Supporting “big” improvements in government functioning: How public sector management development specialists can harness the growing significance of country choice[1]

Nick Manning

1. Introduction

My previous chapter argued that providing support for small managerial improvements at the centre of government is nothing to be ashamed of. But, modesty notwithstanding, big public management transformations are often necessary. Many governments need significantly improved capabilities if they are to manage targeted cash transfer schemes and, more pressingly, to begin to build stable social contracts in post-conflict settings and to raise more revenues from natural resources. Responding to the challenges presented by major demographic shifts, growing security threats, the unpredictable consequences of climate change and the need for services for the increasing concentration of the world’s poor in fragile states argue for even higher levels of capability from governments which currently have the least.

The post-Busan process and the negotiation of the post-2015 Sustainable Development Goals are unlikely to help much. Large international summits and forums are often at best opportunities to help advance norms and aspirations concerning poverty eradication, human development, gender equality, sustainable use of natural resources etc. They may also allow developing countries (both emerging and still-poor countries) to more actively drive the agenda. But ultimately they are about ends. The challenge of going big in public sector management (PSM) reforms is about means.

This chapter speculates on why, as public sector management (PSM) development specialists, we are making so little progress in supporting significant improvements in government functioning. It notes that, ironically, the aid organisations which have created the career streams and provided the opportunities and incentives for professionals to at least try to support big PSM reforms are themselves part of the obstacle to doing big. The carefully constructed consensus about the right way to strengthen government functioning has proven to be a limiting constraint. The recent emphasis on “political economy” is not wrong, but it is unlikely to help achieve the breakthrough in development effectiveness which is needed to make a big difference in how the centre of government works. “While political economy is the flavor du jour, it is not at all clear that we are going to get smart enough, or aggressive enough, to use this as the point of entry…” (Dercon, 2014)

To break out of this failing mould, we need to try things which are new and which are measureable. At root the current problems of weak measurement and limited innovation originate in the incentives facing donor agencies and the control mechanisms they are subject to: hierarchical top-down control from donor governments, technical co-ordination with other donors and country choice. Hierarchy seems to be gaining some ground currently, at the expense of technical co-ordination. Country-level choice of PSM reform solutions has, to date, been more of a rhetorical device than a practical strategy but the changing environment of donor financing makes increased country choice all but inevitable. Countries are already using the new choices available, suggesting that they are beginning to exploit the increasingly negotiable landscape to maximise their aggregate access to concessional financing and to influence the flexibility of financing and its associated terms and conditions. This choice, however, does not seem as yet to be having much effect on the technical quality of aid.

This chapter is about how PSM specialists might help advance this process. It argues that the way forward will be less agreement and more contestation, breaking out of the existing constraining consensus and building up an evidence base through challenge and comparison. The new agenda of country choice, driven significantly by the changing nature of development finance, presents an opportunity. Country choice may or may not be the right way to go – but it is the way that we are going, so we need to harness that new choice agenda to make a big difference. PSM development specialists can help make this inevitable transition a positive one in which the fittest approaches to supporting “big” improvements in government functioning will be the ones that survive, even though this might entail our arguing against the current donor architecture of which we are a part.

This rough guide contains a lot of citations. The reason for including them is to emphasise that in such uncertain and contested territory, there is much to be gained from drawing wisdom and insights from the struggles of others.

2. A comforting agreement to remain marginal

We need to support really big improvements in government functioning

In the previous chapter I developed Michael Woolcock's rough and ready distinction between "Big Development" and "Small Development" (Woolcock, 2012). Big Development is about significant improvements in state capability while Small Development is about *some* better policies for growth and fiscal/environmental sustainability, *some* improved accountability and reduced corruption, and improved services for *some*. As that chapter noted, donor-supported PSM reforms can claim little success in achieving Big Development or even in delivering the radical "transformational" change in public sector institutions which might be assumed to be a necessary first step.

This is a problem. A scan of the current development horizon quickly reveals that we need to find ways of supporting big improvements in government functioning in order to:

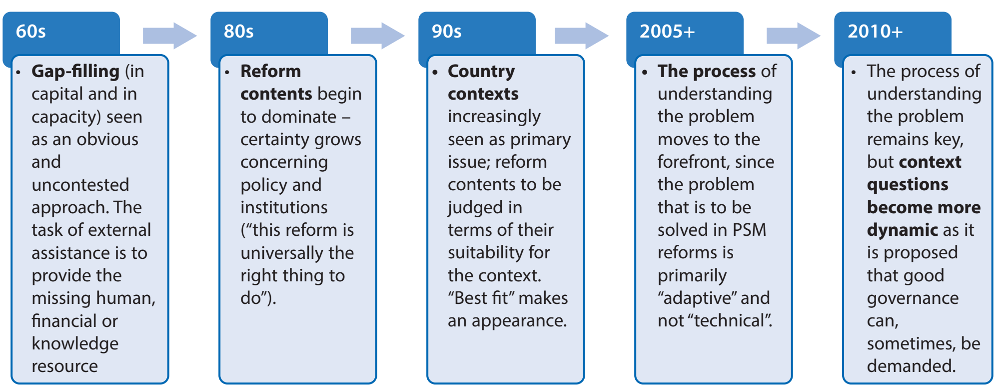
- manage mechanisms for large scale targeted cash transfers or voucher schemes (Jackelen et al., 2011)
- begin to build a stable social contract in post-conflict settings (Muggah et al., 2012)
- to assist in raising significantly more revenues from natural resources (Africa Progress Panel, 2013) and manage the subsequent historically unparalleled dependence on them (Brautigam, 2008)
- respond with any sort of adequacy to major demographic shifts, growing security threats and the unpredictable consequences of climate change (Kharas, 2015)
- address the challenges of providing services to the increasing concentration of the world's poor in fragile states (OECD, 2015)[2]
- make Afghanistan's transition to stability following the drawdown of US troops remotely feasible (Jalali, 2015).

The challenge is to find the practical points of entry (if they exist) by which donor-supported PSM reforms can contribute to transformational change. "Big Aid" – making large volumes of development finance available for specific countries or for specific challenges[3] – is not the solution to the problem of the practical irrelevance of PSM reform to "Big Development". "Big Aid" is a push to scale up inputs and its connection to improved outcomes is tenuous in theory[4] and does not seem to work in practice (Munk, 2013; Rajan and Subramanian, 2005).

Failing without disagreement – consensus keeps us cautious

We have come a long way in support for public sector management reforms. Figure 1 charts some major shifts in development thinking on how to support PSM reforms. The general theme is of a growing consensus that PSM reforms must address "adaptive" rather than "technical" problems. "'Technical' problems can be addressed by a technical/expert, whereas 'adaptive' problems require deeper transformation by more people in the community who have to change their values, behavior or attitudes" (Heifetz, 1994). In caricature, the movement first identified some 20 years ago[5] and pushed along the way by many thoughtful analysts,[6] sets out a radical critique of donor agencies' tendencies to know best, shifting the consensus from technical certainty about the reform product toward the reform process. The current "new realist" approaches to development in general and governance and public sector management in particular essentially argue for a reform approach which is agnostic about preferred processes or organisational forms and locally led and adapted as lessons emerge during implementation.[7]

Figure 1. **A half-century of changing consensus concerning external support for public sector management reforms**



Note: The 60s notion of "capacity" was a narrow concept focusing on the "the volume or scope of inputs such as human resources or IT systems" (Allen and Krause, 2013, p. 111), while more recent notions of capacity often refer to how these capacities are converted into better performance including political commitment and institutional design, with some authors preferring the term "capability" in order to make the distinction clearer (Allen and Krause, 2013).

Source: Blum, J.R., N. Manning and V. Srivastava (2012), "Public sector management reform: Toward a problem-solving approach", *Economic Premise*, No. 100, World Bank, Washington, DC.

While we have reached an interesting point in the evolution of the field, these adaptive approaches, in the way that they have been advocated to date, focus on the relatively small. If they raised the rate of project "success" in small areas of public sector management from, say, 50% to 75%, but reduced the scope of the resulting improvements in the process, would this be a big step forward? We would have a larger scatterplot of mini-successes, but would this add up to anything that really mattered? Surely we don't want to do things right without making any progress in finding the right thing to do (see Box 1). In fact, wouldn't a reduction in project success rate be a reasonable trade-off if at least some of the successes were in some way transformative – the country-level public sector equivalents of the Marshall Plan, the "green revolution" or the near eradication of smallpox?

Box 1. **Small steps but no significant progress**

"I visited Afghanistan in 2006. In the overall strategy for governance in Afghanistan, the World Bank had been assigned the task of civil service reform. Discussing the World Bank's engagement in civil service reform at the time I had the distinct impression this was not like rearranging the deckchairs on the Titanic. This was more like rearranging the little umbrellas in the drinks in the cup holders on the deckchairs of the Titanic."

Source: Pritchett, L. (2013), "The World Bank and public sector management: What next?", *International Review of Administrative Science,* Vol. 79(3): pp. 413-418.

So while we might have come a long way, we have made this journey in a curious way. Looking at the history of donor support for public sector management in Figure 1 we can see that while the approaches have shifted from one set of recommendations to another, at any given time there has been considerable agreement within the development field – even as donors' contribution to transformative PSM reforms remains constant at around zero. We used to believe in capacity building, and did not know how to help transform the state. Now we believe in muddling through and adaptive approaches, and still do not know how to help transform the state in any fundamental way particularly in countries with weak governance environments.[8]

An analysis of the World Bank's record shows the depth of the conviction, at any given time, that there is only one way to proceed, even though what the professionals are convinced about changes (see Box 2). A similar phenomenon has occurred within the PSM development field in general. New ideas have emerged sequentially in a consensus-based trickle. Given the lack of progress in supporting radical PSM transformations, why are there not more arguments? Where are the conflicting radical ideas which credibly claim to move beyond the small and incremental which has bedevilled the last 50 years of development consensus?

Box 2. Always convinced, but often about different things

"It's hard to believe, but the verb *to disagree* never appears in the Reports; *disagreement*, twice in seventy years. It's the formula made famous by Margaret Thatcher: There Is No Alternative… World Bank policies change, as we have seen, but… each new policy is the only possible one."

Source: Moretti, F. and D. Pestri (2015), "Bankspeak: The language of World Bank reports", *New Left Review,* 92, pp, 75-99, a textual analysis of all World Bank public reports 1946-2012.

In the data-starved environment of PSM, where evidence of success or failure at the level of country outcomes only emerges over the long term, we need proxy measures of likely success which are available in the shorter term to make that contestation robust. There is much room for debate about measures that can be devised, but the key point is this: if the long-term failure of the PSM development specialists to achieve transformational reform is the problem then, while we do not know the solution, we do know that the only way to get there is trying things which are new and which are measureable. We need to break out of the existing constraining and failing mould, and we need to build up an evidence base for others to follow.

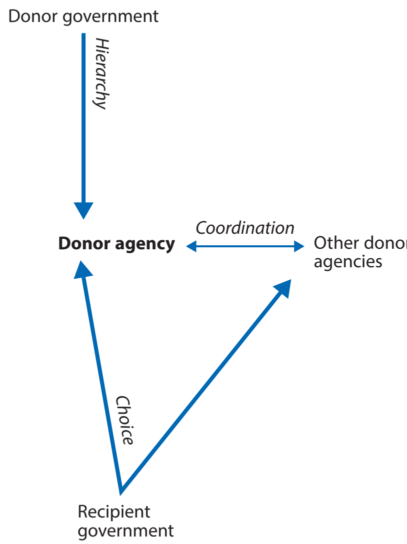
3. Why is new and measurable so difficult?

Measurement is obviously technically difficult. I have noted in the previous chapter that public sector management reforms are tough to measure, lending themselves less to rigorous evaluation since, unlike deworming pills, a medium-term expenditure framework cannot be randomised and, even if impact evaluations could be constructed, the contextual variables are too complex to track in the case of significant reforms (Basu, 2013). One way of approaching that measurement challenge is to look at whether reforms have strengthened those "country systems"[9] that have been shown to be associated, in general terms, with improved results – and whether the reform programme shows progress in operationalising a country-specific theory of change.[10] But *new* is also challenging. Much of the conversation about how to support PSM reforms which has driven the consensus-based movements shown in Figure 1 takes place between development professionals. In the absence of robust evidence, success is largely measured in terms of how much experts sound like each other.[11] New is particularly challenging for larger development agencies. Faced with a bewildering overload of oversight arrangements and blame-management frameworks, they seek to preserve their reputation and legitimacy by proceduralising their business – producing many internal steps and hurdles which are claimed to ensure quality but which serve as much to ensure consistency with a standard set of prescriptions (Power et al., 2009). At root, however, the problems of both measurement and innovation emerge from the incentives facing donor agencies.

Mechanisms for controlling donor agencies

The current aid model places the donor providers of PSM assistance at the intersection of three control mechanisms: hierarchy, co-ordination and choice (Figure 2).

Figure 2. **Current relationships between donor governments, donor agencies and recipient governments**



Box 3. The diminishing political significance of aid

"(There) is a sense that aid, while necessary for now, is an instrument of declining relative, sometimes absolute, value. This is because other instruments are growing, not least trade, remittances, other financial flows, and more general cultural links; but also because the number of low income countries that can be considered potential aid recipients has declined quite rapidly and will decline further. There are currently only 36 low income countries on the World Bank list, and that number will inevitably decline. If development were only about aid, then someone would be bound to ask whether we need a Cabinet-level minister to manage aid to twenty or thirty mostly small low-income countries."

Source: Maxwell, S. (2013), "What is the future of international development?" in A. Sumner and T. Kirk (eds.), *The Donors' Dilemma: Emergence, Convergence and the Future of Foreign Aid*, Wiley, Chichester, UK.

Developments in managing donor agencies through hierarchy

In the first mechanism, funding governments attempt to control their donor agencies through a hierarchical managerial and funding relationship. Donor agencies can be a standalone government department or a ministry, or something slightly more at arm’s length, but they are far from autonomous think tanks. There is clear hierarchical control from government, partly in order to ensure that the donor agency is acting in a way that is consistent with broader national policy objectives (development activities interact strongly with trade policies, for example) and also because there are domestic and international political repercussions from development interventions and so these cannot simply be left to technocrats.

Hierarchy seems to be gaining ground as a control mechanism. The recent absorption of the Canadian International Development Agency (CIDA) and the Australian Agency for International Development (AusAID) within their respective ministries of foreign affairs and trade suggest that independence is being further reduced in at least those settings.[12] However, as I suggest below, this may have a positive disruptive effect. Maybe tighter control is becoming more feasible as aid becomes a “smaller” political topic (Box 3) particularly for bilateral aid (Box 4).

Box 4. **Official development assistance (ODA) is becoming less important**

In the future “(i)nstead of today’s ODA there will be two other major sources of official outside funding for developing countries. First will be lending by multilateral (e.g. the World Bank, the regional development banks) and national (e.g. the US OPIC, the British Commonwealth Development Corporation) development finance institutions from their hard windows at below market prices – not concessional but cheaper, available in bad years and thus counter-cyclical, and with longer terms at lower rates than in the market. In the case of the multilaterals, lending will be underwritten by some capital of middle-income as well as high-income countries, including through their own institutions as with the Andean Development Corporation today and the proposed BRICS bank. Second will be transfers from high-income countries to developing countries in support of global public goods, e.g. to protect forests, to subsidise clean energy and compensate for fossil fuels not exploited, to underwrite pandemic surveillance, and for spending to undercut cross-border non-state terrorism, piracy, drug and sex trafficking, etc. Transfers in support of global public goods will not necessarily go more to poorer than to middle-income countries, as tends to be the case today; they will go where they can be most effectively deployed at the lowest cost.”

Source: Birdsall, N. (2013), “The future of aid: 2030 ODA no more”, in A. Sumner and T. Kirk (eds.), *The Donors’ Dilemma: Emergence, Convergence and the Future of Foreign Aid*, Wiley, Chichester, UK.

Developments in managing donor agencies through technical co-ordination

Donors working on PSM are also subject to various attempts at technical co-ordination with others working in the field. Donor co-ordination in public sector management (and in other areas) has long been cited as a key goal in development policy (Lawson, 2013) and has typically been framed either in terms of co-ordination in relation to sources of financing to reduce costly overlap among donors (Barder et al., 2010), through initiatives such as development assistance databases which map who is paying for what, or in relation to a technical agenda defined by donors which track whether all donors are playing their part towards a larger set of technical objectives. The most striking example of the latter concerns public financial management (OECD, 2003).

The use of technical co-ordination as a control mechanism seems to be weakening in two ways. It is failing to impose a rational division of labour between donors to harness comparative advantages of skills or geographical knowledge. Nor is it ensuring that donors adhere to a way of working which is considered essential to strengthening country systems.

The attempt to rationalise the donor division of labour in supporting PSM reforms through technical co-ordination is self-evidently failing; there is no evidence of any increasing concentration of individual donors' aid on particular recipient countries or sectors, nor of any reduction in overlaps of aid from different donors within recipient countries and sectors.[13] The careful language of the most recent Busan monitoring report highlights that, nearly a decade after the Paris declaration, progress is distinctly limited (OECD and UNDP, 2014). Fragmentation is encouraged by the proliferation of large numbers of small (mainly project-based) interventions (Fengler and Kharas, 2010) and the growth of non-traditional sources of development assistance, including from non-Development Assistance Committee (DAC) donors, climate finance funds, social impact investors, philanthropists and global funds, as well as less concessional flows (Greenhill, Prizzon and Rogerson, 2013: p.viii). The increasing presence of non-traditional donors, China in particular, brings a corresponding increase in the volume of public management technical assistance embedded within projects, particularly infrastructure (Lum, 2009). China is increasingly significant as a donor in Africa with clear signs of competition with the United States (Hanauer and Morris, 2014).

In a typical developing country there are now several dozen bilateral donors, a similar number of multilateral institutions, and hundreds of non-governmental organisations (NGOs) working on various aspects of public sector management. There are also related interventions from dozens of international vertical programmes. The situation in Malawi is typical, where a huge number of donors are active in relation to PSM with no obvious consideration of comparative advantage (Box 5).

Box 5. **Donor-funded PSM projects in Malawi, July 2012**

There are a total of 160 donor-financed projects on Public Sector Management in Malawi with 15 different donors. The large majority of projects are national in scope (78%) and only about one-quarter of the projects are targeted to a specific region. There is intense project crowding, with a heavy concentration of programmes in the south of the country. In the less well supported centre and north of the country those programmes that are present are clustered, and represent only a small group of the overall donor community – such as the World Bank, JICA and UNDP. The resulting picture is of areas with little or no donor activity in contrast with a relatively small southern geographic concentration.

Data source: Open Aid Partnership Secretariat, World Bank Institute, cited in Nunberg, B. and N. Manning (2014), “Shopping for donor aid: A contestable model for governance and public sector management support in developing countries”, Mimeo, New York.

Technical co-ordination is also failing in its other objective of ensuring common approaches to supporting country systems. The arguments for the use of country systems lie at the heart of the attempts to co-ordinate as emphasised in the Paris Declaration (OECD, 2008) which particularly urged the use of countries’ own public financial management systems. The technical criteria are themselves under some challenge as, while there is some evidence that using country systems helps build capacity and reduces transaction costs (IDD and Associates, 2006; Knack, 2013; OECD, 2009), many note that this is confusing the ends of stronger country systems with particular project means. Certainly, the Busan discussions suggest a somewhat watered-down commitment: “The use and strengthening of country systems should be placed within the overall context of national capacity development for sustainable outcomes” (Busan Partnership for Effective Development Co-operation, 2011: p. 5). Whether because of doubts about the technical basis for the co-ordination or simply because of lack of interest, it is evident that the concept has little disciplinary power over donor behaviour in practice (CABRI, 2014; QuODA, 2011).

Arguably the OECD-DAC approach continues to push technical co-ordination (Barder et al., 2010; Fengler and Kharas, 2010), supported by watchdog initiatives and peer pressure (Deutscher and Fyson, 2008). Lobbyists for technical co-ordination argue for developments such as “an international body of national development aid agencies to deliberate, share best practices, and provide an informal mechanism for holding aid agencies accountable to their ultimate beneficiaries – the poor people of the world… Networks of aid co-ordinators and aid agencies would share information around the world, buoyed by common standards for data management” (Fengler and Kharas, 2011: p. 7). Technical co-ordination has had a recent boost from the growing array of vehicles and incentives for greater transparency in project funding and methodology.

But overall, co-ordination is increasingly impractical as the plethora of new players with narrow interests means that the traditional peer pressure for co-ordination is weakening (Harris, 2011). The OECD DAC is leading efforts to press for enhanced access to information about which agency is funding what project and where (see for example Rathmell et al., 2007 and IATI, 2013). Although the emphasis on donor transparency is often couched in terms of accountability, it is difficult to see how the public in either donor or recipient countries can use it for that purpose. The movement instead lends itself much more readily to fuelling concerns about donor overlaps.

Technical co-ordination also seems to be losing ground as a control mechanism because there is a trade-off with hierarchy; as a representative from a major donor reported at a recent meeting of the Effective Institutions Platform "my minister is not interested in hearing about country systems, she wants to know when we will see some prominent results".[14] National-level politics which determine the priorities for intervention have more to do with global positioning than with any professional arguments about co-ordination for long-term aid effectiveness.

Developments in managing donor agencies through competition

There is a third control mechanism at work. As donor staff know only too well, hierarchical control and technical co-ordination do not fully capture the reality they experience in their day-to-day dealings with government. They are clearly not simply attempting to carry out the wishes of their funding principals (or obscuring the fact that they are not doing so) while ensuring that they adhere to Paris/Accra/Busan principles. They are simultaneously engaged in a complicated negotiation with recipient governments about when and where they can undertake project activities. Donors are in competition with each other at the country level: they hope that governments will chose their projects over others. Donors, inevitably, are convinced that their approaches are distinctively better and thus are partly competing to provide what they consider to be the most promising development solution. But this is not the only driver of their behaviour – they are also significantly competing for prominence in the recipient country (not least because this translates into prominence within the donor agency for the project manager) and they are competing to ensure that their disbursements of skills and expertise can remain on track.

This choice is currently a weak mechanism of control, undermined by control through hierarchy and technical co-ordination which both prioritise donor assumptions over country knowledge. These latter mechanisms rest on the assumptions that the right way to do things is known and that the donors have access to this knowledge. The "cartel" of donor governments (Easterly, 2003) align themselves with each other to drive development through a "planning paradigm" (Barder, 2009). The key enforcement mechanism for the "cartel" is pre-financed aid (Browne, 2012) in which the donor provides funding for recipient governments, a significant amount of which is payment for the donor's own services. The point here is not whether the donor uses its own staff or contracts out the technical assistance work – it is that it is primarily the donor determining the type of assistance that its money must be used for. The justification, ultimately, is that controlling the nature of the services that the country receives is done in order to ensure that those services embody the donor's knowledge.[15]

These mechanisms deter the new and the measurable

Like Tolstoy's unhappy families, these control mechanisms each have their own distinctive way of deterring radical approaches – where radicalism entails "new" (on the simple basis that the "old" ways have not done well) and "measurable" (along the axes of strengthened "country systems" and effective operationalisation of a robust, country-specific theory of change) reform approaches.

Hierarchy encourages innovation without measurement. Hierarchy encourages innovation – it is in the interests of both the donor agency and the funding government to promise a new range of products with grand claims about the fruits that they will bear in the future, but it is in the interests of neither to risk demonstrating failure by robust measurements. Donor agencies have little interest in letting their funding government know if they are doing a good job, and so meaningful measurability is not a priority for them (Barder, 2009); they would prefer to leave an empirical gap to be filled with a blizzard of information concerning disbursement plans and glamorous promises. Funding governments are driven more by national-level politics and global positioning than by measurable progress with its attendant risks of measured failure.

Technical co-ordination encourages the wrong sort of measurement without innovation. Even if technical co-ordination was, implausibly, feasible in the new world of many more fragmented funding agencies, the traditional donor agenda, often associated with the DAC and its members, too often remains concerned with the use of country systems, not with their strengthening. It promotes a one-size-fits-all approach with little concern for country-specificities. Thus the focus has been on unchanging assumptions concerning country public financial management systems (the polar opposite of "new") and measurement has focused on the degree of donor compliance in using them (a far cry from measuring strengthened "country systems" or the effective operationalisation of a robust, country-specific theory of change).

Choice has not really been tried. Approaches offering a choice of assistance for improving PSM are confounded by the ability of the donors to offer seductive but unproven "best practices" and by the ability and willingness of donors to act as if they were the governments that they are seeking to help. Recipient governments are offered products laden with untestable claims and, to the extent that choice requires clearing complex bureaucratic hurdles, donors are only too willing to help out by making the choice for governments. The spirit of failed country choice is perhaps best captured in the Poverty Reduction Strategy Papers (PRSPs) launched by the World Bank and the International Monetary Fund (IMF) in 1999. These have been the primary instrument through which donors and client country officials convened to agree upon the broad outline of country-level development programmes and support. These attempts at country ownership and country selection of reform programmes have often disappointed. Broadly, the idea was that through an extended participatory process, governments would set the agenda for development policy along more consensus-based lines. The PRSPs were to address four main topics: 1) macro and structural policies for growth; 2) governance, very particularly including public sector financial management; 3) sectoral policies; and 4) costing of and funding for major programmes (Klugman, 2002). The technical expertise of the international financial institutions was to be balanced by the knowledge of key local actors. This was billed as a process in which the donors would be reduced to acting as "brokers of participation" rather than "overt dictators of policy options" (Participation and Civic Engagement Group, 2002). In reality, PRSPs looked uncannily alike, regardless of the context (World Bank, 2004).[16] Suspicions of the donor-funded consultants writing the papers for governments have long persisted.

Choice perhaps has the fewest supporters in development discourse – but that is hardly surprising given that it de-emphasises donor agencies and they are largely the group that is leading that discourse. Recent Effective Institutions Platform discussions have used the coded terms "ownership" and "country-led" to suggest that choice is an important consideration – but far from the dominant one (Effective Institutions Platform, 2015a, 2015b).

4. Choice might not be the right way to go – but it is the way that we are going

It can lead to radical change

Competition between donors with different approaches, and between different models supported by the same donor, would seem to be essential to allow the more successful approaches to rise to the top in a context where professional consensus has little empirical basis. Improving the success rate of surgical interventions can be facilitated by consensus within professional medical bodies, drawing on a strong base of research. Improving the success rate of turning lead into gold is unlikely to happen as the result of a professional grouping of alchemists. Thus, in looking for more transformative approaches to public sector management, breaking out of the consensus is key.

Country-level choice has played a major part in the history of transformative public sector management reforms. In major reforms with lasting impact in each of the last three centuries (Peter the Great's modernisation of Russia in the early 18th century, Japan's opening up to economic and institutional advice from outside in the mid-19th century and China's request for modernisation through capital investment and skill development from the League of Nations in the early 20th century) the countries "decided on their best course of action and purchased overseas the skills that they lacked… The client country paid and the jobs got done the way the client wanted." (Browne, 2012: pp. 23-4). It should be noted that sometimes what they wanted was "isomorphic mimicry", but free and informed choice meant that this was a reasonable hunch about the way to go, and not unhelpful ventriloquism (Krause, 2013a).

The potential for country choice to lead to more effective support for transformative PSM reforms arises because it could break out of the straitjacket of consensus, leading to experiments which just might work. It seems obvious that aid institutions must leverage networks to embrace good ideas that come from anywhere, echoing the metaphor of evolutionary economics and its claim that growth is complex and impossible to predict with traditional economic models focusing solely on labour and capital (Whittle and Kuraishi, 2008). As de Renzio and Rogerson note, "unless developing countries are offered genuine choice about which aid agencies they want to work with, the effectiveness of aid in reducing poverty will decline and the rhetoric about recipient country ownership will remain empty" (de Renzio and Rogerson, 2005: p. 1).

It is inevitable

The growth of diverse sources of financial assistance means that choice is likely to be an increasing force in development – the current donor "cartel" (Easterly, 2003) is facing multiple new entrants. There are now more countries which give official aid outside the DAC than within it[17] and money comes from other sources: philanthropic institutions, social impact investments, global funds, funds for climate finance and non-concessional financial flows from the development banks. Gross private capital flows to sub-Saharan Africa since 2002 have surpassed official development assistance, growing by 19.4% per year and stable, long-term foreign direct investment (FDI) now comprises 75% of total private capital flows (Sy, 2013). New multilateral development finance institutions such as the New Development Bank set up by Brazil, Russia, India, China and South Africa (the five BRICS nations)[18] and the Asian Infrastructure Investment Bank[19] are emerging.

The relative decline in traditional donors is noted by Kragelund (2014) who cites a high-ranking civil servant in the Zambian Ministry of Commerce as welcoming new donor partners (non-traditional state actors, NTSAs): "[The NTSAs] are pretty much who they always were and so is our relation to them.

They just scaled up… They provide loans to the treasury and the treasury then decides how to use the money. There are no Chinese expats here telling the treasury what to do. The Chinese have no project office co-ordinating the interventions. That is why we like that kind of support so much. It enables us to recognise our own priorities." (Kragelund, 2014: p. 156).

In addition to a more competitive market for aid, there are indications that countries themselves are increasingly capable and sufficiently resourced to "purchase" assistance themselves, at least for some services. Median income rose by 20% between 1995 and 2008 in sub-Saharan Africa, and at least a subset of successful, emergent countries now have the leadership skills and means to equip themselves with the discretionary skills needed to choose their donor partners more selectively (Radelet, 2010).

All in all, it is country choice which offers the greatest opportunity for impacting the current aid architecture and its ability to deliver new approaches to upstream PSM reform. There are an increasing number of actors, and so choice is all but inevitable. Voicing concerns that new donor entrants to the field "will elbow aside established aid institutions… (and) may postpone necessary adjustment because there is so little conditionality…" (Woods, 2008: p. 1207) and that donor competition is wasteful and should be managed (Klein and Harford, 2005: p. 3) is unlikely to hold back the tide.

But there are major challenges

The new "age of choice" for donor financing entails expanding three main dimensions of negotiation and bargaining for countries:

1. **How much?** Negotiations to determine their aggregate access to concessional financing.
2. **What sort of financing?** Determining the flexibility of financing (conditionalities and refinancing options) and the associated terms and conditions of the financing (speed of delivery, predictability, compliance with Paris/Accra etc.).
3. **For what?** The sectors that the financing is available for and the technical advice that inevitably accompanies it.

The emerging picture suggests that while countries are beginning to exploit the increasingly negotiable landscape to maximise their aggregate access to concessional financing and to influence the flexibility of financing and its associated terms and conditions, choice does not seem, as yet, to be having much effect on the technical quality of aid (see Box 6).[20] The discussion about choice seems to retain the assumption that more and better money translates to more and better results. It has not yet recognised that development financing is entangled with technical advice, through pre-financing and more generally. While this connection might be less strong in the case of infrastructure it is likely to be much more so in the case of softer institutional reform issues. In consequence the real value of the financing has to be weighted by the quality of the advice that is associated with it. As a somewhat caricatured example, if a country can access a large

Box 6. **How are countries exercising their new choices?**

- **In the last ten years countries have had more funding options and more policy space.** Greater choice is welcome, with the benefits of more funding options seen as outweighing the complexity of managing these new resources. Seeking additional funds from a range of sources is a priority for governments, particularly where resource-intensive infrastructure development is a pillar of national development strategies.
- **Countries expressed similar views on the most desirable attributes of external development finance, especially official grants and loans.** They value flexibility and the use of country systems, speed of delivery, and alignment with their national strategies. For example, when considering the financial terms for debt resources, a minimum grant element of 35% of the nominal value of the loan (the IMF benchmark for low-income countries) would be the prevailing criterion for the Ministries of Finance in Ghana and Senegal when seeking project-type finance. However, both countries chose to pay significantly more for Eurobond issues and syndicated regional loans offering much larger volume and flexibility. Timor-Leste sets the return on its offshore reserves as a ceiling on borrowing rates.
- **Strategic management of these choices is still lacking: multiple government actors face different trade-offs.** While Timor-Leste is relatively assertive in choosing among the financing sources on offer, Ghana and Senegal are less selective, given their much tighter fiscal position. Furthermore, strengthening co-ordination mechanisms and/or involving non-DAC development partners in these mechanisms are not high priorities for any of these three governments, which generally prefer bilateral channels of dialogue and negotiations.
- **Little is known about philanthropic assistance, and international public climate change finance appears to be demand-constrained**. While it is not surprising that most of the assistance from philanthropic organisations does not pass through government systems, government actors do not see themselves as engaged with this assistance and what limited information they have about it is scarce and anecdotal. The volume of climate-related finance is considered modest and is mostly delivered through ODA channels. There is high demand for strengthening local capacity to prepare and implement funding proposals.

Source: ODI and OECD (2014), “The new development finance landscape: Developing countries’ perspective”, Working Draft Presented at the OECD Workshop on Development Finance, OECD, Paris, 25 June 2014 (p. 8).

volume of flexible development finance for education which is provided by donors who are pushing a failed teacher incentive model, then the value of that financing is diminished accordingly.

If choice is to lead to a helpful competitive market for effective transformative solutions then obviously it needs to be "informed", but it is not clear that this is yet the case. One constraint on making choice informed is that information about reform offerings is in short supply. If governments are to fully shape the debate about which governance and PSM aid product best fits their country's needs, and which provider can best deliver it, then a significant information problem must be solved (Nunberg and Manning, 2014). Ultimately, the effectiveness of assistance in this field can only be judged by the results that it brings; the track record in the field suggests that advance assurances that public sector reform projects will make a large and lasting difference are not particularly credible. Thus donor aid product proposals must be accompanied by information about the evidence base on which the proposal is made in addition to information about costs (financial and transactional) and likely returns. This information about the evidence base would require, in essence, that project proposals are accompanied by evidence about how this type of reform proposal has worked out both in general and in the particular situation in question (PRMPS, 2012a).

The other challenge to "informed" choice is that recipient governments might be choosing on a basis other than results. In their review of public sector reforms in the OECD, Pollitt and Bouckaert (2011) point out that political interests are far from clearly stacked towards measurable results. A good political outcome of reform can be "a continuing high level of production of talk" with a corresponding "flow of White Papers, charters and 'new initiatives'" (Pollitt and Bouckaert, 2011: p. 159) or as Krause (2013b) notes, it can be the development of a state machinery which is good at something (war, provision of benefits to the urban middle class, etc.) and not necessarily equitable growth. Politicians want to be seen to be active and in charge – they don't necessarily want to be seen to be undermining key constituencies.

5. How can PSM development specialists harness the new choice agenda to make a big difference?

Break with tradition – help make PSM reform choice "informed"

By tradition, and despite the considerable rhetoric about the importance of country-led reforms, development professionals have found the idea of informed country choice uncomfortable. Each group of professionals and each donor has tended to assume that their advice is the obvious technical first best way forward (even if that advice is that there is no first best approach). Choice implies contestation, contestation implies winners and losers, and losing is an embarrassment in agencies which have traditionally sold themselves as knowing the technically correct way forward.

One small step will be to insist more openly that proposals for PSM reform are "good faith" experiments – that while we can justify the design and the approach, we cannot guarantee the results and certainly cannot promise that there was not a better way of doing it. As suggested in Section 4, a slightly bigger step would be to move beyond the current anodyne movement to "publish what you fund" towards a "reveal what you are proposing" movement in which donor-aided reform proposals would be accompanied by information about:

1. the evidence base on which the proposal is made
2. costs (financial and transactional) and likely returns
3. evidence from cross-country and multi-sector studies about how this type of reform proposal has worked out in general
4. evidence from impact evaluation or other research which can test for the salience of distinctive environmental conditions – answering the parallel question: "why is this likely to work here?" (PRMPS, 2012a)

This would require some tactful management of the claim that most donor agencies will make that they already evaluate project and programme designs carefully. As Box 2, above, reminds us, these claimed project appraisal methods, remarkably, always generate an answer that is consistent with the consensus of the time even when there is little evidence that the consensus has produced significant results.

Expand the boundaries of PSM expertise way beyond "what"

As noted above, the current technical consensus on PSM reform, particularly among the "new realists", is the argument that the process is as important as the technical product. So, technical development specialists should no longer see their task purely in terms of expertise on budgetary institutions or human resource management regimes – they should also see their role in terms of understanding the interests of country stakeholder and working iteratively to support local partners. This chapter suggests that to harness the choice agenda in the cause of productive contestation between different approaches, these specialists need to go even further. They need to argue within their agencies that how development finance is provided has a distinctive impact on whether country choice can be used to generate productive contestation. PSM development specialists have a reason for engaging with discussions about modes of financing development assistance.

Civil service reform specialists are unlikely to find themselves in a position where they can change, or even directly influence, their agency's policy on modes of financing. But they can at least point out that pre-financing is an obstacle to the informed choice which is necessary if we are to see progress in an area where there has been so little.

Most donors are not going to abandon their disparate policy preferences and simply pass money to recipient governments for them to select their preferred reform solution, although the history of lending to developing countries suggests that some may (Hepburn, 2005). "Funded self-conditionality" (Ranis, 2012) offers an example of a way forward.

Under funded self-conditionality, countries would set out what they wanted to achieve and how they would measure it.[21] Donors would determine if this was a result that they were interested in financing and country governments would then, using informed choice and a more open market for technical solutions and solution providers, select and pay for any technical partners that they wished to work with. In this way, the expertise and policy advice that by tradition has been the "tail that wags the development dog" (Browne, 2012: p. 163) would become something that countries chose and paid for.

One method for pursuing this is via Development Impact Bonds (Figure 3). These entail specifying

> "a desired social outcome and a metric for measuring success. Private investors bank-roll a programme to achieve the outcomes. The programme itself is carried out by specialised service providers, and investors are paid back by an outcome funder (usually a donor agency) if – and only if – independently verified evidence shows that the programme has been successful. The greater the measured success of the programme, the greater the return to investors, up to a cap. Typically, an intermediary organisation will co-ordinate between investors, the outcome funder, and service providers, representing the parties not in the room and negotiating an agreement that fits the needs of all." (Development Impact Bond Working Group, 2013: pp. 6-7)

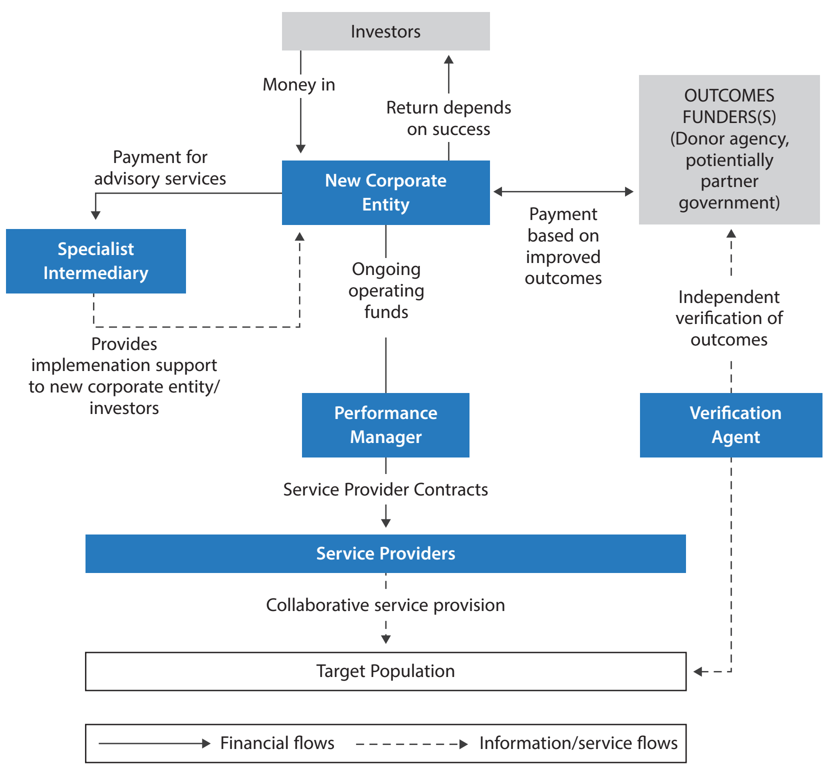
Development Impact Bonds could be a method for seeking funding for self-conditionality, transforming the challenge of improving upstream PSM into "investible" opportunities, creating incentives to put in place the necessary feedback loops, data collection and performance management systems required to achieve desired outcomes and attracting funding which could be used to purchase technical support which has some evidence behind it as to why it might work.

There is no reason to announce victory on developments such as these however. As yet they are highly speculative possibilities; recent discussion of Development Impact Bonds and their place in the financing of the post-2015

Sustainable Development Goals have made no reference to public sector improvements as an area for experimentation (GIIN, 2015; Kharas, Prizzon and Rogerson, 2014). But it marks out the sort of change that will be necessary if we are to develop an aid architecture which might be able to foster the contestation necessary if we are to improve donor performance in supporting big improvements in government functioning.

One perhaps positive and certainly disruptive element here, which might provide an opportunity for this level of radical experimentation, is that in addition to the growing competition that they face, there are changes afoot within many of the existing reform providers. The Australian merger of development with foreign affairs and trade (mirroring the earlier Canadian shift and likely foreshadowing others) might be a potentially useful disrupting influence. While the loss of independence is undoubtedly disturbing to development professionals, this brings in a new range of

Figure 3. **One mechanism for funding self-conditionality – Development Impact Bonds**



Source: Development Impact Bond Working Group (2013), *Development Impact Bond Working Group Report: Consultation Draft*, Center for Global Development, Washington, DC (p. 124).

players and, interestingly, mixes traditional development practitioners with staff more used to the dark arts of politics and diplomacy. Among the multilaterals, we see the increasing influence of the BRICS candidates in senior appointments. Neither of these developments will automatically lead to improvements in the aid architecture which will assist the development of radical new approaches for helping to fix the centre of government – but they are significant changes and development professionals hoping to help fix the centre of government should take any opportunity to seize any disruptions that these changes lead to in pushing in the right direction.

6. Concluding thoughts

Sen (2006) pushes back, correctly, against Easterly's melodramatic proposition that the existing donors are fundamentally unfit for their tasks, including that of supporting institution building (Easterly, 2006) when he notes that while there is considerable scope for improvement, much has been achieved by them. But Easterly is right to point out that we need "a Copernican Revolution in development" which would disrupt our hubristic perspective that we, "the aid and development experts… (are at the) centre of development and (so) we obsess with this sort of what should we do question and what the western efforts should be…" (Easterly and Muir, 2014). In keeping with Barder's observation that "(i)mprovements in the institutions of international aid are more likely to come from evolution than from *intelligent design*." (Barder, 2009: p. 2), we need to encourage more choices and contribute to conditions in which the fittest approaches to supporting "big" improvements in government functioning will survive.

It is important to remember that the place of bilateral and multilateral donors in the development architecture is not fixed. From within each institution it seems an obvious truth that they are making a distinct and valuable contribution to development, but this is less obvious when one considers the array of donors overall. As Martens (2005) notes, in fact each donor is simply one particular trade-off between the transaction costs of imposing prior controls on how money is to be spent with the costs after the fact of controls on what it is to achieve. Each donor (and each trade-off) is different as the funding constituencies have different preferences – preferences which are more in flux than is commonly understood (Béland and Orenstein, 2013). If there was only one way of making this trade-off, then there could just be one large global donor.

All this is to say, that donors and their certainties are somewhat transient phenomenon and, even if they employ us, we should not argue for their continuation as if they were fixed points in a stable universe, whatever our career ambitions within them.

Notes

1. This note has benefitted from many useful comments from colleagues. I am particularly grateful to Naaz Barma (Assistant Professor of National Security Affairs, Naval Postgraduate School), Jurgen Blum (World Bank), Bill Dorotinsky (World Bank), Philipp Krause (Public Finance Team Leader, Overseas Development Institute), Barbara Nunberg (Professor of Professional Practice in International and Public Affairs, Columbia University) and Geoffrey Shepherd (consultant) for their insights and wisdom. The description of the current aid architecture and its discontents, draws on Nunberg and Manning (2014).

2. OECD (2015) assesses what needs to be done to meet the "post-2015 ambitions" and emphasises the significance of improvements in state capability in fragile states and the potential for increased development assistance – but does not offer guidance on how the latter will lead to the former.

3. Moss and Subramanian (2005) usefully list some scenarios for what Big Aid might look like:
   a. ODA/GDP ratio is doubled for each country.
   b. ODA is tripled to the top two quintiles of the CPIA, with no change in ODA for bottom three quintiles.
   c. assumes increase in expenditure of 10 percentage points of GDP, of which 8 points are new ODA and 2 points domestically raised.
   d. additional USD 130 billion, divided evenly based on GDP-weighting.
   e. adds USD 70 per head in new ODA.
   f. assumes public expenditure rises to USD 143 per capita, with any increase funded by new ODA, but any past ODA-financed expenditure now financed locally.

4. "Money alone is unlikely to dislodge the (existing political) equilibrium. In fact, it may increase the rents (building roads enhances trucking profits without lowering prices). Even money conditioned on policy reforms may not do the trick. For if there is a political benefit to the distortion – be it a fertilizer subsidy or protective tariff – why would a politician agree to remove it, even for some financial assistance? As one politician said to me, 'If you have a choice between a $100 million loan and winning the next election, which would you choose?'" (Devarajan, 2013). This case is supported by Moss and Subramanian (2005).

5. Amongst others by Brinkerhoff and Crosby (2002), and Brinkerhoff and Ingle (1989).

6. For example Ellerman (2005) and Evans (2004).

7. See Andrews (2013) in particular.

8. Pritchett and de Weijer (2010) usefully expand on this point.

9. My previous paper in this volume discusses the issues involved in measures of country systems, noting that while indicators at the aggregate "strength of the public sector" level are unlikely to be useful, measures of specific management public management "systems" can offer some ways forward as long as the indicators can reasonably claim to be "action-worthy", i.e. that behavioural change in these systems really is in some way associated with improved development outcomes, and "actionable", i.e. pointing to a policy action or meaningful reform which would affect the indicator (PRMPS, 2012b). The debate initiated by Francis Fukuyama's recent article on "What is Governance?" (Fukuyama, 2013) has reinvigorated the debate on how to measure state capacity.

10. Again as noted previously, Wild et al. (2015) propose indicators which test whether one particular theory of change is being applied in practice through measures of "the extent to which issues have local salience or relevance, and whether processes give priority to local leadership and capacity", "the use of the best knowledge available about the local political economy and its dynamics", "learning in action… (and) the use of feedback loops" and "attempts to monitor and measure innovation processes and impacts" (Wild et al., 2015: p. 42).

11. It is the general case that "monopoly expertise tends to produce a poorer epistemic performance than competition" (Koppl, 2012: p. 172). The development field is particularly prone to inward-looking debates between its own experts and impervious to hard evidence (Coppola, 2011). The problem is similar to that of "expert failure" in the criminal justice sector when prosecutors, police and crime laboratories reassure each other, producing little challenge to conclusions and resulting in "low error correcting power" and hence erroneous prosecutions (Koppl and Cowan, 2010, cited in Koppl, 2012).

12. Despite some speculation, in Jóźwiak (2015) the UK Secretary of State for International Development indicates that the Department for International Development (DFID) will retain its status as a government department and will not be merged with the Foreign and Commonwealth Office.

13. This is well discussed in Aldasoro et al. (2009), Barder et al. (2010: Figures 3 and 4), Birdsall and Kharas (2014), Nunnenkamp et al. (2013) and Vollmer et al. (2014).

14. Comment from donor representative made at the Effective Institutions Platform meeting at the OECD in Paris on October 29, 2014.

15. Obviously budget support does not fit within that model, but there is little reason to believe that this will grow significantly beyond its current level of 3% of total ODA (Intergovernmental Committee of Experts on Sustainable Development Financing, 2013: p. 15). Budget support has also shown itself to be a rather weak instrument in relation to upstream PSM issues. It is argued that it has helped, in a negative sense, by not bypassing country public financial management systems, but its conditionalities are too weak and awkward to employ to give the instrument much power in influencing upstream PSM (Rønsholt, 2014).

16. Wilhelm and Krause (2008) found that the PRSPs were somewhat lightly owned by government and that the relationship between the strategy and the government budget was at times rather tenuous.

17. The oil-producing states also give large amounts of aid, mainly to Islamic states. One estimate suggests that in the period 1974-94, Arab countries' development assistance amounted to over 13% of the total (Villanger, 2007, cited in Woods, 2008, p. 1206). In 2010, BRICS (Brazil, Russia, India, China and South Africa) countries contributed 25 percent of sub-Saharan African FDI, and their share is growing (Sy, 2015). Estimates suggest that China is giving perhaps USD 5 billion a year, a little less than the Gates Foundation, and about as much again is given by the other non-DAC government donors (Barder et al., 2010). Kragelund (2008) points out that this is in fact more of a return to prominence for the non-DAC donors. China has been giving aid since 1949 with an aid programme to Africa since the 1950s.

18. The BRICS members will set up a USD 100 billion contingency reserve pool (called the contingent reserve arrangement, or CRA), to help members who face sudden foreign capital flights. China will contribute USD 41 billion, Russia, Brazil and India USD 18 billion each, and South Africa USD 5 billion (Gumede, 2014). Developing countries have long failed to get industrial nations to either give them a bigger say in decision-making at the World Bank and IMF or to push less strenuous adjustment programmes. These proposals are the first practical attempts by developing countries to create a monetary, development-finance and trade alternative to the IMF and the World Bank.

19. At the time of writing, more than 50 countries including Britain, France and Germany have joined China's initiative, a USD 50 billion multilateral infrastructure bank (Guardian, 2014).

20. See also Greenhill et al. (2013), Prizzon (2014), and Schmaljohann and Prizzon (2014).

21. It was suggested above that, since final outcome measures are too distant, some shorter-term proxy measures would be necessary. The illustrative examples that were given were measures of the "country system" strengthening and measures which show progress in operationalising a country-specific theory of change. There are of course many other possibilities.

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