

# **Making government work for poor people**

building state capability



**Strategies for achieving the international  
development targets**

## The international development targets

### Economic well-being

- a reduction by one-half in the proportion of people living in extreme poverty by 2015.

### Social and human development

- universal primary education in all countries by 2015;
- demonstrated progress towards gender equality and the empowerment of women by eliminating gender disparity in primary and secondary education by 2005;
- a reduction by two-thirds in the mortality rates for infants and children under age 5 by 2015;
- a reduction by three-fourths in maternal mortality by 2015;
- access through the primary health-care system to reproductive health services for all individuals of appropriate ages as soon as possible and no later than the year 2015.

### Environmental sustainability and regeneration

- the implementation of national strategies for sustainable development in all countries by 2005, so as to ensure that current trends in the loss of environmental resources are effectively reversed at both global and national levels by 2015.

While not amenable to quantification, there is a range of qualitative elements of development that are essential to the attainment of the quantitative goals. These include democratic accountability, the protection of human rights and the rule of law.

## Other Strategy Papers published in this series

Achieving sustainability – poverty elimination and the environment

Addressing the water crisis – healthier and more productive lives for poor people

Better health for poor people

The challenge of universal primary education

Halving world poverty by 2015: economic growth, equity and security

Meeting the challenge of poverty in urban areas

Poverty elimination and the empowerment of women

Realising human rights for poor people

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# Department for International Development

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The Department for International Development (DFID) is the UK government department responsible for promoting development and the reduction of poverty. The government first elected in 1997 has increased its commitment to development by strengthening the department and increasing its budget.

The central focus of the Government's policy, set out in the 1997 White Paper on International Development, is a commitment to the internationally agreed target to halve the proportion of people living in extreme poverty by 2015, together with the associated targets including basic health care provision and universal access to primary education by the same date. The second White Paper on International Development, published in December 2000, reaffirmed this commitment, while focusing specifically on how to manage the process of globalisation to benefit poor people.

DFID seeks to work in partnership with governments which are committed to the international targets, and seeks to work with business, civil society and the research community to this end. We also work with multilateral institutions including the World Bank, United Nations agencies and the European Community.

The bulk of our assistance is concentrated on the poorest countries in Asia and sub-Saharan Africa. We are also contributing to poverty elimination and sustainable development in middle income countries in Latin America, the Caribbean and elsewhere. DFID is also helping the transition countries in central and eastern Europe to try to ensure that the process of change brings benefits to all people and particularly to the poorest.

As well as its headquarters in London and East Kilbride, DFID has offices in many developing countries. In others, DFID works through staff based in British embassies and high commissions.

**Department for International Development**  
**September 2001**

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# Foreword by the Secretary of State

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This paper is one of a set. Together, they spell out actions which could transform the lives of hundreds of millions of poor people and make the planet a better and safer place for our children and grandchildren. They say what needs to be done to achieve key targets for international development.

These International Development Targets have been agreed by the entire United Nations membership, following a series of summit meetings held by the UN and its specialised agencies over the past ten years or so. The meetings discussed progress in poverty reduction and sustainable development and set targets for measuring that progress.

In the past, targets have often been set and then disregarded. This time, however, the international community is giving them greater weight. In 1996, all the main Western development partner countries, grouped together in the Organisation for Economic Co-operation and Development (OECD) committed themselves to a partnership with developing countries and countries in transition from centrally planned economies. The success of this partnership would be measured against key targets from the UN summits. In the following year, the new UK Government made these targets the centrepiece of its 1997 White Paper on International Development. More recently the World Bank and the International Monetary Fund (IMF) decided to co-ordinate their development efforts behind the targets. These targets are listed on the inside front cover.

Neither the United Kingdom nor any other individual development partner country can achieve the targets alone. The targets are challenging, some particularly so. But if, by working together, we can increase the effectiveness of the international community, our assessment is that these targets are achievable for developing and transition countries, as a group, by the target date, or soon after in some cases, even though they may not be achieved in each region or country individually. It is clear that each developing country must lead the effort if the targets are to be achieved. If this commitment is lacking, civil society institutions need to press their governments to take action, as without a local lead, progress cannot be achieved. The international community, in turn, must provide support for those governments committed to the reforms which are necessary to achieve the targets. Most countries should be able to register very considerable progress towards meeting the targets by the due dates.

Targets need to be used intelligently. They cannot capture the full richness and complexity of individual and collective transformation that makes for sustainable development. Individual countries should select and debate in democratic ways their own measures of achievement. But regular public assessment of how countries as a group and by region are performing against a simple standard is essential, in order to focus development assistance on achieving real outputs. Doing so will show what works and what does not, will provide accountability for the efforts being made in the name of development, and will give impetus to extending basic life opportunities that should be available to all.

Targets also need to be grounded in reality. For this, we should not underestimate the value of good statistics. The political debate in Britain was strongly influenced by 19th and early 20th century surveys documenting the reality of grinding poverty in our own society. A similar effort of political will is needed in many developing and transition countries if they are to give sufficient emphasis to the needs of their own poor people. Better quality and more accessible information on people's standards of living is one essential element in creating that will. Much work is needed to improve the collection of reliable and comparable data, and to strengthen local statistical capacity.

The present paper is about how to build the capability of the state to govern in ways that promote poverty eradication. There are no International Development Targets for the quality of government as such, but without effective government countries will not be able to achieve the targets. States must provide an environment that encourages economic development; they must have the capacity to resolve conflict and to root out corruption; they must have political systems which give a voice to poor people; and they must be able to ensure the efficient provision of basic services for all. The international development community can help to improve state capabilities and thus the prospects for achieving the International Development Targets. OECD countries also have responsibilities for their own policies and laws on corruption, money laundering and arms sales and a duty to ensure that they do not undermine the development of developing and transitional countries.

Building the institutions of an effective, democratic, modern state is the most important condition for sustainable development. This is increasingly the major focus of our development work. We are determined to avoid the hectoring attitudes of the past that were often

associated with the term 'good governance'. Too often OECD governments were simply trying to replicate their own institutions or to blame governments for the fact that they lacked the capacity to do what was needed. This does not mean that oppressive or corrupt governments should be indulged. In practice effective state institutions constrain and do not reward the abuse of power. We believe that building the institutional capability of an effective, democratic modern state takes long-term commitment. This effort must be taken forward wherever progress is possible.

These papers do not attempt to provide detailed plans; they will follow, country by country and institution by institution, from discussions with developing countries and with the relevant institutions. Many detailed proposals for action in pursuit of the targets are published, or soon will be, as Country and Institutional Strategy Papers. Our bilateral programmes are being reshaped. We are also encouraging the multilateral development institutions to focus on poverty elimination in the context of the International Development Targets. An example is the enhanced Heavily Indebted Poor Countries Debt Initiative, agreed at the IMF and World Bank in September 1999, which has started to deliver faster, deeper and broader debt relief to countries committed to eradicating poverty.

We must also take advantage of the increased wealth being generated by 'globalisation', to help achieve the International Development Targets. The UK Government's second White Paper on International Development focuses on managing the process of globalisation to the benefit of poor people.

This paper and the others in the collection assess the challenge and set out an overall approach and strategy for our involvement in achieving the development targets in a clear, focused and realistic way. Each reflects a process of consultation in the United Kingdom and overseas.

I hope that you will find them a valuable statement of what the UK Government will do and how the United Kingdom seeks to use its influence to make a reality of the targets, to which we and the rest of the United Nations membership are committed. We stand ready to be judged against our delivery of this strategy. And the whole development community – governments, international agencies, civil society organisations – should be judged collectively against delivery of the targets.

**CLARE SHORT**

Secretary of State for International Development

# Executive summary

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1. This paper presents a strategy for building the capabilities of the state so that governments have the capability to create the economic conditions and services necessary for poverty reduction. The central message of the paper is that the quality of government is critical to the achievement of the International Development Targets<sup>1</sup>. The paper looks at the capabilities needed for pro-poor government and at the concerns of poor people about how they are treated by the institutions of the state. It notes that where progress has been achieved towards the International Development Targets it reflects a parallel improvement in the quality of government. It argues that progress could be faster if governance focused on key capabilities and worked in partnership with the private sector and civil society. The contribution of the international development community could be more effective if it were better co-ordinated and took more account of the local social and political context.

2. The seven key governance capabilities which we believe states need to develop, in partnership with the private sector and civil society, in order to meet the International Development Targets are as follows:

- to operate political systems which provide opportunities for all the people, including the poor and disadvantaged, to influence government policy and practice;
- provide macroeconomic stability and to facilitate private sector investment and trade so as to promote the growth necessary to reduce poverty;
- implement pro-poor policy and to raise, allocate and account for public resources accordingly;
- guarantee the equitable and universal provision of effective basic services;
- ensure personal safety and security with access to justice for all;
- manage national security arrangements accountably and to resolve differences between communities before they develop into violent conflicts;
- develop honest and accountable government that can combat corruption.

3. A constructive framework within which to pursue these capabilities is provided by the almost universal consensus that has developed since the end of the Cold War in favour of democracy and on creating an enabling

environment for a liberalised economy. Recent world-wide consultations with poor people revealed their inability to access public services because of pervasive corruption, of the lack of public security and personal safety, of the oppressive behaviour of the police and judiciary who ought to protect them, and of their general sense of powerlessness. A key question is why, despite the spread of democracy in recent years, poor people still lack influence, even where they are the majority and in theory should wield political clout. The paper suggests ways in which the new democracies can be deepened to make them more inclusive and representative.

4. By building on experience in developing these capabilities, the international community can help to improve the quality and effectiveness of government and thereby speed development efforts. But member countries of the Organisation for Economic Co-operation and Development (OECD) need to recognise that particular arrangements that work for them will not necessarily be appropriate in a different society. A priority for the international development community is to identify and support action to deal with two serious symptoms of poor government – conflict and corruption – which cause great suffering to poor people and undermine development. OECD countries have a responsibility to ensure that they do not contribute to these problems through support for ill-advised purchases of arms and other non-productive expenditure, or through lax controls over bribery overseas and over money laundering of corruptly acquired funds.

5. The paper examines some of the challenges to be faced in achieving the key capabilities: how the state should manage the process of withdrawal from direct engagement in economic activities and develop a new regulatory role; how policy-making can be related more effectively to revenue and expenditure management; how the quality of services for poor people can be improved through the reform of public services and partnership between state and the private sector; how a lack of security and justice, which are major disincentives for poor people to invest in their own development, can be addressed through new collaboration between the police and communities and the judiciary with less formal justice processes.

6. Governments and civil society in developing and transitional countries have primary responsibility for addressing these issues, but they need support from the

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1 The International Development Targets are listed on the inside front cover of this booklet.

international development community. How that support is organised has consequences for their effectiveness and for systems of accountability within developing and transitional countries. Donors should recognise that their actions have political consequences in the countries they support and should, therefore, make their policies and actions more transparent and accountable to the societies affected by their decisions. More attention should be paid to the politics of change – reform programmes often fail for want of local ownership. The development community would be more effective if it worked collaboratively to a common vision led by the government and civil society of the country concerned.

7. DFID will support reform in developing and transitional countries by focusing on shared goals and

by working with those governments and agencies which favour collaborative and accountable approaches. DFID will promote improvements in the policy and capability of the major multilateral agencies to support state building. DFID will give priority in all regions to supporting programmes which enhance poor people's voice in government and which combat corruption. Support for state capability programmes will be tailored to the needs of individual countries. This paper identifies some themes which are likely to recur in the countries of each region. Its main operational message, and DFID's priority, is to work for a more coherent, collaborative and accountable approach to government that works to benefit poor and disadvantaged people.

# 1. Objectives

**1.1** There are no International Development Targets for more effective, accountable and democratic governance<sup>a</sup>. But developing and transitional states' ability to achieve the targets will depend greatly on the quality of governance. The targets are unlikely to be met by countries which: cannot resolve conflict or provide safety and security for their citizens; cannot ensure the efficient provision of essential services for all; or which ignore corruption. More effective governance can improve the rate of economic growth and the effectiveness of services, and can ensure that the benefits of these improvements go to those who most need them.

**1.2** The OECD strategy document which brought together the International Development Targets agreed at the UN conferences of the 1990s – *Shaping the 21st Century: the Contribution of Development Co-operation* – therefore explicitly recognised the importance of effective governance. It emphasised the need to foster accountable government and the rule of law, to strengthen institutions, to create a favourable climate for local enterprise, to manage finances soundly, and to minimise the risk of conflict.

**1.3** This document describes the systems of governance most likely to benefit poor people and to achieve the International Development Targets. It outlines the key capabilities which effective states must develop. It describes the challenges which this agenda presents and strategies to meet the challenges.

## Governance and development

**1.4** Countries attract more investment and achieve higher rates of per capita growth when the state improves its effectiveness. A state which applies rules and policies predictably and fairly, ensures order and the rule of law and protects property will generate confidence and attract more domestic and foreign investment<sup>1</sup>.

**1.5** The most successful governments are those which understand the connection between economic and social policy. They promote both human development and the conditions which encourage economic growth. The kinds of policies governments adopt, and whose interests those policies serve, are critical factors.

**1.6** The political system determines policy. Politics determine whether governments rule for the public good or for narrower interests – and influences whether governments are honest or corrupt, effective or inefficient. Perhaps most importantly, politics determines the allocation of scarce resources between competing interests including those of poor people.

**1.7** Human rights conventions affirm that all people are entitled to participate in government, either directly or through freely chosen representatives. This right is supported by the fundamental freedoms of speech and association, and equal and universal suffrage in periodic and genuine elections<sup>2</sup>. Democratic government serves the interests of the poor better than totalitarian government in the longer term. But even under democratic systems poor people face difficulty in having their voice heard and domestic institutions are often captured by privileged groups even when the poor are in the great majority.

**1.8** To achieve the International Development Targets, governments need to be committed to pro-poor reform and to convert commitment into action. The government must be able to provide security against internal and external threats so that people can pursue their livelihoods in safety. The government must be able to guarantee the provision of basic services. And it must have the capacity to make policies, to finance and implement them, and to monitor the outcomes.

**1.9** Governments also need to work with the private sector in order to generate economic development, and with civil society, which channels the views of the people to the political system. Government must ensure that the state fulfils its responsibilities to its citizens; that citizens and the private sector fulfil their responsibilities to the public good; and that the state accounts for its policies and performance. These relationships work best where roles and responsibilities are agreed and performed predictably. Law, regulation and custom set out the rules and in successful states are enforceable ('the rule of law').

a We use the term *governance* to mean how the institutions, rules and systems of the state – the executive, legislature, judiciary and military – operate at central and local level and how the state relates to individual citizens, civil society and the private sector. We use *government* to mean the executive function at central and local levels. The *political system* or *politics* is the way power in the state is acquired and how people and groups inside and outside government influence the use of that power.

1 The World Bank (1997). *World Development Report 1997: The state in a Changing World*. Washington DC: World Bank.

2 The Universal Declaration of Human Rights. DFID's approach to promoting human rights is described in another paper in this series entitled *Realising human rights for poor people*.

## Key capabilities for the state

**1.10** We have looked behind the traditional language of governance – democracy, rule of law and good government – and identified seven key capabilities which states need to achieve the International Development Targets. These capabilities are defined in terms of how to make government work better for poor people. They are:

- to operate political systems which provide opportunities for all people, including the poor and disadvantaged, to influence government policy and practice;
- provide macroeconomic stability and to facilitate private sector investment and trade so as to promote the growth necessary to reduce poverty;
- implement pro-poor policy and to raise, allocate and account for public resources accordingly;
- guarantee the equitable and universal provision of effective basic services;
- ensure personal safety and security with access to justice for all;
- manage national security arrangements accountably and to resolve differences between communities before they develop into violent conflicts;
- develop honest and accountable government that can combat corruption.

**1.11.** The international development community needs to support the development of these capabilities. The capabilities are interconnected so making progress on one will improve prospects of achieving others. This means that support by the international development community will be more effective if it is directed to a coherent plan covering all government capabilities. Support may involve programmes to bring benefits directly to poor people; programmes for all people which include poor people; and programmes to develop the capacity of the state to play its enabling role.

**1.12.** Improving government should be ‘work in progress’ in all countries. There is no perfect system – all

countries could be better. In Britain, for example, the Government has introduced reforms to devolve power to the regions, to reform parliament and to improve public service delivery. These reforms have not been easy. In developing and transitional countries the need for reform is often greater, and the difficulties of reform greater still. Most developing and transitional countries have shorter experience of modern democratic government, fewer resources, and other constraints of poverty – low literacy, poor communications and insufficient skilled workers.

**1.13.** Despite these constraints, much has been achieved in recent decades in lifting people out of poverty and in moving towards the International Development Targets. Life expectancy and literacy are increasing; infant and child mortality are decreasing.

**1.14.** Over the last decade these improvements have been underpinned by significant changes in government systems in many countries, including developing and transitional ones. A number of these countries have managed their economies to produce sustained economic growth, have improved the quality and coverage of services and have become more responsive to the interests of poor people.

## Poor peoples’ perception of state performance

**1.15** The views of poor people must influence our analysis and our strategy. They recently spoke for themselves about their states’ performance in a series of participatory assessments, sponsored by the World Bank and DFID at 468 sites in 23 countries<sup>3</sup>. Their verdict is damning. They spoke of their inability to access public services because of pervasive corruption, of their fears because of a lack of public security and personal safety, of the oppressive behaviour of the police and judiciary, and of their general sense of powerlessness. These complaints highlight some of the symptoms of deficient governance. If poor people are to have better lives we must deal with the root causes of these deficiencies.

3 Narayan, Chambers, Shah and Petesch (1999). *The Global Synthesis Consultations with the Poor*. Washington DC: World Bank. (DFID funded.)

## 2. The challenge of achieving the key capabilities

This section sets out the challenge of building each key governance capability, identifies lessons from experience, and defines priority areas for support by the international development community. In most cases, developing and transitional country governments should take the lead, together with other state institutions and civil society. But there are also a number of areas where OECD countries have been undermining the development process and need to take action to change their approach.

### 2.1 Key capability

*“to operate political systems which provide opportunities for all people, including the poor and disadvantaged, to organise and influence state policy and practice”*

#### The challenge

**2.1.1** The wider acceptance of democracy has been a major advance for pro-poor development. Democracy can offer the poor the opportunity and the confidence to develop their capacity to use social organisation for political action. The most recent wave of democratisation started in the 1970s and gained momentum in all regions after the end of the Cold War. The proportion of countries holding some kind of election increased from 28% in 1974 to 80% in 1998<sup>4</sup>. Most of the newcomers have adopted at least the structures of democracy – political parties, elections, and parliaments.

**2.1.2** But in many relatively democratic countries, poor people still feel powerless. They lack political influence, even where they are in a majority. A critical factor is how power is acquired and exercised. Too often rulers gain power through support from a regional group, through social status or economic wealth, even in a democracy. These elites feel responsible to their groups rather than to society as a whole. They govern in the interests of their own group. They use their power to shore up their own position as their first priority. They will resist change and reform that threatens their power and group interests.

**2.1.3** People excluded from power often find it difficult to seek redress. Those institutions that ought to control or challenge the executive – parliament, the courts, political parties, the media and civil society – are underdeveloped in new democracies. They do not work cohesively together

and may be undermined by corruption or violence. Key posts in the media, civil service and judiciary may be filled not on merit of the candidates but because of their loyalty to those in power. In this kind of political culture, government is highly personalised and the rules are informal. While poor people resent these kinds of abuses of power, they are so vulnerable that they cannot afford to take big risks in challenging the powerful. Furthermore, poor people are often not organised in ways that would enable them to influence the state. They may not see themselves as potential members of a political group acting for poor people. Instead they identify with ethnic, regional or religious groups and vote for those interests. As a result poor people often have little power.

#### Box 1: Political participation

Changing formal institutions can help to change political practice. But the less formal types of organisation in society also matter. The performance of government institutions relates to the levels of trust within society, interest in public affairs and political participation<sup>5</sup>. These conditions depend on opportunities for participation, for example, in elections. But elections are not enough. Good performance is also related to the strength of voluntary associations which have the will and the means to make their views known. Community organisations can help organise poor people and represent their interests.

States that are democracies and have the capability to exercise authority, to address issues and to maintain the rule of law provide the best encouragement to political mobilisation<sup>6</sup>. On the other hand, Soviet-style rule suppressed or controlled voluntary and professional groups. Even today, the quality of government in former Soviet countries suffers the consequence of civil society being slow to develop in the absence of any tradition of voluntary organisation.

Poor people in developing countries have also to overcome some more basic disadvantages. For example, levels of literacy are a key factor in determining access to political participation and in building the assertiveness to tackle public officials.

4 Freedom House (1996). *Freedom in the World*. Washington DC.

5 Putnam, R.D. (1993). *Making Democracy Work: Civic Tradition in Modern Italy*. Princeton University Press.

6 Houtzager, P.P. & Pattenden, P. (1999). *Finding the shape of the mountain: when the poor set the agenda*. Institute of Development Studies, Sussex. (DFID funded).

**2.1.4** By comparison with current practice, the ideal is for democratic institutions to be inclusive, fair and effective. Freedom of expression and association is crucial in tackling political exclusion: if people know their rights and know about government programmes and responsibilities, they are better able to hold the state to account. Free and effective media and a politically active civil society to organise and advocate are important, as is an inclusive and fair electoral process and a vigorous and knowledgeable parliament.

### Experience to date

**2.1.5** The effectiveness of political organisation by poor people varies according to a number of factors. Politics organised around personalised power or temporary coalitions of elite interests diminishes the prospects for effective organisations of the poor. Political organisation around caste or clan interests can subordinate the interests of the poor. The poor are best able to organise themselves politically in countries with stable, issues-based political parties supported by volunteers<sup>7</sup>.

**2.1.6** State sponsored programmes can provide a focus for political activity, with political organisation focused on the adequacy and fairness of state provision. Political mobilisation may also be provoked by state failures, and excesses. In weak states political action is likely to be localised and the political weight of poor people will be fragmented.

**2.1.7** Politics is rarely a crude struggle of rich against poor. It is also about accommodation, compromise and joint gains. Even if poor people are well organised, they must be part of broad coalitions to increase their influence over government measures. There are a number of bases for such political alliances. Poverty eradication can be seen as contributing to a public good. The rich, as well as the poor, are threatened by epidemics and crime, and poverty increases both. Technological and economic advances can alter the value and potential of assets. For example, land reform becomes more acceptable to elites when they have other opportunities to accumulate wealth, for example through industry or commerce.

**2.1.8** Shared identity can also promote solidarity across economic class. This has led to many gains for women. Environmental interests can cut across class too, and provide opportunities for pro-poor initiatives. And in more democratic systems politicians have an incentive to fund public programmes which benefit many people and alienate few.

**2.1.9** Devolution has seemed to offer a major alternative approach to the problems of unresponsive central government by allowing more direct participation at local levels. However, experience of decentralised government has raised doubts about its impact<sup>b</sup>.

**2.1.10** For decentralisation to lead to more responsive and pro-poor government there needs to be strong central government with a commitment to pro-poor policy, a power base independent of local government, and the authority to monitor the use of new localised powers. Weak central governments are unable to prevent the capture of decentralised powers by local elites. Local accountability can be encouraged through fair and competitive local elections and by local administrations which are sufficiently free from political interference that they can remind local politicians of their legal responsibilities.

**2.1.11** The centre must devolve administrative capacity, revenue and authority sufficiently to local government to allow it to fulfil its responsibility. The centre is often reluctant to delegate resources and power. And it takes time for such processes to take root and for the capability at local levels to develop. Decentralisation needs long-term support<sup>8</sup>.

### Meeting the challenge

**2.1.12** Economic, social and political progress are closely linked. Democracy begins to work better and to influence the distribution of resources in lower middle income countries. Economic progress stimulates demand for better government. New business and labour interests need the state to provide an enabling environment and will lobby government to put more effective arrangements in place. As people become more prosperous, they will be more independent and better educated. They will be better informed and better able to afford the time for political organisation and participation.

**2.1.13** In Western countries, these changes evolved gradually and our rights, ethics, laws and institutions have taken several centuries to develop and take root, albeit imperfectly. By comparison developing and transitional countries are rushing through this process. Western experience is only partially relevant as the context in developing and transitional countries is different. Experience and research is helping to illuminate some key processes.

7 Moore, M., and Putzel, J. (1999). *Thinking Strategically about Politics and Poverty*. Institute of Development Studies, Sussex. (DFID funded.)

b We use the term decentralisation to cover both the delegation of central functions to central government units in local areas, which is properly called deconcentration, and the devolution of function and authority to an elected local body.

8 Crook, R.C., and Sverrisson, A.S. (1999). *To What Extent can Decentralised Forms of Government Enhance the Development of Pro-Poor Policies and Improve Poverty Alleviation Outcomes?* Institute of Development Studies, Sussex. (DFID funded.)

**2.1.14** Within the political sphere, promoting freedom of expression, access to information and pro-poor association, as well as genuine competition for power through free and fair processes, are the main planks in tackling political exclusion of poor people.

**2.1.15** Access to information about entitlements and government programmes will enhance civil society's ability to influence policy and hold the state accountable.

Building the right to information into constitutions and law has helped representatives of the poor to extract information from government. Civic education alerts people to their rights.

**2.1.16** Free and effective media are vital for transmitting messages and information to and from poor and excluded peoples and for holding politicians and bureaucrats to account. It is the state's responsibility to determine the regulatory environment for the media but the regulator (and the media) should be free of political control. The impact of the media also depends on balance and accuracy.

**2.1.17** A politically active civil society can represent and advocate, and is central to making the state more responsive. Organisations that focus on poor people's concerns or cross-class issues such as the environment, security and women's rights, are especially important. They are most effective if the state recognises their right to organise in law and in practice, and if government is open to dialogue.

**2.1.18** Underpinning empowerment is an inclusive and fair electoral process. The whole process – which begins long before election day – must allow poor and disadvantaged peoples to participate effectively. Party financing should be controlled to reduce vote buying and the incentive to be corrupt in order to fund election campaigns. National electoral commissions can enforce these rules and provide assurance on the fairness of processes, but only if they have the co-operation of political parties.

**2.1.19** Political parties which are personalised and fragmented multiparty systems fail to represent the poor effectively. The interests of the poor are most likely to be represented in political systems that create fair competition for power, and where political activity is organised by voluntary groups around issues. The performance of political organisations can be improved with training and organisational support and by facilitating agreement on codes of conduct or laws governing competition between them.

**2.1.20** Women are under-represented in most political systems. Most cultures have traditionally distinguished between the public sphere that is men's and the private sphere that is women's. Progress on women's political

participation cannot be separated from ending such discrimination and intimidation in all spheres. So while training for potential women candidates has increased participation in several countries, it works best when combined with general empowerment of women and action against discrimination.

**2.1.21** Parliaments that approve legislation, control the budgeting process, and influence policy-making offer the poor important representation within the state. Parliaments which can demand information from government and publicise wrongdoing can also hold powerful executives to account. To do this parliaments need effective systems of committees and secretariats. Parliamentarians may need training in order to fulfil effectively their various roles – legislator, debater, and scrutineer.

**2.1.22** A loyal but autonomous civil service, with a clear ethic of public service, can act as a counterweight to the abuse of power while being loyal to governments which operate within the law. But to create such a positive force, it is often necessary first to address the problems of pay, inefficiency, patronage and corruption in the civil service that undermine its effectiveness.

**2.1.23** Most services are delivered at local level and local government systems need to be more responsive, effective and accountable to all people including poor and disadvantaged people. This will only be achieved under certain stringent circumstances, as described above.

## 2.2 Key capability

*“to provide macroeconomic stability and to facilitate private sector investment and trade”*

### The challenge

**2.2.1** Economic growth is essential for poverty reduction. Reducing inequality helps, but most progress in reducing the proportion of people living in extreme poverty will come through sustained economic growth which raises incomes generally, including those of poor people.

**2.2.2** The state plays a crucial role in stimulating economic growth through its management of the economy. An effective state does this by creating a stable macroeconomic environment, by creating the conditions whereby markets operate effectively and by representing the public interest. This includes tackling the inequalities and constraints that hinder poor people from accessing markets and services and safeguarding the environmental sustainability of economic growth.

**2.2.3** Since the end of the Cold War, an almost universal consensus has emerged on the most beneficial balance between state and markets to create sustainable

development and poverty reduction. This involves the simultaneous adoption of democracy and liberal economic policies. These two trends are mutually reinforcing. Governments which liberalise their economies stimulate the development of new centres of economic power in private sector companies, professions and labour interests. These centres then influence government policy. Such political pluralism benefits democratic development. Democracy, in turn, aids the development of a liberal economy and makes it more difficult for governments to suppress human rights and individual freedoms.

### Box 3: East Asian financial crisis & democracy

Where liberal economic policies were not accompanied by democracy, as in some East Asian countries, both economic and political systems were not sustained through the financial crisis. Some governments could not effectively regulate their financial systems because of corruption and cronyism. Those countries which responded most successfully to the crisis had democratic systems to legitimise new policies. By comparison, Indonesia responded more slowly and uncertainly because it was trapped in an authoritarian regime and by its legacy.

**2.2.4** More liberal economic policies have redefined the role of the state in managing the economy. Many developing and transitional countries had previously followed a model under which the state aimed to combat market failure by engaging in industry and commerce, and by controlling the activities of the private sector. These centralising tendencies led to substantial inefficiencies because of the absence of competition, and because bureaucracies were required to undertake activities for which they were not equipped. These practices encouraged political cronyism and grand corruption. Such states had a bias to 'big' business elites. In developing and transitional countries the state was both centralising and incompetent. Enterprise was stifled. Small entrepreneurs faced discrimination through excessive regulation and extortion by officials.

**2.2.5** The controlling state proved unsustainable in all regions. This led to a fundamental change in approach, which in some cases took an extreme form of government disengagement. The new consensus has now been adapted by most of the OECD countries, so that government stands between the extremes of the centralising and disengaging state. Governments have largely withdrawn, or are in the process of withdrawing, from direct engagement in industry. State-controlled industries have been

privatised, and trade and investment are opening up to foreign and domestic competition. Governments are having to learn how to represent the public interest through regulation, rather than ownership and control, and through the creation of an enabling environment, rather than direct participation in economic activity.

**2.2.6** Many states have chosen to divest themselves of enterprises through privatisation. Successful privatisation requires sufficient state capacity to manage the process and where appropriate, create effective regulation. A properly conducted programme places heavy demands on government to formulate policy, develop necessary legal instruments and ensure that sales of state assets meet the requirements of equity and transparency whilst generating the maximum economic benefit to the state.

**2.2.7** Regulation may be needed to ensure that markets operate in the interests of society as a whole. Owners of some privatised utilities and modes of transport enjoy a near monopoly which needs close regulation to determine fair tariffs, and to impose sanctions where investment and service levels are inadequate. In other sectors, such as telecommunications, where it is possible to develop competition, effective regulation needs to set the rules for market entry and competition so that newcomers are not frozen out, monopolies are prevented and services are provided to all. Governments have also accepted obligations to ensure that economic growth is not based on the unsustainable use of natural resources and that environmental costs are taken into account.

**2.2.8** Other important capabilities which need to operate at high levels of effectiveness in order to promote economic stability include the more familiar ones of designing and implementing macroeconomic policy and establishing institutions to administer financial policy and regulate the finance sector.

**2.2.9** Investor confidence and economic performance are enhanced if legal systems allow the ownership of property to be established with certainty, and commercial disputes to be settled rapidly, fairly and predictably. In developing and transitional countries, basic mechanisms for property ownership, such as systems to specify and register the ownership of land, as well as arrangements to conclude obligations through bankruptcy, are often lacking. Systems for the exchange of ownership of companies, such as stock exchanges, are also relatively new and insecure in some countries. Former centralising states face a massive additional task in simplifying and modernising complex webs of regulation in law established under the former dispensation.

## Experience to date

**2.2.10** In the 1990s, many developing and transitional countries tried to create an environment conducive to private sector growth by reducing the degree of direct state intervention, mainly through divestiture or privatisation of state assets and enterprises. The benefits have included receipts to the public sector from the sale of profitable enterprises and savings by ending state subsidies to unprofitable ones. Privatisation has also opened the way to additional investment<sup>9</sup>.

**2.2.11** Privatisation has been significant in Latin America, Eastern Europe and Asia. Experience has been mixed. When sales have been competitive (through public share offerings and competitive bidding) and foreign investors encouraged, economic gains have been substantial. Other countries have been concerned about the distribution of privatisation proceeds and domination by foreign investment. In Russia and some neighbouring countries, this has led to domination of privatised state enterprises by existing management and to corrupt links between them and organised crime<sup>10</sup>. In Africa, the approach to privatisation was sometimes also influenced by the opportunities for personal gain by politicians and bureaucrats<sup>11</sup>.

**2.2.12** Some governments have attempted liberalisation without privatisation. Ownership and management of key utilities and commercial activities have been retained in the state sector, and performance contracts have been developed with the enterprises concerned. This approach can produce some efficiency gains but the evidence is that benefits are not sustained in the long run without privatisation<sup>12</sup>.

**2.2.13** The transition to a 'hands off', but regulatory, role has been a learning experience in most countries. It has been more straightforward where government was administratively competent and politically focused, and where the private sector was adequately developed and attractive to foreign investment. In other cases, the transition has added to the strain on weak administrations and tested the motives of politicians. In those states in Eastern Europe and Asia which lived longest under Soviet regimes, mishandled transitions have led to substantial economic hardship and the loss of services previously provided by state enterprises. Redressing these problems represents a major task for the next decade.

## Meeting the challenge

**2.2.14** Markets need the right conditions to function effectively. In developing and transitional countries there is often a legacy of mistrust between private sector and government through a history of inappropriate industrial policies, arbitrary political interference and corruption. Market friendly governments will seek a broad dialogue with the private sector including small-scale enterprises. Governments may well have to create new institutions to fulfil their new enabling role. These require new skills. Governments will need to be able to analyse markets, and to develop competition and industrial policy. To avoid market failure in less developed economies, governments may need to act to improve information for investors and consumers and to facilitate the supply of finance, especially for small and medium enterprises.

**2.2.15** If developing and transitional countries are to achieve macroeconomic stability, they need the capacity to design and implement macroeconomic policy. This includes careful management of the economic cycle through monetary, fiscal and exchange rate policy. The capability of the ministry of finance and the central bank to undertake technical analysis and provide sound advice on policy options is crucial. The degree of independence of the central bank may be an issue in determining its effectiveness. Where the ministry of finance is dominant, political expediency can outweigh the need for prudent economic management.

**2.2.16** The legal framework within which banking and financial transactions take place must be established and enforced. In the financial sector, it should include measures to promote stability and transparency, such as reporting requirements for commercial banks, and to encourage competition and deepening. More generally, the reliability of the legal system affects business confidence. The state must operate legal systems which allow ownership of property to be established and commercial disputes to be settled rapidly, fairly and predictably. Legal systems will often need radical reform. This may be especially difficult without leadership from within the system because the judiciary need to be reasonably independent in order to be trusted.

**2.2.17** Governments need to establish appropriate legislative frameworks in order to manage privatisation and regulate privatised industry. They also need to establish

9 Megginson, W., et al (1994). *The financial and operating performance of newly-privatised firms: an international empirical analysis*. Journal of Finance 49(2).

10 European Bank for Reconstruction and Development (1999). *Transition Report 1999: Ten Years of Transition*. London: EBRD.

11 Bayliss, K., et al 1999. *Privatisation in Ghana: Post Privatisation Response of Enterprises*, Centre for Economic Policy for Southern Africa, School of Oriental and African Studies, University of London. (DFID funded.)

12 The World Bank (1995). *Bureaucrats in Business – the Economics and Politics of Government in Business*. Washington DC: World Bank.

sound regulatory bodies, and make sure privatised industries can provide the information that regulators require. New and independent regulators can be effective if they are well resourced and managed. Market regulators must be given managerial autonomy so that the private sector can be sure that they are free from arbitrary political interference. Regulation should also involve wider accountability mechanisms through reports to parliament and the inclusion of consumer bodies.

## 2.3 Key capability

*“to implement pro-poor policy and to raise, allocate and account for public resources accordingly”*

### The challenge

**2.3.1** Effective government spending which achieves the International Development Targets depends on sound policies and effective policy implementation.

**2.3.2** Traditionally the international development community has focused on the content of policy and financial allocations. But commitment to changing policies or allocations is often lacking. In weak systems many cabinet decisions are never implemented.

**2.3.3** More attention must be given to the processes by which policy is made and funds allocated. Decisions about policy and resources are at the heart of a well-functioning government and its political processes. Most countries in Africa, South Asia, Eastern Europe and the Caribbean have found that cabinet government matches this purpose best, although systems vary substantially in membership, size, structure, style and effectiveness<sup>13</sup>.

**2.3.4** A sound public expenditure management system allows government to make the best use of available resources to help the poor. Public expenditure management should achieve:

- **fiscal discipline** – balancing government income and expenditure over the medium term, and ensuring that borrowing does not exceed sustainable levels and avoiding inflationary deficit financing
- **strategic prioritisation** – relating the allocation of resources to government policy priorities and cutting back unproductive expenditure, for example on overstuffed public bodies or unnecessary military hardware
- **efficiency and effectiveness** in implementation of programmes, including sound and transparent procurement systems which limit the scope for corrupt practice.

**2.3.5** Many developing and transitional countries need to raise additional revenue. Broadening the tax base, stimulating growth and increasing the efficiency and transparency of revenue collection are often as important as tax rates, which in some cases can be counterproductively high. Individual country analysis is needed to set target revenue levels within the overall national poverty reduction strategy and medium-term budget framework.

### Experience to date

**2.3.6** Governments and development agencies have usually approached public expenditure management reform in terms of technical measures such as revised budget and account classifications, computerisation and financial management training. Results have often been disappointing, and this approach is only effective when linked to political commitment to reform.

**2.3.7** Fiscal discipline needs political commitment and resource allocation is an essentially political process. The style of working in cabinet needs to foster collective responsibility for the budget, and impose costs for failing in that responsibility. Governments must increase financial transparency and accountability, among other things, to enable legislatures and civil society to improve scrutiny of budget estimates and implementation.

**2.3.8** Some sub-Saharan African governments have been willing to make substantial commitment to reform of revenue services. This has sometimes involved the establishment of a single revenue authority as an executive agency, with a high degree of autonomy. This can give management the freedom to manage effectively outside civil service constraints and to better integrate revenue collection. DFID has supported many of these initiatives. The revenue authority model has much to offer, particularly where civil service pay and regulations are blocking effective management. However, revenue authorities are not a panacea and do not guarantee long-term insulation from general civil service standards. Neither do they guarantee freedom from corruption nor remove all possibilities of inappropriate political interference. Dynamic and honest leadership and tough early action to weed out corrupt and incompetent staff are essential<sup>14</sup>.

**2.3.9** Another lesson is about how donors engage with governments. Donors are concerned about how governments manage aid funds. So governments have been required to create parallel arrangements; these have been administratively cumbersome and of dubious value given

13 (1999) *Strategic decision making in Cabinet Government*. Washington DC: World Bank.

14 Delay, S., Devas, N., Hubbard, M. (1999). *Reforming Revenue Administration*. International Development Department, School of Public Policy, Birmingham. (DFID funded.)

the fungibility of resources. This is a particular problem where aid flows are relatively high. Donors should accept greater risks in return for efforts to improve the whole public expenditure management system. This approach will lead to improvements in the management of all government funds, rather than just those of the donors.

**2.3.10** Some core guiding principles should underlie donors' relationship with government. The budget should be at the centre of the relationship and aid flows should appear in the budget. Donor inputs should reinforce the relationship between the centre and the line ministries and local government, rather than undermine or avoid it. Donors should help to reinforce government mechanisms and procedures and should seek joint review and monitoring processes, especially where collectively they provide a significant share of public spending.

**2.3.11** In turn, donors can reasonably expect governments to show their commitment by making pro-poor policies and resource allocations. Effective policy-making can offset the costs of reform and lead to positive actions, such as the creation of social safety nets as part of structural adjustment programmes, changes to regulations to eliminate the discriminatory effect of tax policies and laws of asset ownership on women, or the design of compensation packages for redundant staff from privatised industry.

### Meeting the challenge

**2.3.12** Important areas for action and support include government policy-making. Governments should decide on policies and on priorities between policies. They must have an incentive to work together: this may be the risk of losing office individually or collectively. Overall budget limits should constrain government decisions but members of government should have a say in sector allocations. The government should ideally be constrained by clear party platform(s) set out at elections. To do its job a government needs the finance ministry to provide credible resource forecasts and the sector ministries to provide sound cost estimates and reports on implementation. Policy-making can fail if the centre of government does not take clear decisions, does not communicate those decisions to ministries and accompany them with a timely release of resources. The collective decision-making process requires a good quality back-up: to prepare for decision-making by providing information and analysis; to ensure that decisions are recorded; and to ensure that line ministries act upon them.

**2.3.13** Government departments also need policy units. These should not focus on expenditure and inputs, like old-style planning departments left over from the days of

centralised planning. Instead, they should bring plans and budget together and be required to provide justifications for their requests for public funds in terms of the outcomes that they plan to achieve, and how they will seek to achieve them. Policy units should identify the priorities for action and assess the impact of policies on target areas and groups, including the poor, women and other disadvantaged people.

**2.3.14** Statistical reporting is an essential ingredient in policy-making. Governments need reliable statistics to develop their policies and assess impact, as well as to measure progress towards the International Development Targets. Statistical analysis can map patterns of poverty and monitor changes. Disaggregation by sex is important. Statistical services are often the Cinderella branch of government, and in many countries there is an urgent need to build statistics capacity for monitoring and analysis. Again, donors have been prone to build elaborate and unsustainable systems into major projects while neglecting the government's own statistical services.

**2.3.15** In many countries, changes to the budget process would improve financial discipline, prioritisation, and efficiency of resource use. Medium term expenditure frameworks can integrate planning and budgeting, make resource availability more predictable by extending the budgeting time horizon, especially where associated with cash planning, and can improve priority-setting by integrating development and recurrent budgets and by relating budgets more closely to outputs<sup>15</sup>.

**2.3.16** Accounting and audit systems complete the cycle and should enable departments to report on the use of resources against agreed allocations and policy objectives. Auditors can be a powerful constraint on corruption and resource misuse. Audit units should be largely autonomous and protected by law and/or links to an independent auditor who reports to parliament.

**2.3.17** The international development community is entitled to expect that developing countries will optimise their own taxation. Some countries have achieved substantial increases in their total tax take. Redesigned tax policy can raise revenue in more practical and efficient ways as well as shifting the burden of tax towards the rich. Better managed and more efficient revenue administration can also help to increase the tax take. This requires attention to the incentives for tax officers including pay, and to reducing opportunities for corruption. Similar change in organisation culture can enable customs services to play a positive role in facilitating trade by reducing bureaucracy and delays.

15 Oxford Policy Management (1999). *Good practice in public expenditure management: workshop synthesis report*. (DFID funded.)

## 2.4 Key capability

*“to guarantee the equitable and universal provision of effective basic services”*

### The challenge

**2.4.1** Poor people need better access to services.

Government must improve the quality and coverage of service delivery. Even many of the better government services reach only some poor people some of the time. The poor have little faith in the quality and availability of public services and can pay a large proportion of their income for health care, access to water and other essential services.

**2.4.2** The commercial and voluntary sectors can be important parts of delivery mechanisms but only the government can be held accountable by the whole population for the supply of services. A pro-poor government must be responsible for ensuring that essential services are of a good quality, affordable, and accessible. Governments must take the lead in setting policies and priorities and in monitoring service delivery standards, whether delivered by external agencies or directly themselves.

**2.4.3** But the state is not always best equipped to supply services and should not do so if the private sector can do it better. Some developing country governments have started to question their involvement in some services and have encouraged private sector provision in, for example, urban water supply and medical supplies for hospitals. Several governments are financing privately operated social marketing programmes that are successfully supplying health and population programmes. And others are considering contracting out the management of entire district health services.

**2.4.4** Some incremental changes have helped performance, such as delegation of control over budgets combined with realistic service delivery targets and public reporting of performance. But in most countries, improved service delivery will depend on comprehensive reform of public services.

**2.4.5** Governments of poor countries also face a dilemma over whether or not they should charge for services. Should they provide free services which may seem fairer, especially to poor people, but, as a consequence, may restrict the supply of services to what the government or voluntary sector can afford? Or would it be better to charge for public sector services, or introduce commercial services and thereby raise additional and more sustainable resources to improve the coverage and quality of services?

### Experience to date

**2.4.6** Reformed public sector service delivery requires reform of the wider government system. Much of the initial donor support to African civil service reform from 1980 onwards concentrated on reducing numbers of civil servants to control endemic overstaffing and meet wage bill targets. African governments aimed to reduce employment to affordable levels and use resource savings to raise pay for public servants towards a living wage. There have been notable successes in Uganda and Tanzania. But the benefits have often been difficult to sustain.

**2.4.7** Reform programmes in Eastern Europe, Latin America and East Asia concentrated on the reorganisation of governments and capacity building. In Latin America, the development of autonomous public bodies or ‘enclaves’ had some initial success in improving services, notably in Chile. Some improvements in efficiency and services have also been achieved through granting more autonomy to regional and municipal administrations, as in Venezuela and Brazil. However, progress has been difficult to sustain without accompanying efforts to reform the public sector more generally.

**2.4.8** The majority of civil service reform projects have been unsuccessful<sup>16</sup>. Problems have included: a failure to tailor interventions to local circumstances; underestimation of the political resistance to reform; lack of attention to improving incentives and performance; a reliance on conditionality rather than promoting local ownership; and an overly technocratic approach to reform.

**2.4.9** Civil service reform has evolved in response to past failures. New approaches emphasise the need for solutions which both fit with local institutional and political reality, and borrow selectively from relevant international experience. There has been a trend away from supporting piecemeal initiatives which improve individual systems or sectors towards the adoption of a comprehensive government-wide approach. Programmes aim to integrate workforce reductions with planned improvements in financial and management systems and wider structural reforms. They seek now to introduce more decentralised forms of government and delegated public service delivery.

**2.4.10** The perceived failure of the public sector has also led development agencies to promote the use of the private and voluntary sectors for service delivery. Agencies have often assumed that these sectors are more efficient and that the voluntary sector is particularly good at reaching poor people. But this is not always the case. And

16 Girishankar, N. (1999). *Evaluation of World Bank Civil Service Reform Experience*. Washington DC: World Bank.

non-governmental organisations (NGOs) and the private sector are not accountable to the public. This is particularly worrying if they grow so large that they can substitute for the state in major areas.

**2.4.11** Getting the balance right between state, private and NGO service suppliers is difficult. There is no single solution that works best in all circumstances. In most countries the state aims to be the main supplier of basic services such as primary education and health. But it remains the case that many developing and transitional states lack the resources to provide comprehensive government services. In practice, religious schools and NGO clinics make up a substantial proportion of primary care providers in many African and Asian countries. The private for-profit sector is a key service provider in health, financed largely by clients themselves, including the poor. In South Asia, the private sector provides more than 80% of health services actually used by people.

**2.4.12** For services such as telecommunications, power and transport that are most easily measurable and chargeable, private sector supply is likely to be more efficient, especially if there is some element of competition. In these areas privatisation should be encouraged.

**2.4.13** Experience suggests that even poor people are often willing to pay for some services. In many countries people have to pay for drugs and school uniforms and books. They are also ready to purchase services from the private sector, such as medical services and water supply, provided they obtain a more accessible and reliable service at affordable cost. There is a stronger case for subsidising services, such as sanitation, where there are both direct benefits to the users and benefits to society as a whole, for example, in terms of reduced risk of disease. But poor people can also be excluded from services because they lack the money to pay.

**2.4.14** When governments can afford it, poor people should have free access to basic education and health services. Equity demands it and the public benefits justify a subsidy as well. But poor countries cannot always afford free universal public services. Poor people are often charged for a supposedly free public service by poorly paid and corrupt officials. Governments may do better in these circumstances to formalise fees at an affordable level, provided this policy leads to improved service quality and access which includes location, timing, staff attitudes and other resources.

#### Box 4: Civil service reform – a new approach to improving services for the poor

The Government of Tanzania embarked on a civil service reform programme in 1993. In the early years, attention focused on restoring basic records and information systems, reducing the workforce to an affordable level, rationalising and raising pay to motivate staff, and restructuring ministries.

Political commitment to the programme remained high despite the loss of more than 70,000 posts from the civil service. These staff cuts paid for increases in pay of up to 70% in real terms for certain cadres. The pay of some senior cadres was actually reduced after benefits were ‘cashed up’ and consolidated. A survey of those who had been made redundant found 80% in gainful employment and a third earning more than before the programme.

The initial phase addressed the basics (cost, numbers, affordability, structure) but had limited impact on service quality. The new phase has a sharp focus on improving service delivery. The Government has decentralised responsibility for many services to local government.

The Government aims to introduce a service focused management culture with published service standards and detailed objectives set for organisations and personnel at all levels. Private sector and non-governmental organisation (NGO) service providers will play a larger role. Public service managers will be given more autonomy so that service delivery can be organised at local level. They will have to account to local government political structures and answer to the public and the media through monitoring and feedback on performance.

The Government remains committed to streamlining administrative structures and systems: seven executive agencies have been created and more are planned. Efforts will continue to right-size the workforce. A further round of pay reform is about to be launched. Civil servants will be recruited and promoted on merit.

Aid programmes will finance performance improvement activities, initially through a separate fund but eventually through the government budget.

#### Meeting the challenge

**2.4.15** Service delivery can be improved by creating a client-focused service and more downward accountability. Potential clients, parliament and locally elected officials can create pressures for improved performance. Involving users in setting standards and monitoring performance has

worked where services are used frequently; are not overly complex; and the community of users are willing to share access. Government should set and publish targets for service delivery and report against them. Targets must be compatible with the resources available, and those responsible for achieving the targets must have sufficient managerial autonomy to enable the resources to be allocated and used effectively. The public can use this information to hold public servants to account. Making access to information a legal right has been important for effective campaigning in some countries.

**2.4.16** Service delivery can also be improved by creating public services that are affordable to clients and the public purse. Financial crises force governments to address the affordability of their public sectors. This can be an opportunity for fundamental reappraisal. Public services in developing and transitional countries often contain the wrong skills mix with a large surplus in low skill categories. Staff reductions accompanied by adequate compensation and enforceable rules against re-engagement, can benefit both countries and individuals.

**2.4.17** Staff reductions may also create savings which can be redeployed to improve pay. Poor public sector pay means that many public servants in developing and transitional countries take a second job in office hours to make an adequate living and/or resort to corruption to supplement their wages. Changing this culture means moving public sector pay towards a living wage and rewarding scarce skills so as to retain professionals full-time in public service. Such changes have to be worked out across the whole public sector if new distortions are to be avoided.

**2.4.18** The performance of the public sector is undermined by patronage in public appointments and promotion by length of service. Instead, there should be selection and promotion on merit, with equal opportunities for all including women. Performance can be improved if all decisions are not submitted to the top of the bureaucracy and replaced by delegation of authority, and lower level objective-setting, to allow individual or team accountability.

**2.4.19** Governments need to create partnerships with private sector suppliers. To help harness the potential of commercial and voluntary sectors, government can help create markets and competition in the supply of services. There is no substitute for developing administrative competence in government, not least for government regulation of the quality and coverage of services provided by the commercial and voluntary sectors. There are, as yet, few precedents in developing and transitional countries for constructive regulatory relationships in these areas.

### Box 5: Regulating the private sector for service delivery

Government should focus on creating policy stability and the financial environment needed to stimulate the growth of the private sector to increase proficiency and competition in service delivery. To manage private sector contractors, governments should improve their own financial management and administrative efficiency, while ministers must be willing to enforce contracts if the public interest is to be protected. Government must have an arms length relationship with the private sector, clear rules, and open competitive tendering<sup>17</sup>.

## 2.5 Key capability

*“to ensure personal safety and security in communities with access to justice for all”*

### The challenge

**2.5.1** States’ failure to provide adequate safety and security and predictable and expeditious justice adversely affects investment and growth. Poor people complain about the lack of public security and personal safety and about the oppressive and corrupt behaviour of the police and judiciary who ought to protect them. Poor women are concerned about domestic violence and sexual abuse, and that the authorities do not take these matters seriously.

**2.5.2** Poor people are deterred from investing in their own development if they lack safety and security. Poor farmers hesitate to invest in livestock and cultivation of cash crops when their animals and produce are likely to be stolen. They suffer if others claim their land and there is no way of settling disputes justly. And poor children will lose out on their education if they are afraid of being attacked on the way to school or sexually harassed at school.

**2.5.3** Criminal justice systems are often subject to extensive delays so that prisons are filled up by prisoners on remand. Prisoners lacking wealth and/or connections are often detained for long periods without legal justification. Women and juvenile prisoners are at risk of abuse. Prison numbers and costs are inflated by the use of custodial sentences for minor offences.

**2.5.4** People should enjoy their rights to life, liberty and security, and the right to own property. Courts, whether formal or informal, should dispense justice fairly, speedily and without discrimination. Remands in custody should

17 Batley, R., Larbi, G. (1999). *The Role of Government in Adjusting Economies. Paper 41: A Summary of Research Findings*. Birmingham: School of Public Policy, University of Birmingham. (DFID funded.)

be used more sparingly. Prison sentences should fit the crime better, and prisons should be more humane.

### Experience to date

**2.5.5** In many countries the police need to adopt a new ethic. During and after colonial times the police were cast in the role of enforcing government authority. Such an authoritarian approach affected the police's relationship with the communities that the police should have been serving. Changing police attitudes has helped in many countries.

**2.5.6** Formal courts and legal services are often too expensive, too slow and too far away for many poor people. Traditional legal systems are already the main form of justice in many rural areas. They have their faults – some discriminate against women and the poorest, and their jurisdiction is limited. But these deficiencies are not irredeemable, and traditional restorative justice systems or other alternatives to formal systems are worth developing: they tend to be more accessible than formal systems; justice is swifter; and usually the punishment fits the crime better.

**2.5.7** New models of accessible justice that put reparation before retribution can reduce prison populations and save the state money. And conditions in prison can be improved with practical measures, such as increasing the supply of food by raising productivity on prison farms.

**2.5.8** Lastly, experience suggests that attempting to tackle individual elements of a justice system creates new bottlenecks elsewhere. The emphasis in future should be on sector-wide strategies which reflect the interdependence of policing, courts, and the penal system in the provision of safety, security and accessible justice.

### Meeting the challenge

**2.5.9** A new approach to safety, security and accessible justice needs to start with the law. Laws should be consistent, easily understood and reflect core human rights instruments. Government should reform laws which discriminate against poor people or vulnerable groups, and should ensure that laws which are supposed to protect those groups are enforced – such laws are often routinely ignored in practice. The poor are frequently unaware of their legal rights. Successful approaches to informing people on these issues include legal literacy programmes, media campaigns and communication strategies.

**2.5.10** Modern community policing approaches can help to convert the police from being a 'force' to a 'service' to the community. This will require more modern police management and new skills. New local partnerships between law enforcement agencies, civil society and local government

are especially important. Local groups and local government can then supplement formal policing in an authorised and acceptable way. Such partnerships can be an effective way of providing on-the-spot security for dispersed populations in countries which cannot afford large police forces.

**2.5.11** Corruption in the police and judiciary is a common problem and they can exploit their positions to give themselves impunity. Reform has sometimes been difficult for want of political support – a strong, honest and independent judiciary is also a bulwark of democracy, and some regimes look on it unfavourably as a potential constraint on their political power. Governments should support change here by pursuing anti-corruption strategies and actions to strengthen democracy.

**2.5.12** The formal courts urgently need to modernise procedures to speed up the administration of justice, but such action will not be sufficient. Poor people can achieve easier access to justice through more use of alternative dispute resolution. This includes strengthening traditional systems which conform to human rights norms. Building links between these informal systems and the formal courts will provide more reliable justice.

**2.5.13** Penal reform is urgently required. States should reduce overcrowding in prisons, which is mainly due to long remands, and protect human rights, for example by segregating juveniles and women to prevent abuse. They need to improve efficiency in the justice system, for example by increasing community participation in it. Ways of doing this include restorative justice systems for juvenile offenders and the use of community service instead of prison sentences.

## 2.6 Key capability

*"to manage national security arrangements accountably and to resolve differences between communities before they develop into violent conflicts"*

### The challenge

**2.6.1** Of the 34 poorest countries, 20 are engaged in, or recovering from, armed conflict. In these countries, most victims of violent conflict are not soldiers, but civilians<sup>18</sup>. The effects can be devastating for their physical, social and economic well-being. Conflict also has severe effects on the fragile economies, societies and politics of developing and transitional countries. Promoting better conditions for sustainable peace is thus fundamental to development. More equitable development and the reduction of poverty will promote better conditions for sustainable peace.

18 *Conflict, Peace and Development Co-operation on the Threshold of the 21st Century*, Development Co-operation Guideline Series, Organisation for Economic Co-operation and Development, p.15.

**2.6.2** Although some wars are fought between countries, such as that between Ethiopia and Eritrea, most violent conflicts since the end of the Cold War have been internal. They are often based on a competition for power and favour organised around religion, tribe affiliation or ethnic groups. Tensions between diverse interest groups over access to, and control over, natural resources contribute to conflict. These tensions may be played out at regional level, as can be seen in the water conflicts in the Middle East; at national level, for example the competition for control of diamonds in Sierra Leone; and, at local level, over access to natural resources on which livelihoods directly depend.

**2.6.3** Conflicts can spill over into neighbouring countries. Conflict is most likely to spread where group identities cross borders – a common phenomenon in all regions. Other countries may also become embroiled if they see disorder and military activity close at hand as a threat to their own security. Their military may exaggerate the threat if they are not competent or confident, or if this serves their private agenda. The risk is greatest where governments or their military are not fully accountable, and inclined to pursue their own agendas, often disguising the true cost to their country.

#### Experience to date

**2.6.4** Violent conflicts should not be seen as isolated events. Apparent causes, such as resource pressures and ethnic or religious identity, are certainly important in understanding conflict. But differences of identity are usually accompanied by economic, political and social inequalities<sup>19</sup>. Such inequalities and subsequent, or accompanying, exclusion can be the cause of underlying tension between groups divided along ethnic, religious or other lines. Conflict is the product of the mismanagement of complex processes of change. Conflicts can represent the failure of government. For example, elites which abuse power are likely to alienate excluded groups; and weak governments which fail to exercise authority over their territory allow opportunities for conflict. Nor is democracy a guarantee of stability: parties may organise on regional or ethnic lines and elections and electioneering can exacerbate tensions where hostility already exists. Special inclusive structures may be necessary, as in Northern Ireland, to resolve potential or actual conflicts over power.

**2.6.5** The military may be prey to the same vices as other parts of the public services. Military expenditure is often excessive and out of control, diverting resources away from the tasks which contribute to poverty eradication. Developing and transitional countries need systems which

enable the military to plan, develop and account for policies, and systems which enable government, the legislature, the media and civil society to hold them to account. The accurate assessment of threats will help security forces to prepare appropriately and help governments to equip security forces proportionately.

#### Meeting the challenge

**2.6.6** The international development community has long provided humanitarian aid in conflict situations, and helped to reconstruct states in the aftermath of conflict. But more must be done to anticipate the risk of conflict. New ways must be found to promote social cohesion and inclusive government which may help prevent conflict. The international community could be more effective: making smarter use of sanctions; strengthening the UN's capacity for dealing with conflict; and promoting regional initiatives to prevent conflict. In the UK, support for these tasks will be pursued collaboratively between development, foreign and defence ministries, each contributing their own expertise and acting within the constraints on their authority laid down by parliament.

#### Helping to prevent conflict and restructuring states following conflict or collapse

**2.6.7** Conflict is less likely when government is more inclusive and legitimate, and access to economic, social and political power is more equal. All actions for deepening of democracy are relevant here. More immediate priorities when tensions already exist or during reconstruction after conflict are to address the reasons for conflict, and seek to prevent a recurrence.

**2.6.8** Political and government processes should acknowledge that there are clan, ethnic and/or religious cleavages that need to be peacefully accommodated, and economic and social inequalities which need to be redressed. It is important to break the pattern of 'winner-takes-all'. Political frameworks which include power-sharing structures can be helpful. Similarly parliamentary, administrative and judicial structures can emphasise inclusiveness, proportionality, moderation and accommodation.

**2.6.9** Civil society has a dark side which can fan the flames of ethnic tension. But strengthening the right sort of civil society networks can enhance participation in mainstream society of previously marginalised individuals and voices of reconciliation – such as traditional elders who may have arbitration skills, and leaders of religious, community and women's groups. These networks are also

<sup>19</sup> Stewart, F (1999). *Crisis Prevention: Tackling Horizontal Inequalities*, paper prepared for World Bank Conference on Evaluation and Poverty Reduction, June 14–15, 1999.

important after conflict as facilitators of family re-unification and resettlement of returnees.

**2.6.10** Sequencing is important after conflict.

Restoration of security is a necessary precursor to all other actions; followed quickly by restoration of basic civilian government functions; and demobilisation of combatants into alternative occupations. Legitimisation of government will require the creation of a credible military and political framework into which all ethnic, religious, regional, tribal groups, refugees, opposition abroad, new civil society elements and commandos can be integrated initially.

**2.6.11** Reconciliation will involve bringing to justice speedily and fairly those responsible for violence, killing and genocide, complemented where appropriate by indigenous capacities for forgiveness. Glorification of violence must end in public discourse, while the education system and media focus on helping to reconcile previously opposed groups.

### Reforming the security sector

**2.6.12** Reform of the military is often necessary in conflict situations and may also be desirable for purely economic reasons. Reform will involve making the military more efficient and fully accountable to the civil authorities. An efficient and accountable military will have a professional capability in intelligence, threat assessment and strategic planning. They need budgeting, accounting and contract management systems which include all expenditure, and which are open to appropriate democratic civilian authorities. This may lead to reducing military forces, with surplus personnel being demobilised and re-equipped for civilian life. Training in human rights, gender awareness and standards of professional conduct can improve the behaviour of the military and understanding of their role in a democratic society.

**2.6.13** Competent civilian authorities will assess military plans for proportionality and value for money, and monitor performance. Parliaments should have technical support to help interrogate the military and the government on military policy and expenditure. Parliaments and civil society can help ensure that military and police forces are representative of all ethnic and other groups.

## 2.7 Key capability

*“to develop honest and accountable government that can combat corruption”*

**2.7.1** A government which fails to work equitably and accountably places the country at risk from corruption. This can undermine all the other six key capabilities.

### The challenge

**2.7.2** Corruption has markedly negative effects on investment and on economic growth<sup>20</sup>. It can infiltrate every aspect of government. Poor people suffer disproportionately from its effects. And it can discredit and reduce the efficacy of development policies. Poor people are most directly affected by petty corruption – the dishonest policeman, the official who will not do what he is supposed to without a ‘tip’. But of course they suffer from grand corruption too, since this diverts substantial national resources away from the public good and into the pockets of the corrupt few. Grand corruption may involve ministers embezzling national oil or mineral revenues, or awarding contracts in return for bribes. This can lead to money being wasted on projects that may be useful in principle, but which are unnecessarily expensive because they have been awarded to the bidder offering the biggest bribe, rather than the best deal.

**2.7.3** Corruption thrives when public accountability is weak, where there are big differences between public and private sector pay, and when there is impunity for the corrupt because political leaders, the police and judiciary are themselves corrupt. Many developing and transitional countries provide such an environment. But the argument that corruption is generally regarded as acceptable in some cultures and societies is wrong. Research shows that the victims in countries with widespread corruption feel angry because it prevents them obtaining the service they need. When they can speak their minds freely, they are in no doubt about the damaging effects of corruption on their lives. The problem lies in their powerlessness to take action against it.

### Experience to date

**2.7.4** Corruption has been a problem in politics in the history of most countries but some governments have been successful in controlling corruption. The UK made a major advance in cleaning up its corrupt political system and public service in the 19th century, although instances of political corruption continue to break out. More recent and dramatic transformations have been achieved in Hong Kong. Several developing countries have created reputations for the integrity of their states, for example Botswana, Chile and Singapore. They have built this success on strong and very committed political leadership; determined and, in some cases, draconian measures to improve the integrity and effectiveness of public servants; and they have been able to implement the necessary measures because of their general economic and social

<sup>20</sup> World Bank (1997). *World Development Report (1997): The State in a Changing World*. Washington DC: World Bank.

development. For the time being these countries remain the exception.

**2.7.5** Endemic corruption can become the system for managing official relationships. Other, legitimate, ways must be found for politicians to finance political activity, and to create incentives for officials to deliver services to poor people. Where officials are paid less than a living wage, fair salaries are an essential precondition. And where poor people can only secure services they depend on by bribery, for example for access to forest land, such access needs to be legitimised.

**2.7.6** OECD countries share the blame: most grand corruption in developing and transitional countries involves companies from OECD countries offering bribes to secure business; and it is in OECD countries that corrupt leaders find safe havens for their ill-gotten gains.

**2.7.7** Developed countries are starting to take steps to reduce their contributions to corruption. Anti-bribery conventions have been agreed in the OECD and Council of Europe. These conventions are a big step forward, as is the OECD Financial Action Task Force on money laundering. But to be effective these international initiatives need to be complemented by changes in national law on bribery overseas and by effective implementation. The OECD Convention requires its signatories to make it illegal to offer a bribe to a foreign public official and to disallow bribes as a cost against tax. As the Convention begins to bite, it will challenge the widespread use of bribes to obtain contracts in developing countries.

**2.7.8** Leaders in developing and transitional countries have complained that international development agencies denounce corruption but have failed to offer them effective help in tackling corruption. Development agencies are also responsible both to their taxpayers, and to poor people everywhere, to ensure that aid does not become an opportunity for corruption. Joint action is likely to be the most effective way forward. Work is currently under way in the World Bank and amongst development agencies to improve the impact of this work.

### Meeting the challenge

**2.7.9** Developing and transitional country governments must take the central responsibility for addressing corruption in their own countries, but the international development community and OECD countries also have a vital part to play. In all cases, strong civil society involvement is likely to be a key element in success.

**2.7.10** Developing and transitional countries should adopt anti-corruption strategies to reduce the need and

the opportunities for corruption, and to increase the constraints on corrupt behaviour. Key features of such a strategy are likely to involve controls and mechanisms for political party funding; upgrading salaries to a living wage in the public service with effective performance management, including impartial recruitment and promotion systems based on merit, and eschewing patronage and nepotism; and the elimination of unnecessary regulation, and adoption of more transparent procurement processes, so as to reduce opportunities for 'rent seeking' public servants.

**2.7.11** To be effective an anti-corruption strategy needs independent audit functions and parliamentary oversight of standards and conduct, aided by a free media able to expose incompetence and corruption. Together with civil society, the media can help mobilise public opinion against corruption.

**2.7.12** Corrupt politicians, police officers and members of the judiciary should be prosecuted and removed. They can be amongst the most corrupt members of society. Their roles give them impunity unless special measures are taken. Necessary, but not sufficient, conditions for action against corrupt leaders and officials are laws which make corruption by rulers illegal, and bodies such as anti-corruption commissions to identify and prosecute acts of corruption.

**2.7.13** But, more than anything, effective anti-corruption campaigns require leadership and political courage. And those qualities are deserving of international solidarity.

**2.7.14** The international development community should support anti-corruption efforts by governments of developing and transitional countries, and show greater solidarity in dealing with governments who do not adopt such measures. And they should introduce greater transparency into their own aid so that intended beneficiaries, political parties, civil society and communities can check that intended benefits have been delivered.

**2.7.15** Development agencies should be advocates for effective domestic and international law on corruption and money laundering, and for improved enforcement. They can finance regional collaborative arrangements among developing and transitional countries to control money laundering. They can work with trade organisations, nationally, and in the World Trade Organisation (WTO), to promote a level corruption-free playing field for trade. They could commit themselves to investigate and expose corruption in international tendering, and adopt consistent procurement policies designed to eliminate and punish corruption in aid procurement.

## 3. The international development community: part of the solution and part of the problem

**3.1** This section considers how international development community support can affect government in developing and transitional countries and how this support might be handled more productively and democratically.

**3.2** Development aid, technical expertise and international solidarity have quickened progress towards the International Development Targets and the goal of poverty eradication. Support for improving government has been an increasing part of this collaboration over the last decade. The section looks first at donors' contribution and then considers some problems and potential solutions.

### The performance of multilateral and bilateral donors

**3.3** The World Bank is a prominent supporter of government reform. With the International Monetary Fund (IMF), the Bank has supported many countries in developing institutions to create macroeconomic stability and an enabling environment for private sector investment and trade. The Bank has led on corruption and public service reform, including financial management. It is especially influential in setting agendas. But by its own assessment, the Bank can adopt too technocratic an approach to state building, and is unrealistically ambitious about the possible pace of reform.

**3.4** The Bank and the IMF are limited by their mandate to addressing issues of 'economic governance'. In recent years, member countries have supported a more open interpretation of the mandate, recognising the relevance of a wide range of state capabilities for achieving economic stability and development. Even so, staff have been inhibited in addressing more political issues that affect development. The Bank and the Fund should recognise more explicitly the widening agenda of state capabilities in which they require understanding and skills. They should work together more closely and seek to work in partnership with other agencies with fewer inhibitions in addressing more political aspects of government. Their staff need to convert good intentions in these regards into operational practice.

**3.5** The European Community provides substantial support to state building programmes in transition, Mediterranean, and African, Caribbean and Pacific (ACP) countries. The EC and its member states are the largest supporters of the government agenda which deals with

political systems and human rights. In the past, the quality of the EC programmes was poor. The European Commission lacked expertise and strategic direction. The reforms of the European Community now in hand present an opportunity to address these issues. The Community has begun to map out a more coherent strategy with its partners in the ACP group. Democracy, rule of law and human rights are 'essential elements' for development partnerships under the Cotonou agreement; and 'good governance' (meaning effective and honest government) is acknowledged as a 'fundamental' instrument for achieving development outcomes. Other new measures, such as the decentralisation of decision-making and staff to country offices, the creation of an implementing agency called Europeaid, new financial procedures and additional expert staff will improve the Commission's capability to implement state building programmes.

**3.6** The United Nations is the main international forum for handling political crisis and violent conflict. The United Nations Development Programme (UNDP) is the UN's principal vehicle for technical assistance programmes on governance. The UNDP's programmes are low profile and, as a potential co-ordinator of external assistance, it has not commanded sufficient respect from the international development community. The Administrator of UNDP has initiated a substantial programme of reform. Its new strategy makes governance, broadly defined, one of the four major pillars of UNDP's work. In order to implement the policies more effectively in programmes in future, country offices will have more delegated authority and better access to expert staff in region. UNDP will also need to focus on areas of comparative advantage, relate to other development agencies more effectively, implement its strategies more determinedly, and equip more staff with relevant expertise.

**3.7** The Commonwealth has been a frontrunner in the promotion of universal standards of good government and human rights. The Harare Declaration of 1991 was born out of the adversity of apartheid – it was a statement of objectives and principles by a multi-regional and voluntary group of countries. The Commonwealth has encouraged change in member states which offended the principles and censured, or excluded them, where they would not change. The Commonwealth also supports state building through technical programmes. These are most relevant when they

use the organisation's good standing to address politically sensitive issues, or to promote the sharing of experience between institutions and countries.

**3.8** The regional development banks are also gearing themselves up to play an increasingly important role in state building and are developing new policies and recruiting additional expertise. There is an important community of international co-ordinators, such as the Global Coalition for Africa and the OECD Development Assistance Committee (DAC), which are promoting coherence and reform.

International NGOs, especially in the human rights field, contribute to understanding and promote change. The Office for Security and Co-operation in Europe is being called on to play a larger role in post conflict reconstruction, stretching its technical capacity.

**3.9** Support from bilateral donors for state building is large in total, if relatively modest individually. The modesty of these contributions often leads to what may seem an apparently random selection of topics for support. Better joint working among all donors in support of the host country's own strategy must be given more priority.

## Problems created by donors

**3.10** Too little attention has been given to the impact of development processes on government in developing and transitional countries. The quality of government in developing and transitional countries has been directly affected by the way development support has been organised by donors.

**3.11** Many people still think aid is about projects. For years, donors have supported a fragmented proliferation of individual activities in developing countries. Instead of working together they have competed to run up their national or organisational flags over a grand project or competed to supply equipment and win contracts. Not only does each donor have different policy priorities, independently determined and reflecting each donor's priorities and those of their political systems, but they also insist on a multiplicity of unique procedures.

**3.12** Donor governments have also been enthusiastic about exporting their own particular configuration of democratic institutions, or their own latest theory on new public management. The concepts lying behind these approaches may be sound, but the particular structures favoured in one country may well fail to take root in another. New institutions must be carefully tailored to the values of the society to which they are being transferred – for example some peoples respond best to individual incentives and others to collective responsibility. These values often survive changes to formal structures.

**3.13** Dealing with these multiple requirements of aid policy and procedures exacerbates the problems of already stretched administrations in developing and transitional countries, and makes coherent policy and institutions less likely. The net effect is to reduce the effectiveness of development assistance.

## The problem from the perspective of development agencies

**3.14** Development agencies are often disappointed that bureaucracies and politicians in developing and transitional countries fail to share their enthusiasm for poverty eradicating measures. The taxpayers of OECD countries expect aid benefits to go to the poor and not to the members of government or the elite. Aid donors' attempts to make aid conditional on certain actions by the recipient government have not worked well in practice.

**3.15** Recipient governments have learnt to play the game. They may have no real commitment to the conditions which they sign up to. They know that the conditions will probably have to be fulfilled concurrently with the delivery of the aid, much of which will have been disbursed before it is clear that the conditions will not be met. They know that development agencies are reluctant to withdraw aid and are more likely to soften the conditions.

**3.16** Development agencies should also be concerned that they can reduce government accountability. Accountability tends to be greatest when governments rely on taxes for most of their income: a taxpaying public will want to be sure that its money is well spent. Some developing and transitional countries receive a large proportion of their resources from aid, and this reduces the need for governments to be responsive and accountable to their own citizens.

## New analysis

**3.17** These development relationships would work better if all sides accepted that development aid is not just a technocratic instrument, or a capital transfer, but an investment available to help create government capability in economic management and service delivery to create the conditions for sustainable, poverty-reducing development.

**3.18** Development agencies' role in developing and transitional countries makes them political actors. The choices development agencies make about with whom they collaborate, the programmes they support, and the style of implementation have political consequences in the country concerned and affect power relations within the country. It is important, therefore, that all development

efforts should be transparently focused on creating the conditions for poverty eradication and sustainable development.

**3.19** Reform of public institutions, for example, alters the distribution of power between political groups. It can threaten vested interests such as powerful elites within government. These elites often want to keep public services disorganised so that they are easy to exploit for patronage and corruption. Substantial change requires political leaders to take significant political risks. Development agencies tend to blame slow progress on a lack of political will. This simple phrase hides a complex reality.

**3.20** Development agencies need to understand the politics of change. Developing new policies requires a political process which must be locally led – stimulating public understanding of the issues, building constituencies of support for change, securing recognition that the policy will be part of future public expenditure rounds, persuading people involved to change, finding ways to deal with the losers in the process, and so on<sup>21</sup>.

**3.21** If they understand and respect these processes then development agencies can better assess the trade-offs that governments have to make to secure commitment to reforms. Development agencies should also take a longer-term perspective of development partnerships. They should not be knocked off track by isolated political events. They should look to the trend in the quality of government over the medium term, which is a better indicator of a government's commitment to development.

## Shared vision and new process

**3.22** Development agencies should be subject to the same rules of governance as other actors. Their dealings should be transparent and they should account for their activities to government, parliament, civil society and the intended beneficiaries in developing and transitional countries.

**3.23** Governments and development agencies should be better co-ordinated around a shared vision. They should develop this vision through a political process which commits both the government and development agencies. Such an approach is advocated by the World Bank's Comprehensive Development Framework, the DAC's 21st Century Strategy, the UN's Development Assistance Framework, and the World Bank and IMF poverty reduction strategies. It needs to involve:

- agreement on a set of development goals to which all governments would be bound. The International Development Targets provide such an agenda because they have been agreed by all governments through UN conferences, and not imposed by one group of governments on another. In such an approach, all players would accept a set of standards, led by the country concerned and tailored to its own particular situation but consistent with the overall direction of the International Development Targets. Government and development agencies would be bound by the standards which should be widely understood within each country;
- this approach requires new processes within countries to legitimise these policies and to bind development agencies to the new policies. This should involve consultation between government, parliament, political parties, professional and business associations, and wider civil society on an agenda for poverty eradication, including improved government;
- this approach needs to build on the experience of the sector-wide approach (SWAP). Under a SWAP, donors – acting together – stand ready to contribute their support not through projects but into a government sectoral budget, for example, for health or education. This supports a clear, acceptable government strategy for the whole sector, including policy, institutional development and resource use. Donors should, where possible, aim to provide support through the budget, instead of requiring separate and off-budget arrangements. But donor commitment to these processes requires developing countries to have the key capability described above for pro-poor policy-making and allocating, using and accounting for resources in accordance with that policy;
- if the voices of the poor are to be heard in this process, the development of truly democratic political systems is a priority, including political alliances and civil society groups which advocate on behalf of poor people and which can hold both governments and development agencies to account;
- in turn, donors make themselves accountable in developing and transitional countries through regular publication of statements of their development policy, reports on programme implementation and a willingness to be questioned by democratic parliaments and civil society.

<sup>21</sup> Crosby, R.L. (1996). *Organisational Dimensions to the Implementation of Policy Change*. IPC monograph No.2., USAID, Washington DC: USAID.

## 4. Priorities for DFID

### Introduction

**4.1** This section sets out priorities for DFID, working in collaboration with both developing and transitional countries' governments and the international development community.

### Joined-up working with countries and development agencies

**4.2** Governments that want to succeed in working for poor people will need to develop all seven key government capabilities set out in this document. Many governments have already made some progress on the capabilities. More progress is required, and globalisation is increasing the pressure for reform and the benefits from change. Governments need continually to modernise. For developing and transitional countries, this seems an awesome task. To develop all seven capabilities, the international development community must provide well focused and coherent support.

**4.3** The first and most important priority for DFID is to promote and support a more systematic, coherent and collaborative process to making government work for poor people. This requires action to:

- look for new mechanisms for collaboration between development agencies, governments and their civil and political societies in better defining government agendas. The Comprehensive Development Framework is one approach which covers the whole development agenda;
- help to define the policy framework within which the World Bank and IMF will operate, and to equip them to implement it. The Poverty Reduction Strategies initially related to the Heavily Indebted Poor Countries (HIPC) can provide the main context for this work;
- work with the UN system to help it relate its assistance for state building more effectively with that of the rest of the international development community;
- help to enhance the quality of European Community programmes in state building, principally by supporting the reform of the Community with a focus on strategy development and access to expert capacity;
- support new forms of international action to attack priority problems such as corruption and money laundering;
- finance research to increase knowledge and improve techniques, and disseminate the results through best practice guides, produced jointly with other agencies and governments.

**4.4** We will pursue these goals through collaboration at global, regional and country levels by proactive engagement with international agencies and fora, drawing on DFID's field experience and network of government professionals; by working jointly with other actors on country, regional and global initiatives; and through professional support and exchanges.

**4.5** DFID will be clear about its state building objectives, but be ready to accept other agencies' analysis as a basis for its own financing decisions. It will be ready to direct resources to agencies and countries which favour collaborative approaches, and away from those which do not.

### Country focus of the bilateral programme

**4.6** DFID's bilateral programme will focus on poorer developing and transitional countries. These countries have the greatest difficulty in improving the quality of their government and warrant more support.

**4.7** In middle income countries, weaknesses in government systems often perpetuate gross inequality and poverty. DFID needs to understand the problems of state building in these countries to inform our bilateral programme and also to allow us to engage more effectively with multilateral agencies.

**4.8** But DFID need not necessarily support work on state building in all countries in which it has development activity. DFID has a comparative advantage in those countries with which the UK shares a tradition of government. This might be described very broadly as the Commonwealth tradition and covers many countries in sub-Saharan Africa, Asia and the Caribbean.

### DFID's comparative advantage in capabilities

**4.9** DFID will work to support governments that wish to address this reform agenda, wherever possible in collaboration with other development agencies. DFID will support the implementation of this agenda by mobilising expertise and other resources from the UK and around the world.

**4.10** DFID will not seek to take a lead when other agencies have greater competence. For example, the IMF and World Bank are especially well equipped to help countries to develop the capacity for achieving macroeconomic stability and promoting an enabling economic environment. The Commonwealth Secretariat have taken a lead in sensitive areas such as the organisation

of cabinet government and dialogue about the alternation of power through elections. The Westminster Foundation of Democracy and similar organisations in other Western countries provide an independent vehicle through which to promote party political development. DFID can where appropriate support work through these agencies and organisations.

**4.11** DFID, and UK organisations on which it draws, have developed expertise in supporting reform in developing and transitional countries in areas such as: elections and parliamentary government; civil society; privatisation and regulation; public expenditure management, sector-wide approaches and revenue administration; civil service reform, contracting out and public service customer focus; participatory poverty assessments, gender analysis and local institutional assessments; community security and penal reform; reconstruction of government after conflict; and aspects of anti-corruption strategies. These are the areas in which DFID can most easily mobilise expertise to support government reform.

**4.12** DFID also attaches a high priority to developing expertise to serve governments better in the following newer areas: deepening democracy to promote the participation of poor people in government; developing regulatory systems to assure the quality of private sector providers of services and to encourage competition; promoting accessible, non-discriminatory justice; reforming security sectors and creating inclusive political structures as part of conflict prevention efforts; restricting money laundering globally; and mobilising the political will for reform.

## Regional priorities for DFID programmes

**4.13** DFID will work with government and civil society and other development agencies to identify and support government development priorities systematically. These priorities can be identified only on a country specific basis, but some priorities are likely to occur frequently across regions.

**4.14** In all regions, to varying degrees, we need to work to deepen democracy so as to empower poor people, and to combat corruption and promote honest and accountable government.

**4.15** Additional regional priorities for DFID include the following government capabilities:

- in Africa, to create an enabling environment to attract investment; to develop pro-poor policy frameworks which are related to resource raising and expenditure

allocation; to reform public services so as to improve service provision; to strengthen local government; to promote security and accessible justice; and to manage national security arrangements accountably and to prevent conflict;

- in Asia, to divest the state of commercial activities and to manage the enabling environment for the private sector; to challenge discrimination against women and other vulnerable groups; to modernise revenue administration and expenditure management; to introduce a customer focus in public services; to reform civil services; to excise corruption and brutality from police forces, and to make justice more accessible;
- in Eastern Europe and the former Soviet Union, to help governments to create conditions for enterprises which generate competition and sustainable employment and take account of the social dimensions of restructuring; to develop modern revenue systems and to improve public expenditure management; to develop a new capacity in states to deliver basic services including social protection and health, as necessary; to depoliticise and professionalise civil services; to strengthen civil society and its partnerships with government; and to develop the independence and capacity of judicial systems in accordance with human rights; and to support the development of an independent media;
- in South America and the Caribbean, to modernise civil services; and to develop the quality and accessibility of basic services, and the capacity to regulate private sector suppliers.

## From strategy to action

**4.16** This strategy already enjoys broad support within DFID. Professional groups and programme managers see present weaknesses in government systems as a major constraint to achieving the International Development Targets, and are keen to collaborate in developing and implementing best practice.

**4.17** DFID can call on a substantial resource to design and monitor government programmes. This includes 50 government advisers many of whom are located in DFID offices in developing and transitional countries. Outside DFID, there is a growing resource of expertise on which we can draw in universities, consultancies, and individual experts in the UK, and elsewhere. Even so, demand currently outstrips supply and DFID is developing new techniques to identify and develop this expert resource, especially in developing and transitional countries.

## 5. Measuring progress against objectives

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**5.1** For other International Development Targets, the international development community has arranged to monitor progress at a global, regional and country level. There are no International Development Targets specific to the quality of government against which progress can be monitored and measured. Attempts to identify government indicators which could be used to measure progress at the global level have not yet been successful. The absence of global indicators is not crucial. Progress in improving government is reflected in progress towards the other International Development Targets, as their progress is dependent on the quality of government.

**5.2** At the country level, assessment of state capabilities and human rights is possible and desirable. Assessing the status of government is a necessary step towards identifying areas which require improvement. Several donors have prepared assessment frameworks. For example, DFID developed a set of questions which it used in order to produce a more objective analysis of government systems in countries to which it provided support.

**5.3** Other promising approaches include surveys of public and private sector opinions. Such surveys are already conducted amongst private sector companies in order to assess the risks of investing and trading in particular countries. And recent participatory poverty assessments have provided an overview of people's opinions about the quality of public services and government. These surveys may have the potential to give better insights into progress with improving the quality of government if they are applied more systematically and repeated periodically.

**5.4** DFID's objective now is to find a more collaborative methodology for making assessments. The aim is to move from a checklist to a toolkit on which government, civil society and others working in developing countries – including DFID – could draw. The new approach would have a government-led process; involve civil society in determining the sort of government which is developed; build capacity in-country to monitor and hold government to account; and integrate this approach into the Comprehensive Development Framework and Poverty Reduction Strategy process.

**5.5** If governments are to accept such an approach, they will need to be reassured that donors will not penalise them for weaknesses in government. DFID's approach is to seek partnership with governments committed to improving state capabilities; and not to penalise them for government weaknesses where there is a will to reform.

**5.6** Some governments will be reluctant to enter into dialogue with civil and political societies in their countries. Governments which are well-intentioned should do so as their authority depends on wide acceptance of the systems of government through which they come to power and govern.

**5.7** The international development community, governments and civil societies will need to build sufficient mutual confidence to take this approach forward. DFID is ready to collaborate with others in piloting this approach, especially in the context of developing the new approach to Poverty Reduction Strategy Papers. This is being taken forward initially in Heavily Indebted Poor Countries and is intended to become a new model for IMF/World Bank programmes in developing countries.

# Annex

## Global and regional indicators of development progress for the international development targets

		World total	Developing country total <sup>a</sup>	East Asia & Pacific	Eastern Europe and Central Asia	Latin America and Caribbean	Middle East & North Africa	South Asia	Sub Saharan Africa
<b>Population</b> [millions]	1980	4,430	3,641	1,398	426	360	174	903	380
	1990	5,255	4,414	1,641	466	439	238	1,122	508
	1998	5,897	5,011	1,817	475	502	286	1,305	627
<b>Reducing Extreme Poverty</b>									
<b>Population covered by at least one survey for poverty data</b> [%]	1985–98 <sup>b</sup>	„	88.1	90.8	81.7	88.0	52.5	97.9	72.9
<b>Population living on less than \$1 a day</b> <sup>c</sup> [millions]	1987	„	1,183.2	417.5	1.1	63.7	9.3	474.4	217.2
	1990	„	1,276.4	452.4	7.1	73.8	5.7	495.1	242.3
	1993	„	1,304.3	431.9	18.3	70.8	5.0	505.1	273.3
	1996	„	1,190.6	265.1	23.8	76.0	5.0	531.7	289.0
	estimates for 1998	„	1,198.9	278.3	24.0	78.2	5.5	522.0	290.9
<b>Population living on less than \$1 a day</b> <sup>c</sup> [%]	1987	„	28.3	26.6	0.2	15.3	4.3	44.9	46.6
	1990	„	29.0	27.6	1.6	16.8	2.4	44.0	47.7
	1993	„	28.1	25.2	4.0	15.3	1.9	42.4	49.7
	1996	„	24.5	14.9	5.1	15.6	1.8	42.3	48.5
	estimates for 1998	„	24.0	15.3	5.1	15.6	1.9	40.0	46.3
<b>Poverty Gap</b> <sup>c,d</sup> [%]	1987	„	8.6	6.8	0.1	5.2	1.0	13.0	20.0
	1990	„	9.0	7.6	1.0	6.0	0.5	12.0	20.4
	1993	„	8.9	7.5	1.3	5.8	0.4	11.2	21.7
	1996	„	7.5	4.0	1.5	5.3	0.4	10.6	21.5
	estimates for 1998	„	7.2	4.2	1.6	5.3	0.2	9.5	20.1
<b>National income/consumption by poorest 20%</b> [share that accrues to the bottom 20% of the population]	1980s	„	„	6.3	9.8	3.7	6.6	7.9	5.7
	1990s	„	„	6.9	8.8	4.5	6.9	8.8	5.2
<b>Prevalence of child malnutrition, weight for age</b> [% of children under 5 years old]	1992–98 <sup>b</sup>	30	31	22	8	8	15	51	33

			World total	Developing country total <sup>a</sup>	East Asia & Pacific	Eastern Europe and Central Asia	Latin America and Caribbean	Middle East & North Africa	South Asia	Sub Saharan Africa
<b>Universal Primary Education</b>										
<b>Net primary school enrolment</b> [school age in school as % of all school age children]										
	Female	1980	77	72	82	91	85	64	52	49
		1990	86	83	96	95	88	82	65	52
		1997	88	86	99	99	93	84	70	54
	Male	1980	86	83	90	93	86	84	75	59
		1990	91	89	99	95	88	92	82	59
		1997	92	91	99	100	95	91	83	66
	Total	1980	81	78	86	92	85	74	64	54
		1990	88	86	97	95	88	87	74	56
		1997	90	88	99	100	94	87	77	„
<b>Persistence to grade 5</b>		1990–1995 <sup>b</sup>	77	74	91	„	76	90	56	67
[% of children enrolled at Grade 1 who reach Grade 5]										
<b>Youth literacy rate</b> [% of people 15–24]										
	Female	1980	70	69	85	96	89	47	38	44
		1990	77	77	92	97	92	63	50	60
		1998	81	81	95	98	94	75	58	72
	Male	1980	83	83	95	99	90	73	64	66
		1990	87	87	97	99	92	82	71	75
		1998	89	89	98	99	93	87	76	81
	Total	1980	77	76	90	97	89	60	52	55
		1990	82	82	94	98	92	73	61	68
		1998	85	85	97	99	94	81	67	76
<b>Adult literacy rate</b> [% of people 15+]										
	Female	1980	54	52	57	92	77	28	25	28
		1990	62	61	71	94	83	41	34	40
		1998	68	67	78	95	87	52	41	51
	Male	1980	72	71	80	97	82	56	52	49
		1990	78	78	87	98	86	67	59	60
		1998	82	82	91	98	89	74	65	68
	Total	1980	63	62	69	94	80	42	39	38
		1990	70	69	79	96	85	54	47	50
		1998	75	74	84	96	88	63	53	59
<b>Gender Equality</b>										
<b>Gender equality in school</b> [female gross enrolment ratio as a % of male gross enrolment ratio]										
	Primary	1980	87	84	87	99	97	74	67	76
		1990	90	88	94	99	100 <sup>f</sup>	86	75	82
		1994–1998 <sup>b</sup>	94	92	100	98	98 <sup>f</sup>	86	82	84
	Primary & Secondary	1990	„	„	88	93	98	82	75	82
		1996	„	„	91	85	95	86	94	87
<b>Gender equality in adult literacy</b> [female literacy rate as a % of male literacy rate]										
		1980	75	73	71	95	94	50	48	57
		1990	79	78	82	96	97	61	58	67
		1998	83	82	86	97	98	70	63	75

		World total	Developing country total <sup>a</sup>	East Asia & Pacific	Eastern Europe and Central Asia	Latin America and Caribbean	Middle East & North Africa	South Asia	Sub Saharan Africa
<b>Infant and Child Mortality</b>									
<b>Infant mortality rate</b> [per 1,000 live births]	1980	80	87	55	41	61	95	119	115
	1990	60	65	40	28	41	60	87	101
	1998	54	59	35	22	31	45	75	92
<b>Under-5 mortality rate</b> [per 1,000 live births]	1980	123	135	82	„	78	136	180	188
	1990	87	91	55	34	49	71	121	155
	1998	75	79	43	26	38	55	89	151
<b>Maternal Mortality</b>									
<b>Maternal mortality ratio</b> [per 100,000 live births]	1990	430	480	210	95	190	320	610	980
<b>Births attended by health staff</b> [% of total]	1990	„	49	58	„	„	58	39	„
	1996–1998 <sup>b</sup>	52	47	„	92	78	62	29	38
<b>Reproductive Health</b>									
<b>Contraceptive prevalence</b> [% of women 15–49]	1997–1998 <sup>b</sup>	49	48	52	67	59	55	49	21
<b>HIV prevalence</b> <sup>g</sup> [Percentage of adults (15–49 years) living with HIV/AIDS in 1999]	1999	1.1	„	0.07	0.14	„	0.13	„	8.0
<b>Environment</b>									
<b>National strategies for sustainable development</b> [countries with effective processes for sustainable development]	1998	„	„	„	„	„	„	„	„
<b>Safe water</b> [% of population with access]	Urban 1990–98 <sup>b</sup>	90	89	95	„	88	97	86	77
	Rural 1990–98 <sup>b</sup>	62	62	58	„	42	72	78	39
	Total 1990–98 <sup>b</sup>	72	72	69	„	78	85	80	50
<b>Forest Area</b> [% of National Surface Area]	1990	30	29	25	36	49	4	14	23
	1995 <sup>h</sup>	25	26	24	36	45	1	16	17
<b>Biodiversity: land area protected</b> [% of total land area]	1994 <sup>h</sup>	6.7	5.1	6.2	3.6	6.5	3.0	4.4	5.8
	1996 <sup>h</sup>	6.6	5.3	6.9	3.2	7.3	2.2	4.5	6.2
<b>Energy efficiency: GDP per unit of energy use</b>	1990	„	„	„	0.7	„	1.5	„	„
	1997	„	„	„	0.8	„	1.3	„	„
<b>Industrial Carbon Dioxide emissions</b> [tonnes per capita]	1980	3.4	1.5	1.4	„	2.4	3.0	0.4	0.9
	1990	3.3	1.7	2.0	„	2.2	3.3	0.7	0.9
	1996	4.0	2.5	2.7	7.4	2.5	3.9	0.9	0.8

			World total	Developing country total <sup>a</sup>	East Asia & Pacific	Eastern Europe and Central Asia	Latin America and Caribbean	Middle East & North Africa	South Asia	Sub Saharan Africa
<b>General Indicators</b>										
<b>Life Expectancy at Birth</b> [in years]	Female	1980	64	60	67 <sup>e</sup>	72	68	60	54	49
		1990	68	65	69	74	71	66	59	52
		1998	69	67	71	74	73	69	63	52
	Male	1980	59	56	64 <sup>e</sup>	63	62	57	54	46
		1990	63	62	66	65	65	63	59	49
		1998	65	63	67	65	67	66	62	49
	Total	1980	61	58	66 <sup>e</sup>	68	65	59	54	48
		1990	65	63	67	69	68	65	59	50
		1998	67	65	69	69	70	68	62	50
<b>Fertility Rate</b> [births per woman]	1980	3.7	4.1	3.0	2.5	4.1	6.2	5.3	6.6	
	1990	3.1	3.4	2.4	2.3	3.1	4.8	4.1	6.0	
	1998	2.7	2.9	2.1	1.6	2.7	3.5	3.4	5.4	
<b>GNP per capita</b> [Atlas method (current US\$)]	1980	2,530	790	330	„	2,110	2,040	270	650	
	1990	4,030	940	570	„	2,250	1,720	380	550	
	1998	4,890	1,250	990	2,200	3,860	2,030	430	510	

<sup>a</sup> Combined figure for low and middle income countries used as a proxy for developing countries with the exception of the indicators for persistence to Grade 5, maternal mortality ratio and safe water where a true developing countries figure is used.

<sup>b</sup> Data refer to the most recent year available within the specified period.

<sup>c</sup> At 1993 purchasing power parities (PPPs) adjusted to current price terms

<sup>d</sup> The poverty gap is the mean shortfall below the poverty line (counting the non-poor as having zero shortfall), expressed as a percentage of the poverty line. The measure reflects the depth of poverty as well as its incidence.

<sup>e</sup> Data are for nearest available year.

<sup>f</sup> Figures are based on net enrolment ratios.

<sup>g</sup> The indicator actually relates to HIV prevalence in 15 to 24 year old pregnant women. However, until satisfactory data coverage is achieved on this indicator, the prevalence of HIV infection in all adults will be used.

<sup>h</sup> Data may refer to earlier years

„ = Not available

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