II. Capacity Development within Government and Accountability to Citizens for Development Contract Services

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Introduction

This chapter explores the contracting out of core government functions in fragile and developing countries based on five case studies of a contractor, *Firm X*, operating in:

1. Angola: Provision of customs and trade facilitation services and reforms;
2. Sierra Leone: Provision of tax collection services and reforms;
3. South Sudan: Procurement agents and advisory services;
4. Afghanistan: Procurement agents and advisory services;
5. Bahamas: Provision of external audit services in value for money audits.

The first four cases are based on the core functions aligned to the Ministry of Finance in a fragile environment. The fifth case (the Bahamas) was selected to serve as a reality check on the other cases presented.

In developing countries, contracting out was introduced during the first wave of governmental privatisation (principally state enterprises) of the mid-1980s in the implementation of the structural adjustment policies. These policies were adopted not in direct response to capacity development efforts, but to address the perceived lack of managerial capacity in government, and the need to stop the continued dependency of these organisations on state subsidies.

Contracting out in OECD countries was designed to promote managerial capacity as well as to reform government departments to concentrate on their core activities.

In developing countries and states in situations of fragility, contracting out raises a number of conceptual problems. The first is founded on a fundamental principle that supports an equitable outcome for any principal-agent relationship. On the one hand, the principal should be capable of specifying what is needed and manage the contract to ensure that the agent delivers. On the other hand, the agent should have a shared understanding and be empathetic of the needs of the principal. The second point, which is closely related to the latter, is that the agent should be free of all moral hazards, and exercise due diligence in executing the contract. It may be construed, perhaps quite wrongly, that the agent is unlikely to perform and deliver the full outputs of the capacity building services. This may be the case as long as the agent continues to derive benefits from the dependency created by the lack of capacity of the principal. In the contract, the agent and government need to be transparent in communicating the objectives and potential limitations of the project.

Case 1
Angola: Provision of Customs and Trade Facilitating Services and Reforms

The National Directorate of Customs of Angola (NDC) contracted *Firm X* to provide support to implement the Customs Expansion and Modernisation Programme (CEMP) in March 2001.

The programme of work had a specific requirement for the contractor to support capacity development in the form of a Business Management Development Programme (BMDP) to raise the level of management competence across the organisation. Training (which was developed in conjunction with a Human Resource Strategy) was delivered with theory-based sessions followed by practical sessions. Staff members who participated were relatively inexperienced managers, but all demonstrated enthusiasm and willingness to learn and apply the management principles taught. A coaching programme was implemented with several partnership agreements, which were signed with the aim of improving the coaching skills of senior managers. According to Dr. Inalda Manjenje, Head of Dispute Resolution at the NDC:

> *Revenue has increased three to four times since we began implementation of this project. In addition to our government salaries, we receive allowances such as overtime, relocation, and a percentage of the duties, taxes and penalties collected. Staffs are now better motivated. They have new uniforms, job groups have been reclassified, and we are now required to adhere to a Code of Conduct. The department has a policy requiring officials to learn English so that they can communicate better with clients. These reforms have also been beneficial to business as goods are cleared more quickly. (Buyonge 2005)*

In summary, at the end of Phase I of the Customs Expansion and the Modernisation Programme (CEMP) these results were achieved:

- increase in revenue collected of 394% (USD 215 million in 2000 to USD 1.62 billion in 2005);
- average clearance time down from 21 days to 48 hours;
- Single Administrative Document introduced (first SADC country to implement);
- dependence on PSI reduced;
- 434 training courses held with over 6000 attendees;
- new staff and fast-track development programme.

It is, however, necessary to underline that the end of the civil war coincided with the beginning of this project, and might have played a role in the increased revenue collection after the government recovered full territorial sovereignty.

Case 2
Sierra Leone: Tax Collection

The Government of Sierra Leone faces severe resource constraints with an overall budget deficit (excluding grants) partly explained by the slow recovery of the tax base and the growth in demand for services and reconstruction activities.

The Sierra Leone National Revenue Authority (NRA) was officially set up in 2003 as a unified authority to improve revenue collection. The NRA received little financial support, except as part of its mandate to retain 3% of revenue collection for administration, and a yearly investment budget of approximately GBP 250,000.

Firm X was contracted by DFID to support the NRA starting 21 November 2005. This project was scheduled to run for 30 months (until May 2008) and has been extended to June 2009. The technical assistance from DFID was to enable the service provider to support the NRA to introduce a value-added tax (VAT) by 2007. Five areas were targeted in the support package, namely:

- output 1: Effective plan to implement the VAT by 1 June 2007;
- output 2: Strengthened Income Tax Administration;
- output 3: Support to computerisation of customs procedures;
- output 4: Support to NRA to achieve government revenue targets in the short-term;
- output 5: Support to tax policy analysis in the Ministry of Finance (MoF).

In 2006, the NRA failed to meet its revenue targets, and the International Monetary Fund (IMF) expressed concerns about its performance. In an attempt to address these concerns, a four-year modernisation plan was devised. NRA management decided to include a Short Term Revenue Improvement Programme (STRIP) as a component of the comprehensive modernisation programme, to run between April and December 2007.

STRIP was designed to make a visibly positive impact on NRA's revenue performance in the short-term. The STRIP approach required the allocation of the greater part of consulting time in-country to working side by side with NRA staff. This added value for the consultant not only to gain a more realistic appreciation of the local environment and its problems, but also to get involved in the implementation of recommendations to yield visible revenue benefit and, by so doing, to offer hands-on training to NRA staff.

Following a 2007 DFID output-to-purpose review of the project, the contract was amended to concentrate less on the provision of theoretical training and advice and more on the transfer of skills and changes in processes and attitudes, by enabling expatriate consultants to work in the field alongside NRA staff.

To ensure overall success, *Firm X* used an effective method of communication between all stakeholders right from the beginning, thus implementing relationship-building activities that linked all parties involved in the NRA development.

Most of the STRIP consultancy inputs were allocated monetary targets. These comprised the quantum of additional revenue that STRIP was designed to realise in the financial year to 31 December 2007. The initial results have been very encouraging in the sense that, during the first phase of the intervention, revenue increased by SLL 16.415 billion (Sierra Leone leone), which is compatible with the original target for the year of SLL 16.50 billion (about USD 5.5 million).

The service provider has made successful interventions delivered by the sales tax auditors of the Revenue Agency Governing Board of Ghana (RAGB) and inputs of a Flexible Anti-Smuggling Team (FAST), composed of consultants. The RAGB consultants delivered SLL 9.1 billion above target and the FAST experts achieved SLL 3 billion over target. These encouraging results merely serve as indicators of the potential for further significant revenue increases in 2008 and thereafter.

The contractor has also organised a semi-weekly interactive classroom-based training on Domestic Indirect Taxes (DIT), audit skills and techniques for 24 selected staff of the NRA drawn from the Customs and Excise, Income Tax and GST Secretariat (Good and Services Tax). The completed audits resulted in additional assessments of SLL 10.6 billion representing a positive achievement over a revenue target of SLL 1 billion for the training input set in the contract.

Sierra Leone is still rebuilding after the complete collapse of all its institutions. Basic social contract theory applies: Once the citizens are reassured that the state can deliver physical security to its people, increasing acceptance and compliance with tax legislation will follow.

The successful STRIP interventions demonstrate what is possible in such partnerships between the NRA and the implementing contractor.

Firm X has developed an implementation plan, including a draft law for the implementation of the VAT. The new tax is scheduled to start in April 2009, after several delays caused by the failure to pass the law. Meanwhile, the overall tax collection programme of Sierra Leone has not met expectations, as the Government has not yet implemented some essential recommendations made by *Firm X*, such as the creation of a Debt Collection Unit.

Case 3
South Sudan: Contracting out in procurement

From 2004-05, the UN, the World Bank, the Government of Sudan and the Sudanese People's Liberation Movement fielded a joint assessment mission (JAM), which resulted in a framework for sustained peace, development and poverty reduction. This document identified the reconstruction and development requirements for Sudan including Southern Sudan as envisaged in the Comprehensive Peace Agreement (CPA). The CPA includes a wealth-sharing protocol under which significant shares of oil and non-oil revenues are being transferred to the Government of Southern Sudan (GOSS). In order to assist in the financing of reconstruction, donors have contributed to two Multi-Donor Trust Funds (MDTF): one for national development and the other for the development of South Sudan. The World Bank is the administrator of both MDTFs.

Following the CPA, the Government of National Unity (GNU) and the Government of Southern Sudan (GOSS) were established. The main source of revenue for GOSS is its share of oil revenues. The JAM noted that there is no public procurement system in Southern Sudan. The JAM recommended that, as an interim measure, the procurement function be centrally managed and contracted out until capacity was built.

The Contract between the GOSS and *Firm X* assigned to the service provider to carry out procurement functions for all government programmes, including public works, goods and services. *Firm X* would, therefore, deliver procurement solutions to the Government of South Sudan and development partners in a transparent and accountable manner, which would provide an appropriate (high) level of fiduciary comfort to all stakeholders in the process. Other objectives of the assignment were for *Firm X* to build the capacity of government staff and to provide advisory services.

There were several constraints that would affect procurement, including: (i) a severe lack of communications (postal and telecommunication services); (ii) the lack of physical infrastructure; (iii) limited media (to use as an advertising outlet); (iv) a lack of local suppliers in the private sector (especially the poorly developed insurance, banking and financial services sectors); and (v) an absence of a supporting regulatory environment. As expected, these constraints affected the GOSS absorption capacity in the early days of the reconstruction and development programme.

In reality the results were mixed:

Establishment of procurement units in some key ministries: The Ministry of Finances and Economic Planning (MOFEP) of the Government of South Sudan recommended that Ministries establish temporary procurement units (TPUs) prior to the establishment of the permanent procurement units. To date, the establishment of these TPUs is at a very early stage. Positive progress has, however, been made through the appointment of directors of procurement in five key ministries. Other ministries have received support through the appointment of external short-term procurement advisers.

Awareness of the proper functions of procurement and the role of the procurement agent: Efforts have been made to explain the role of the procurement agent to ministries and other stakeholders, but it appears that there is still great confusion. Also it became apparent that there were weaknesses at all levels relating to a limited understanding of:

- the importance of the procurement functions to GOSS;
- the procedures to be followed in order to implement effective and transparent procurement;
- the respective roles and responsibilities of the various stakeholders in the procurement process;
- the time that is needed to undertake procurement depending upon the source of funding.

These limited understandings need to be addressed at the start of the project in order to correctly align expectations.

Case 4
Afghanistan: Procurement Agents and Advisory services

Firm X provided procurement support over a two-year period to 18 line ministries assisting with the execution of contracts valued at over USD 500 million. This was undertaken by overcoming the difficulties of a post-conflict environment and severely limited capacity within a newly established government.

Line ministries were not able to adequately specify their requirements. Support had to be given in the form of:

- comprehensive training programmes
- frequent visits
- use of additional technical support
- guidance forms

The strategy for developing capacity was to centrally employ newly recruited procurement staff in the MOFEP Procurement Unit for an induction period, before later reassigning them to strengthen procurement units in ministries and state governments. This strategy had been successfully used in Afghanistan by *Firm X* with Afghanistan Reconstruction and Development Services in order to develop their skills prior to deployment to line ministries.

The limited local private sector participation in public procurement was a concern that the agent sought to address through local advertising of tender notices and creating awareness in organised workshops. Neither of these two interventions substantially increased local private sector participation. It may be that the local private sector was embryonic, untrusting or afraid.

Another adverse element was the poor information technology (IT) infrastructure. Initial investment from the World Bank had been effective, yet the Afghan Assistance Co-ordination Authority (AACA) did not purchase most of the equipment required, causing *Firm X* severe operational problems. The final results appear to indicate that there was a need for a high level of investment to enable procurement to be carried out effectively.

Case 5
The Bahamas: Public Financial Management

In 2008, the Department of the Auditor General (DAG) of the Bahamas contracted *Firm X* to conduct value-for-money, or "performance", audits of the Ministries of Health, Housing and the Royal Bahamas Police Force (RBPF). It builds on two previous assignments conducted for DAG in 2004 and 2006.

The value-for-money audit was aimed at improving the effectiveness, efficiency and economy of government operations. Common areas of review across the three departments included:

- internal controls, using the COSO framework
- financial management (particularly budgeting and planning)
- human resource management
- supply chain management including procurement

A team of five was deployed to the Bahamas between May and July 2008. Their role was to establish the parameters of the reviews, to develop and implement an audit and assessment plan, and then to present their findings and recommendations to both the Auditor General and key management staff at the target ministries.

The reviews were conducted based upon a partnership between the contracted firm and officials from the Department of the Auditor General, with the corollary aim of increasing capacity through on-the-job training and mentoring. Hence, working in partnership with DAG staff, *Firm X* brought to this assignment:

- a perspective grounded in international experience
- a best-practice methodological approach enabling a high-quality final output
- a highly experienced and skilled consultant team
- independence and the perception of independence

The service provider produced reports that made several far-reaching recommendations for the organisations audited. However, the limited duration of the assignment (four weeks) and the limited involvement of staff from the Department of the Auditor General meant that, anecdotally, the extent of capacity building was limited. There was no evidence that DAG undertook the activities of the contractor as part of a broader capacity building strategy.

Conclusions

The five cases examined have provided a variety of results that can be summarised as follows:

Has contracting out being conducive to capacity building?

In some cases, such as Angola and Sierra Leone, the programmes enhanced capacity building. The primary conditions were the support of management and the willingness and enthusiasm of the staff to engage with the service provider. In the other three cases, the objectives were not met. Insufficient communication and co-operation between the government and the contractor, as well as the insufficiency of some personnel and material resources, led to not meeting the expectations in Afghanistan and South Sudan. In the Bahamas, capacity development was limited because of the duration of the contract and the smaller number of staff and consultants involved.

Has contracting out led to an improved state-citizen relationship?

This appeared to be the case with the Angolan programme, which has the element of customs modernisation as well as trade facilitation. The modernisation programme has removed 'zero-tolerance', and introduced a programme of management controls based on risk management, thereby shortening the average clearance time from 21 days to 48 hours. It is a moot point whether the programme has led to a better state-citizen relationship. There is anecdotal evidence that relationships have improved with the new approach, as queues have shortened at the ports.

Was it sufficiently integrated into government-led national strategies?

In Angola, the programme was financed by the government as part of its own strategy. In Sierra Leone, when revenue performance was below target, the government initiated the STRIP programme in response. In Southern Sudan, the programme was initiated by the joint assessment mission as part of a national strategy. This can be deemed as government-led, but perhaps to a lesser extent, just as it was in Afghanistan. In the Bahamas, a number of assessments have been undertaken since 2004, but there is no evidence that the contract is part of a national effort to introduce performance management.

Was it coherent with other donor efforts?

In both Sierra Leone and South Sudan there is evidence that other donors are supporting the programme.

Were there any specific bottlenecks?

A group of internal and external bottlenecks have been identified for all the states in situations of fragility, including corruption and inadequate infrastructure.

Were there any achievements or success stories?

In both Angola and Sierra Leone, it appeared that there were success stories, not just in terms of achievement of other programme outputs, but also in terms of general capacity building.

Lessons Learned: Implications for the PDG Agenda

The challenges found in the organisational structure, communications, and the attainment of objectives are not unique to development consultancies and governments. ***Strong and flexible leadership***, combined with talent and initiative on the part of the staff collaborating to execute the projects, will ensure that the outcomes of the stated goals are realised.

Clear communication between the leadership and the contractor needs to take place to underscore expectations in all identified areas. Together, the parties need to identify and agree upon the personnel, financial, and material resources required to successfully meet the objectives.

Lessons Learned: Implication for accountability of government

A conventional contracting-out of activities will not impact accountability, as some institutions appear to be insulated from societal accountability by virtue of their status and mandate. If accountability is required, special mechanisms should be designed into the intervention to promote:

- the 'right-holder' (citizens) to be part of the group to which the service provider responds;
- information sharing from government about the contractor's activities;
- the capacity of civil organisations to understand the service terms and the constraints within which the service is being provided.

These mechanisms fall under government efforts for public information and communications. The projects can easily be communicated and made available to citizens on government internet sites and in publications.

Based upon the examples given, there appears to be some potential value in contracting out, and the range can be expanded to other areas to make real contributions to economic and societal development in states in situations of fragility.

List of references

Buyonge, C. (2005), *Customs Reform and Modernization in Angola*, Kenya Revenue Authority, www.revenue.go.ke/news/newswcocustomreformang161105.html