties, the literature has been nurtured by a growing and legitimate dissatisfaction inside and out of academia with the way our knowledge and action has presumed an autonomous world where purpose and context can be assigned peripheral roles.

Assumptions that truth is unitary and absolute, tracing back to Plato, and that it is to be discovered through certain kinds of "scientific" methods, deriving from Francis Bacon's experimental canons, are now being sharply challenged on many fronts. Voices are being heard which propose that we can understand reality better by accepting its multiplicity and its contingency. This makes context and purpose relevant aspects of all our objects of inquiry, which are no longer to be viewed as detachable, isolated, neutral things (Rabinow and Sullivan 1988) or to be treated in terms of mutually exclusive categories and sets (McNeill and Freiberger 1993; Kosko 1993).

The Greek philosopher Heracleitus, writing before Plato, held that reality itself is always evolving, always changing, eternally in flux, and that opposite and conflicting realities coexist in a dialectical tension which is not so much progressive or linear (as held by Hegel and Marx) as it is energizing.[2] In this worldview, truth does not exist in some absolute, pristine state to be *discovered*; rather it needs to be *constructed* in the interplay between objective phenomena "out there" and our subjective understandings "in here." Since in practice, some of the "out theres" are somebody else's "in heres," the strict dichotomy between objectivity and subjectivity becomes less certain.[3]

During this century there have been major changes in the way that scientists understand the physical world, and how to study it, thanks to relativity theory, quantum theory, and now chaos theory. Social scientists are belatedly moving now in some of the same directions as their natural science counterparts, owing in part to growing dissatisfaction with the results of positivist analysis and to the challenges, however difficult to appreciate, of philosophers like Habermas, Foucault, and Derrida (see Lincoln 1985, and Lincoln and Guba 1985).

According to this view, previous understandings premised on assumptions that what is true is eternal and absolute should be challenged, torn down, or deconstructed. The more positive task—which should be congenial to students and practitioners of development administration—is for truth to be continuously *reconstructed* by the self-critical application of ideas to practice in ongoing efforts to achieve desired outcomes.[4] This is not to say that truth is completely relative or always in flux but to recognize that it needs to be validated against a changing, evolving reality both "out there" and "in here."

There is merit in the French proverb—the more things change, the more they stay the same. We do not live in a universe of complete or wholesale change. But conversely, even things that appear to remain the same are at the same time changing, if only because their contexts change, which has the effect of changing the things themselves—their uses, their potentials, and their value. We are not concerned here with arguments about ultimate realities and ends. Rather it is sufficient to acknowledge, with support from many intellectual directions, that the world of development administration is an evolving one, its many paths not converging onto one broad highway as concluded previously by "modernization" theorists. We are dealing with continuous permutations of reality, shaped by multiple interacting conditions and contingencies.

A reinvented development administration will be oriented to this challenge of change, utilizing open frameworks to make, implement, and improve upon purposive choices, not prescribing universal "best" solutions which are supposed to be neutral with respect to context and purpose. According to the Heraclitean dialectic, the opposites of change and nonchange coexist, each affecting the other. Does a country like Bangladesh change? Yes, of course, in many ways if not all at once. But one might also say that it does not change. Some aspects of Bangladesh have remained constant or at least very similar for centuries and may well persist for centuries more. Bangladesh both *changes and does not change*. The question, as with other parts of our social universe, is in what ways and with what implications?

Development administration needs to refrain from abstract, broad generalizations whose truth is mostly tautological. Whether one can say that Bangladesh changes or does not depends more on the definitions posited than upon empirical substantiation. The country both changes and stays the same, but not in all or the same respects. Many opposite and conflicting, even contradictory, paradoxical factors operate in the world. We live not in an *either-or* reality of mutually exclusive alternatives but rather in a *both-and* universe, which consists of multiple, overlapping systems that are more open than closed.

The most useful contemporary approaches to development administration will be contextual and contingent, attuning decision makers to existential realities rather than to straightforward prescriptions. Some of the eternal verities in the discipline, like limiting the span of control or needing an adequate knowledge base to make intelligent decisions, remain relevant, but mostly as focuses for attention and action, not as providing universal decision rules.

Development administration is supposed to achieve change, but this will occur in any case. The issue is whether change produces more beneficial possibilities for people and societies. Our faith that things mostly moved in positive directions has been sadly shaken in recent decades. The world which administrators seek to improve is itself not static or orderly. The targets to be achieved are themselves evolving, and the means for accomplishing these ends continually vary, degrading in some ways and becoming more effective in others. That the goals as well as means are in differing degrees of flux means that achieving and maintaining a "fit" between public organizations and their environments is all-important. Organizations need to be ever more attentive to external needs rather than seeking demands and finding uses for what they are most accustomed to providing. Productivity is more than a matter of efficiency in the transformation of inputs into outputs. The value of those outputs to the providers of inputs is a more salient measure.

Implications for the Practice of Administration

Such a characterization of development administration makes it most suitable for those who are intrepid and imaginative. While outcomes are not entirely unpredictable, it is easier to say what is likely to fail than what will probably succeed. If the world were more regular and ordered, it would be easier to know how the "gap" between potential and actual productivity, at individual and collective levels, can be narrowed. But the circumstances and work within organizations are always changing in various ways and to different degrees, with many unexpected twists.

"Chaos" is a dramatic word used to describe the environments of public organizations as well as all of nature. This term suggests a degree of disorder and unpredictability which is misleading, however. Chaos theory, sometimes called catastrophe theory, as it has developed over the last thirty years seeks to explain not randomness but nonlinear dynamic processes.[5] It deals with situations that are always potentially changeful and with outcomes likely to be discontinuous, not proportional to their causes.

Two principles of chaos theory that apply to large classes of phenomena, including social ones, are that: most outcomes are sensitively dependent on initial conditions; and even where starting points are the same, outcomes are process-determined and thus path-sensitive.[6] A very important corollary of these principles is that *small causes can have large effects*. This is not possible or comprehensible within the realm of classical physics, where outcomes are in some way proportional to causes, perhaps modified by predictable multiplier (mechanical advantage) or subtractive (entropic) influences. The classical model of cause-and-effect, however comfortable and comforting, is not ubiquitous or complete.[7]

Understanding the universe as "chaotic" should be appreciated as more liberating than threatening. If we live in a clockwork universe, operating with the mechanistic linkages of Newtonian causation, where all outcomes are determined by their antecedents, there is no scope for intervention and initiative. The future will be just as good or bad as it is predestined to be. But things look different and more promising if causation is more complex and contingent:

> Although we cannot know for certain what the consequences of individual and group efforts will be because of the probabilistic and uncertain nature of the world around us, we can reasonably presume that it is possible for individuals to alter the course of events and thereby to affect outcomes. Insights from chaos theory thus reclaim a role for personal action and responsibility in the social universe. (Uphoff 1992: 24)

Rather than expect to *control* events, managers should be learning how to *steer* them, accepting as Chambers (1992: 40) argues, the need for diversity in place of uniformity. The second model of public administration identified in White's chapter, we may recall, was "managing anarchies," dealing with the kind of open, fluid social systems consistent with chaos theory.

Administrators have more degrees of freedom to the extent that relationships within and outside their public organizations are not as mechanical as previously popular metaphors of management supposed. Managers can and should try to "make things happen," even if they cannot be certain of the outcomes. In a probabilistic universe, they must be venturesome and motivated enough to try to "beat the odds" to achieve valued ends. The more creative and persistent among them will try to change those odds.

We see in this discussion again the three focuses of analysis and sources for improvement in productivity that White delineated—managers, organization, and environment. If the environment is to be understood theoretically (not literally) as "chaotic," how should we understand the other two factors? The tasks of management are appropriately considered in terms of *leadership*. There are various treatments of leadership in the literature (e.g., Selznick 1957; Burns 1978; Bennis 1985), as well as in the institution building model, discussed in the preceding chapter. That the subject remains more of an art than a science is not because of inadequacies in the students or practitioners thereof but because of the nature of the world in which administration is carried on. As we appreciate better that productivity derives both from the organization itself and from its relationships with its environment, the role of leadership is clearly Janus-faced, concurrently having to address both internal and external relationships. While managers may not be equally adept at or interested in dealing with both inside and outside problems, both sets are inescapably important and linked.

With regard to the organizations which managers are to lead, we have noted the inadequacies of the "machine" conception for understanding them. This model is even more inappropriate if the world is understood in less deterministic terms than before. One alternative is the public choice or rational actor theories, whose prescriptions Blair considered as one of the remedies proposed for bureaucratic shortfalls in Bangladesh. This approach would achieve coordination and improve performance not through hierarchy, as examined in Nicholson's chapter, but through mechanisms of market or marketlike competition and allocation, such as the market surrogates that Israel (1987) has examined. This conception of organization assumes that individuals are all (and simply) self-interest maximizers. It proposes that rules and incentives be designed for public organizations which will extract the maximum net contributions from citizens, employees, clients, and others for achieving the goals of administration.

Unfortunately, an emphasis on self-interested motivation has self-fulfilling properties. The assumption that people are all bent on maximizing their respective interests—in economic terms, a presumption of complete independence of utility functions—justifies indifference toward other goals and to others' needs. It discourages people from acting out of a sense of legitimacy and common concern, instead promoting a kind of zero-sum competition for benefits (which we see now rather pervasively across many political economies). The very basis of government, in contrast to private sector activities, is the premise of some connectedness among people's well-being, in other words, *inter*dependence of utility functions.

One cannot and should not ignore the motivation of self-interest, but public organizations will undermine their legitimacy, their special and most precious resource as discussed in the preceding chapter, if the actions of all persons, and especially of their agents, are prompted only by what net advantage they produce for those actors, not for members of the public or for some larger public interest. Thus, while some use of market or market-like incentives may be admissible, the market itself is an inadequate, even debilitating model for public organizations.

A more satisfactory way of thinking about public organizations uses the metaphor of organization as *community*.[8] This presumes, in contrast to the model just considered, the existence or creation of interdependent utility functions. This means that participants in the organization at all levels attach some intrinsic value to each other's well-being and to maintaining the network of communication and cooperation which produces benefits for many persons, not just its members. This kind of dynamic, where individuals seek to gain but not at the expense of others, or by being indifferent to others' welfare, promotes positive-sum outcomes, and yields multiple benefits from any given increment to welfare because this is not something just individually maximized or appreciated (Uphoff 1992: 284–89). Gaining commitment to the organization's purposes is expected to enlist the best efforts and creativity of individuals, boosting productivity thereby.[9]

This model, originally called the "human relations" school of organization theory, is now identified with "the Japanese approach to management" (Pascale and Athos 1981).[10] It presumes that all members of the organization have a stake in each other's best possible performance, departing from the adversarial (zero-sum) presumptions of conflict between the interests of managers and employees. Managers use capital to make labor productive rather than the conventional approach, using labor to make capital productive.[11]

But productive for what? This cannot be determined with reference to the organization but only in conjunction with persons and institutions who depend on and contribute to the organization. Productivity is assessed in terms of meeting needs in the environment that fulfill the organization's purpose and ensure continuing support for its further operation. Efficient production, as Goldsmith made clear in his chapter on strategic management, is no solution. Doing things right is ultimately not as important as doing the right things.

Productivity depends on the environment, particularly when there is *coproduction* of services, as discussed by Nicholson in his chapter. Most activities in the public sector are of this type. Schools cannot produce education without much effort invested by pupils and often their parents. Agricultural extension and credit programs will not raise food production without the hard work of farmers. The roads built by a public works department do not produce transportation unless individuals and private companies buy and operate vehicles along with warehousing and other facilities. The theory of coproduction reinforces the understanding of public sector productivity drawn together from the analyses in this volume. Any consideration of organizations needs to "endogenize" their environments more than organizational analyses have usually stipulated, given an eagerness to simplify relationships and a concern first with boundaries and then with linkages.

Integrating the Elements Affecting Productivity

The essays contributed to this volume offer reinforcing perspectives on how to raise public sector productivity, brought together according to the framework which White constructed from her review of the development administration literature (1987), restated in Chapter 8. It focuses respectively on what *managers* need to do, how the *organization* itself should be arranged and operated, and how the *environment* conditions performance. All three elements together contribute to administrative productivity. This understanding is supported by the essays, invited not to fit an *a priori* framework but to illuminate puzzles of productivity as they can be understood from different empirical or conceptual starting points. Whether departing from a country-case perspective, a donor perspective, or a more theoretical perspective, the essays, while usually focusing on managers or on the organization or on the environment, showed connections among all three.[12]

Managers' Role Connecting the Organization with Its Environment

Leonard's assessment of state enterprise management in Kenya emphasizes the need for managers to look beyond their organization, to mobilize support from key political figures in their environment in order to reduce constraints on their organizations' economic profitability and social utility. Goldsmith, drawing on the literature from American business administration, makes similar claims about the need for managers to analyze their environments, to attain the most productive fit between their organization and its environment, and to adopt what is now called a strategic management perspective. Then, my review of the institution building model endorsed its consideration of leadership as the critical element in institution building, required to create and maintain strong linkages between the organization (institution) and its environment while managing internal relationships. Thus, three of the essays, starting from different points, made essentially the same argument, focused through the lens of White's analysis.

Organizational Dynamics

Likewise, Blair, Schmidt, and Nicholson make similar points about the relationship between public organizations and their environments. The most promising route for improving bureaucratic performance in Bangladesh was identified as institutionalized *accountability*, which would link the organization to its environment by making it more dependent on the evaluations and contributions which come from the public.[13] Schmidt, in his evaluation of two USAID projects in Peru, reported substantial productivity gains from decentralized implementation, bringing regional and subregional programs into close proximity to the rural communities previously served poorly by decision making in the capital city. Lines of accountability, previously drawn together in the capital city, were redrawn to link with the otherwise neglected hinterland.

Nicholson addressed issues of public organization performance more abstractly, considering the conditions under which hierarchy produces benefits which even market-favoring economists could acknowledge. He found that for specific functions such as agricultural inputs, credit, and irrigation, efficiency gains are greatest from having bureaucracy closely linked to organized user groups, which could hold it accountable for its performance. This supports the conclusions of Esman and Uphoff (1984) on the critical role of local organizations in raising productivity, not only that of their members, but also that of the bureaucracy. Whereas some earlier prescriptions for increasing public organizations' productivity (e.g., Huntington 1968) emphasized autonomy from the public, these three analyses all find more merit in reciprocating and interdependent relationships between the organization and its environment. This, of course, matches the prescription which institution building theory offered under the rubric of linkages.

Environmental Factors

A third conclusion focuses attention on the way that environments constrain and influence organizational performance. That material resources are needed from the environment to operate an organization is obvious. What is not so evident is the importance of nonmaterial resources—ideas, attitudes, and values—that go into the cooperation an organization needs. Colburn's case study from Nicaragua makes clear how crucial these "soft" resources are for attaining and maintaining productivity. Montgomery's reporting of his and Esman's efforts to introduce administrative reforms in Malaysia and Nepal likewise showed how the political setting affected the receptivity of the bureaucracy to recommendations for change, making it more receptive or more resistant to measures that would improve its performance. These cases further show the significance of linkages between an organization and its environment, highlighted in institution building theory as discussed in Chapter 11.

New Emphases in Organization Theory

There has been a long-standing tension in the organization theory literature between machine-like and organic metaphors, nicely expressed by Murray's suggestion (1992: 83) that the task of managers is more like that of a gardener than a mechanic. The difference between these two conceptions can be finessed by saying that both are "systems" approaches, considering inputs and outputs and the relationship between them, whether mechanistically or biologically. The shortcomings of a machine conception implying regular, predictable, linear associations between inputs and outputs have been already commented on.[14] In fact, an organic conception of organization is only somewhat more satisfactory. Relationships are less linear—allowing for growth spurts and periods of consolidation—and preferred modes of management are more nurturing than controlling. The obvious dependence of an organism on its environment is an instructive extrapolation from the metaphor. But there is still a sharp boundary line drawn between the organism and its environment, implying that organizations can be treated as relatively closed systems. This conception is increasingly less useful as organizations become more dependent on their environments in a changing world.

A more insight-producing metaphor, as suggested earlier, is to view organizations as *communities*. While inputs and outputs are still important and the language of productivity is very relevant, the critical factors affecting outcomes are seen to lie with *stakeholders*—individuals or groups that stand to gain or lose by an organization's performance and that can affect, enhance, or impede this performance in significant ways.[15]

Such a view of organizational processes and settings makes the concepts and analysis of "common property resources" (CPR), for example, appear relevant for public organization theory. The insights which this body of theory sheds on the problems of collective action and free riding can be applied to improving organizational performance. Issues like "the assurance problem" as analyzed by Runge (see Ostrom 1990) become meaningful for the management and improvement of public organizations, with the norms that underwrite cooperative behavior seen as coming from the environment as much as from the organization itself. The success of collective action depends not simply on institutional arrangements or on managerial initiatives as both of these are conditioned and permeated by the normative environment of an organization and its surroundings. A behavioral model assuming self-contained, competitive actors, rationally maximizing their well-being according to independent utility functions, fails to appreciate the extent to which *inter*dependent utility functions can generate greater total welfare because of positive-sum consequences of cooperative behavior (Ostrom 1990).

Related to this, some of the extensions of "X efficiency" theory by economists in recent years have instructive implications for public organizations.[16] The classical formulation of employer-employee (or supervisor-staff) relations can be understood in terms like those of the "prisoners' dilemma" game-theoretic model (Weiermair 1990: 133–38). In this situation, with managers seeking to get the most output from their workers while paying them the least acceptable amount of money, while staff want to put out the least work in return for the highest pay attainable, rational self-interest maximization on both sides will lead to a stable solution which is suboptimal for all parties. Positing complete independence of utility functions—as well as no communication or bargaining—leads to outcomes that are less productive than possible through seeking cooperative solutions—a situation in which each side attaches some value to the other's well-being (Thorbecke 1990).

This seems to suggest that gains in productivity can be made just by focusing on intraorganizational relationships, making the environment less important than proposed throughout this chapter. Certainly there are gains to be made by enlisting the creativity and commitment of staff at all levels. The foregoing considerations have not denied or excluded this. But the tenability of a management strategy which emphasizes positive-sum externalities in welfare depends very much on the normative environment beyond the organization. For people to accept the organization's goals as their own and to regard their fellow workers' needs as valid and worth meeting rather than focusing just on advancing one's own individual interests in a zero-sum way if challenged, requires a supportive climate of opinion. People do not perceive and value things quite independently of one another. Attitudes, judgments, assumptions, and self-esteem are all socially created even if they get manifested individually. Thus the fashioning of "internal" work processes and norms is not really very autonomous from the "external" social environment, as seen in Colburn's case study of Sandinista state enterprises in Nicaragua.

Development administrators obviously must be attentive to and reflect the political climate. This affects private organizations also, but not so decisively as it does public organizations. Making services responsive to users and other stakeholders can be done through formal processes, where budgeting, auditing, annual reporting, and other activities give political authorities both information and control over what government agencies do. But as the authorities themselves may not have thorough knowledge of what constituencies need, these formal channels are no assurance of responsiveness and accountability.

More thought is being given to operational ways of maintaining functional accountability apart from political processes. Murray (1992: 85) lists a number of means: popular participation in planning, providing more alternative services or channels to users, strengthening user groups, making consumer contracts (with payments to members of the public if they are inadequately served),[17] monitoring use of services by amount and beneficiary, new methods of public accounting (reporting unit-costs and capacity utilization, not just expenditure figures), and publicizing performance targets and rates of achievement.[18] Murray summarizes:

> A strong user presence, resources for research, public information, rights of appeal, formal legal protection and regulatory codes, independently financed user consultation committees are all necessary features of the new public economy. It is sometimes suggested that these are a luxury for developing countries—a creation of affluence and the consumer society. My point is that they are as important as internal accounting systems for they provide new forms of control, a source of innovation, and a means of redressing the balance [of power] towards users in the public sphere. (ibid.)

In summarizing essays on "New Forms of Public Administration" for the Institute of Development Studies at Sussex in the United Kingdom, Murray arrives at similar conclusions to those drawn from the empirical and theoretical observations offered here. He observes that "states have been less effective as productive than as allocative and coercive instruments. Yet it is their productive potential which is important for development, and it is long-term strategy and innovation which is now so central to production" (1992: 87).[19]

Echoing Goldsmith's endorsement of strategic management, Murray concludes that public organizations in developing countries should move "from planning to strategy." To support this redirection, bureaucratic hierarchies should be flattened, with increased horizontal connectedness, and they should be decentralized and pluralized, "seeing the organization as an institution for learning" (1992: 88). Such innovations should not be imposed or transferred mechanically; rather they need to be introduced and developed in a participatory way, so that the medium is consistent with the message.

One means for increasing productivity not emphasized by Murray or other contributors to the IDS volume is the development of more satisfactory measures and indicators of public organizations' output. This is one of the biggest hindrances to assessing and improving their productivity at present. According to the standard practice established by economists, the value of public organizations' outputs is considered to be equal to the market value of their inputs. Because public sector outputs are not sold through a competitive market, they cannot be valued according to any market-derived system of "efficient" equilibrium prices.

What this means is that no attempt is made to assess any "true" value of public services, made more difficult by the fact that benefits from infrastructure, education, and research may last over generations. Right now, if US$5 million is spent for primary education through schools in a particular district in Bangladesh, we consider that education "worth" US$5 million was provided. But the value of that primary education, assessed by some independent means, could be US$1 million or US$10 million, depending on the resulting contributions to economic growth, increased status of women, more active citizen participation, and other benefits attributable to education. As with other mechanical presuppositions about the performance of bureaucracies, outputs are presumed to be proportional to inputs. This association, as suggested in the introductory chapter, is evident only in the more routine areas of public sector activity, like number of pupils enrolled in school, miles of road built, or making payments to social security recipients. When it comes to assessing the *value* of outputs like schooling or transportation or even welfare payments, we are presently at a loss to provide any widely agreeable conclusions.

So perhaps the greatest puzzle of productivity in public organizations is how to measure it, apart from accepting the standard economic convention which equates the value of public sector goods and services not sold through the market with the cost of producing them—a dubious assumption which invites irrational allocations and self-justifying assessments. To get better allocations and better management, it is important to come up with measures we do not have now, taking quality and distribution into account along with quantity, and reflecting second- and third-order effects and intergenerational benefits. It is no wonder that such indicators are lacking, given our concern with rigor of measurement and replicability of results. There are good reasons for seeking these, but the larger result is that we follow reductionist logic and justify such an unfortunate equation as: funds expended = development done.

We take it as almost axiomatic that people's behavior is usually goal-oriented. What can vary widely are the goals toward which efforts are directed. Individual goals may be more or less selfish, less or more altruistic. The embrace of collective goals can be advantageous for the individual or can involve some degree of sacrifice for a larger common purpose. To the extent that individuals value collective goals, they consider themselves better off when those outcomes are achieved, even if some cost was required. Choosing to emphasize collective goals creates positive-sum dynamics with win-win psychology prevailing over win-lose thinking.

The importance of setting goals, which is a major part of strategic management, is that the goals signal to individuals what accomplishments will be considered "successful." As such, goals, or indicators thereof, have a tremendous impact on behavior. The criteria advertised for measuring success shape the efforts of those who are expected to achieve those goals.[20] If educational goals in a country are set in terms of school enrollment, without regard to measuring what children have learned, or better, are capable of applying to real-life practice, one can expect that children's signing up for school will take precedence over examination—and over post-completion studies of effectiveness in work or living situations.

Organization theory needs some different suppositions if it is to be more useful for development administration. The initial "systems" perspective which focused on input-output relations offered many early insights, as did the distinction made between the organization and its environment. But substantial gaps in knowledge have appeared at the "interface" between these sets of factors. How can inputs be more imaginatively and efficiently transformed into outputs? This points to more concern with leadership in management roles, with enlistment of employee creativity and good will to create more positive-sum thinking, and with X-efficiency to catalyze all potential sources of productivity within organizations. How can organizations better serve and relate to their environments is the second question. This is answered in terms of a strategic management perspective, purposefully and effectively achieving coproduction with various sectors of the public, and renewing attention to the concerns of institution building and institutional strengthening.

Organization theory began with useful models that focused on input-output transformations and on organization-environment boundaries. When these concepts became reified, however, they reduced our appreciation of an essential fact—that when all is said and done, organizations are purposeful collections of *people*. Concerns with "transformations" and "boundaries" as defining features of organizational reality are taking on more human aspects as enthusiasm for machine metaphors and logic wanes. To understand the performance and productivity of people in organizations, it is necessary to appreciate that organizations are people held together in some way by the *idea* of an organization, whatever that idea is. This idea may not be exactly the same for all, and it may not be believed as firmly by everyone. Rewards and punishments can reinforce the operation of an organization, but the idea of an organization, which communicates purpose, structure, and process, is basic to its efficacy.

When the idea of an organization is shared and supported by persons apart from those who have the most direct roles in it—its members and officers, or managers and employees—it acquires institutional status, with the right to expect cooperation because of the legitimacy this status confers. As discussed in the preceding chapter, this acceptance is bound up with concepts of productivity, but not just with material or economic dimensions thereof. In addressing the challenge of raising the productivity of public organizations, we confront the reality that social, psychological, cultural, and political dimensions of productivity are also important. They condition the performance of all organizations, but particularly of public organizations, which are associated with the state and thus expected to contribute to the public good as well as to the common wealth.

This relates to the earlier discussion of how we are to *measure* the outputs of public organizations. There are, of course, many questions whether the value of private production is well or adequately measured by market prices.[21] This is not the time or place to debate the validity of neoclassical economic theory with all of its assumptions. Suffice it to propose that market prices offer often misleading measures of efficiency and are even less satisfactory indicators of other values such as equity or sustainability. People have no consistent or quantified means of assessing these various values, which are essential for satisfactory judgments about productivity. This realization reinforces the principle which is increasingly realized that public participation in many ways, not just through formal democratic electoral processes, is essential. It offers the best way for deciding what represents productivity (or does not), and whether the aggregate costs of all sorts for achieving certain outputs are commensurate and worthwhile.

Both achieving and assessing the productivity of public organizations depends upon the public in ways that distinguish them from private organizations. This realization, whether stated so succinctly or not, has motivated the study of development administration from its outset in the 1950s and 1960s when Milton Esman and his colleagues helped to shape this field. It is all the more important a realization now that governments and publics alike are coming to terms with the limitations of approaches to development which would rely only on the private sector or only on NGOs.

The renewing interest in public organization is a more pluralistic one, no longer so impressed with arguments in favor of "economies of scale" which were derived from private production processes with narrow definitions of success. This pluralistic view will take a broader view of productivity, to be concerned not just with how well any individual organization—governmental, for-profit, or nongovernmental—performs but with how all three kinds of organizations together meet public needs. This more complex "objective function" for maximization will require even more innovative ways of assessing productivity than we have now. But clearly the single yardstick of market prices is not sufficient. The next area for expansion of organization theory should be value theory.

NOTES

1. The implications of this literature for the social sciences are systematically examined by Rosenau (1992) for anyone who is not acquainted with these philosophers and social critics and wants a balanced (and readable) introduction.

2. Heracleitus is best known for the profound metaphorical observation that "It is impossible to step into the same river twice." Heracleitus was a broad-ranging thinker, calculating the angles of elongation for the orbits of Mercury and Venus and concluding correctly that they revolved around the sun 2000 years before Copernicus proposed this.

3. The probings of physicists in the first third of this century into the subatomic realm, explained in terms of quantum rather than celestial mechanics, ended up questioning the absolute separation and independence between objective and subjective phenomena which previous scientific thinking, such as Newton's, presumed. The implications of this for social science are explored in Uphoff (1992). Accessible discussions of these issues can be found in Penrose (1989), Prigogine and Stengers (1984), and Wolf (1981). The concept of inescapable uncertainty is associated with Heisenberg's contributions to quantum physics.

4. This instrumental approach to the establishment of what should be accepted as true is in the philosophical tradition of John Dewey. Often described as "pragmatism," its rise coincided with that of public administration as a discipline and practice, both being related to the "progressive" movement in the first part of this century.

5. The widely read book by Gleick (1987) on chaos theory is still the best introduction to this evolving, multidisciplinary field. "Catastrophe" theory as applied to organization theory is discussed, with sources cited, in Levy and Merry (1986: 253–57).

6. The first principle, which holds that outcomes are unavoidably uncertain since slightly different initial conditions can produce quite varied results, is sometimes referred to as The Butterfly Effect in meteorology—"a butterfly stirring the air today in Peking can transform storm systems next month in New York" (Gleick 1987: 8, explained on 20–23). The second principle is applied to our area of concern by March and Olsen who suggest "The policy path of two political systems [even] with identical underlying political conditions will be radically different simply because of the way in which (possibly small) perturbations shift the focus of political pressure" (1984: 745).

7. Evidence that these classical relationships are not universal is given from many disciplines in Gleick (1987). Chaos theory does not invalidate pre–20th century physics any more than relativity theory or quantum theory did this. But these three bodies of theory which have greatly reshaped the physical sciences in this century open up possibilities for more useful and contemporary kinds of social science (Uphoff 1992: 388–411).

8. This designation is proposed by Moore (1992), who contrasts it as a model for social coordination with hierarchical control (bureaucracy in the Weberian tradition) and with competitive arrangements modeled after the market (proposed by neoliberals). Reflecting on administrative experience in Sri Lanka, Moore concludes that developing countries do not have enough competence and accountability in the public service to adopt the latter model. He thinks that the hierarchical model is needed to establish these capabilities before market mechanisms can be effective. He argues that competitive modes are not appropriate for public organizations that must perform regulatory functions (1992: 76).

Moore regards the community model as most applicable in the private sector, perhaps because this is most forcefully advocated in the analysis of Peters and Waterman (1982), who study U.S. business firms. Moore acknowledges it has application to the public sector: "There are important elements of the community model in many successful (public) organizations" (1992: 70n). But one condition for success is "high quality management ('leadership')" and another is the ability to generate employee commitment to organizational goals. The latter, ironically, appears easier to achieve in the private sector, with its flexibility of wages and conditions of work, than in public organizations. Moore's three models correspond almost exactly to the three models presented in Chapter 1 of Esman and Uphoff (1984) and elaborated theoretically in Uphoff (1993).

9. Murray (1992: 82) offers a nice turn of phrase to make this point, that each member of the organization carries not the field marshal's baton in his or her knapsack but rather a planner's pencil. This kind of organization he characterizes as "organic" rather than mechanical (1992: 80–88).

10. This approach is associated with the pioneering work of Roethlisberger and Dickson (1939). Ironically, these concepts developed in the U.S. were adopted by Japanese manufacturers after World War II (White 1987). The productive opportunities which this approach offered were passed up by American industries, which being dominant were self-satisfied at the time.

11. Murray phrases this nicely with the observation that this approach regards labor more as an asset than as a cost (1992: 81). Greater worker productivity is the key. He suggests a variety of means for raising this: sabbaticals, exchanges, multiskilling, part-time contracts, courses, placements, etc., and proposes that class divisions within state employment "be dissolved and the range of the hierarchy lowered." As a case in point, he reports how a Japanese electronics firm (NEC) "does not take on suppliers in the US if it finds separate cafeterias and washrooms for managers and staff. A similar principle should hold within the state" (1992: 88).

12. The exceptions are Israel's analysis based on World Bank experience, which encompasses all three vantage points, and my treatment of the institution building model developed by Esman, which likewise covers all three focuses. The reasons Israel gives for success or failure in World Bank institutional development efforts include leadership (referring to management initiative and competence), program processing and adequate human financial resources (which are aspects of organization), and contextual factors, structure of the market, and political commitment (environmental factors, the last corresponding to Montgomery's concept of "political setting").

13. Right now, accountability is short-circuited by the large amounts of foreign aid that the Government of Bangladesh receives. This makes it less necessary for the government to meet public needs and expectations. Delivering external assistance, which foreign donors feel compelled to provide for development and relief programs, has the unintended negative consequence of reinforcing the autonomy of the government from its publics and underwriting its "irresponsibility."

14. Murray emphasizes that much of the work to be done by public organizations in developing countries is nonstandardized and it must be conducted in environments that are less stable than in more developed countries. "This is not a world for linear equations or the metaphors of mechanics. Yet it is on these metaphors that state administrations are based" (1992: 88).

15. The importance of "stakeholders" for organization theory was discussed by Goldsmith in his chapter. In his note 4, he pointed out that the concept was developed for private sector organizations, citing March (1962), with the suggestion that business firms be regarded more as communities than as property.

16. This theory, proposed by Leibenstein (1965) and elaborated in (1976) is based on evidence that a larger share of national economies' productivity can be explained by the way that resources are used *within* firms than by the most efficient

allocation of resources *among* firms. This is to say that factors such as planning, organization, motivation, morale, cooperation, and inventiveness are more important than the factors of land, labor, and capital by themselves.

17. For example, irrigation users could have part or all of their water use fees remitted if promised water was not delivered in sufficient or timely amounts. For serious breaches of performance, the Irrigation Department might have to make penalty payments to users.

18. A good example of this is given in Uphoff (1986: 228–29). In Kenya performance of rural schools, as measured by standardized test scores, was improved simply by posting for parents to see the average scores of each class in each school, compared with average scores for the district. Low ranking was a spur to teachers and parents as well as to principals and supervisors to at least meet the district average. "Teachers who had been neglecting their work in favor of private activities were brought around to refocus on their duties. Without hiring more school inspectors or introducing heavy penalties for absenteeism from the classroom, teacher and pupil performance was upgraded as community efforts were enlisted in the improvement of education simply by giving out information" (1986: 229). The financial cost of this improvement was trivial.

19. This latter consideration gives reason for increasing attention to workplace democracy in public organizations and for taking seriously the experience in the private sector with "human relations" or "Japanese" approaches to management, seeking to encourage worker cooperation and creativity.

20. This is demonstrated in the classic example of misdirected efforts under Soviet central planning. When targets for nail production were set in terms of the number of nails produced per annum, millions and millions of tiny nails were manufactured, and there was a shortage of large nails. When the targets were then specified in terms of tons of nails produced, because it was cheaper for factories to turn out large nails, short nails were in short supply.

21. Factory output which causes water pollution adds doubly to the GNP, because it is not debited with the "negative externalities" it creates. The expenditure on employment and capital required to clean up the water is credited as an increase in goods and services produced. Cleaner production processes will not add as much to GNP, though they add more to well-being.

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Contributors

HARRY W. BLAIR is professor of political science at Bucknell University. He is presently on leave as senior social science analyst with the Center for Development Information and Evaluation at the United States Agency for International Development, where he is evaluating USAID experience with democratization initiatives. Professor Blair has held academic appointments at Colgate, Columbia, Cornell, and Yale Universities. His major research focus has been on South Asia. Before his current USAID assignment, he worked as a consultant with FAO, the Ford Foundation, the Swedish International Development Agency, and the World Bank.

FORREST D. COLBURN is associate professor at the Instituto Centroamericano de Administración de Empresas (INCAE) in Costa Rica. He has taught at Princeton University, Addis Ababa University, and Florida State University. His books *Post-Revolutionary Nicaragua: State, Class and the Dilemmas of Agrarian Policy* (1986) and *Managing the Commanding Heights: Nicaragua's State Enterprises* (1990) were published by the University of California Press. His most recent book, *The Vogue of Revolution in Poor Countries*, will be published by Princeton University Press.

ARTHUR A. GOLDSMITH is associate professor in the College of Management, University of Massachusetts at Boston. He has published widely on development issues and has consulted for a variety of international agencies. The country focuses of his research include Ethiopia, Jamaica, South Korea, India, and Nigeria. He has recently published in *World Development*, *Public Administration Review*, and *Social Science Quarterly*. Dr. Goldsmith's book *Business and Its Environment: An International Perspective* is to be published in 1994.

ARTURO ISRAEL was professor of economics at the University of Chile before joining the staff of the World Bank. He also served as head of the Transport Department for the Chilean government and as an economist with the U.N. Economic Commission for Latin America. For several years he headed the Public Sector Management and Public Sector Development Division of the World Bank, where he worked on problems of institutional development. He has written extensively on these issues, particularly in his book *Institutional Development: Incentives to Performance* (1987).

DAVID K. LEONARD is professor of political science at the University of California, Berkeley. He has also taught at the Universities of Nairobi and Dar es Salaam. Professor Leonard has worked in nineteen African countries on different aspects of development administration. His books include *Reaching the Peasant Farmer: Organization Theory and Practice in Kenya* (1977), *Institutions of Rural Development for the Poor*, with Dale Rogers Marshall (1982), and *African Successes: Four Public Managers of Kenyan Rural Development* (1991). He is working on a multicountry project to improve the administration of veterinary and animal husbandry services in Africa.

JOHN D. MONTGOMERY is Ford Foundation Professor of International Studies emeritus at Harvard University. He started his career in municipal administration but became engaged in international activities after service in World War II, including an assignment as Allied Counsellor to the Hiroshima City Reconstruction Planning Commission (1945–46). Since then he has worked on problems of development administration, foreign aid, social and economic development, comparative policy analysis, and international relations. As adviser to a variety of international development programs, he has served in about eighty countries. He became director of the Pacific Basin Research Center in 1991.

NORMAN K. NICHOLSON works with USAID in its Office of Donor Coordination. He previously taught political economy and public administration at Northern Illinois University. Mr. Nicholson has extensive experience in rural development and comparative politics, especially in South Asia. He has published on food policy, the green revolution, factional politics, local government, and development administration. He has been responsible for program and policy analysis in USAID's Bureau for Asia and the Near East and was deputy director of USAID's social science research and technical support program.

GREGORY D. SCHMIDT is associate professor of political science at Northern Illinois University. He has undertaken field research in Peru as an SSRC doctoral fellow, a Fulbright research scholar, and as a consultant for the USAID. He is affiliated with *Seguimiento, Análysis y Evaluación para el Desarrollo*, a leading NGO in Peru that specializes in grassroots development and evaluation. He is the author of *Donors and Decentralization in Developing Countries: Insights from AID Experiences in Peru* (1989) and a forthcoming book on Peruvian politics, *Understanding the Fujimori Tsunami*.

NORMAN UPHOFF is professor of government at Cornell University and director of the Cornell International Institute for Food, Agriculture and Development. His first research on development administration was on Ghana's use of foreign aid under Nkrumah, and he has since worked on participatory development and bureaucratic reorientation in Nepal and Sri Lanka. He has consulted for agencies such as the World Bank, USAID, FAO, DSE, CARE, the African Development Foundation, and the Ford Foundation. His most recent book is *Learning from Gal Oya: Possibilities for Participatory Development and Post-Newtonian Social Science* (1992).

LOUISE G. WHITE is professor of government and politics at George Mason University, where she chairs the Department of Public and International Affairs. Her publications on development include *Implementing Policy Reforms in the LDCs: A Strategy for Designing and Effecting Change* (1990) and *Creating Opportunities for Change: Approaches to Development Program Management* (1987). She serves as a consultant to various international organizations, including the USAID, and writes on approaches to understanding public policy, in addition to working on development administration issues.

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Contributors

- **Harry W. Blair**, *Bucknell University*
- **Forrest D. Colburn**, *Princeton University*
- **Arthur A. Goldsmith**, *University of Massachusetts, Boston*
- **Arturo Israel**, *World Bank*
- **David K. Leonard**, *University of California, Berkeley*
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- **Louise G. White**, *George Mason University*

Norman Uphoff is professor of government and director of the Cornell International Institute for Food, Agriculture and Development at Cornell University in Ithaca, New York.

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