



Measuring Public Sector Capacity

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Summary. — This paper explores the possibility of creating an index of public sector capacity which is “policy-neutral” and relies on information already available. It defines public sector capacity in terms of three elements: policy capacity, implementation authority and operational efficiency. The paper also proposes a parallel index of “enabling conditions”—environmental factors which lie beyond the control of the public sector, but which profoundly influence its capacity. Construction of the index is feasible, provided it is considered acceptable to rely on subjective ratings as well as hard statistics. The index would need to be used with caution on account of the inevitable data limitations. © 2000 Elsevier Science Ltd. All rights reserved.

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1. INTRODUCTION

This paper explores the feasibility of developing an index to measure public sector capacity. This is understood as the ability of the permanent administrative machinery of government to implement policies, deliver services, and provide policy advice to decision-makers. The ideal is to construct a policy-neutral measure that is independent of the policies adopted by the government of the day, in keeping with the “subordinate but separate” position of the permanent administration in the constitution of most countries.

The use of numerical indices to compare national performance in given areas is now well established. The best known example is probably the UNDP’s Human Development Index. Such indices are often crude and highly subjective in their choice of variables and methodology. They are certainly no substitute for in-depth qualitative analysis. But qualitative analysis is not well suited to the measurement of relative variations in a given attribute, and capturing such variations can be essential in making systematic comparisons.

This, coupled with the growing recognition over the past decade of the links between state capacity and national economic performance, has led to several attempts to measure the quality of governance (or aspects of it). Notable examples include:

—Transparency International’s Corruption Perception Index, which attempts to gauge the extent of corruption in some 50 countries on the basis of surveys;

—the world competitiveness rankings produced by the International Institute for Management Development (IMD, various years): these rate the “competitiveness” of nearly 50 countries on the basis of various indicators, including several relating to the quality of government;

—the World Bank’s 1997 *World Development Report* (World Bank, 1997), which develops an index of state “credibility” for 70 countries covering various aspects of governance, such as judicial arbitrariness and political stability;

—an ongoing initiative by the OECD in collaboration with the UN and the World Bank to construct indicators of development progress, including “participatory development and good governance” (OECD Development Assistance Committee, 1998);¹

—commercial assessments of investment risk, which normally incorporate some indicators of political stability, quality of governance, and the market-friendliness of public policy.²

We will look at some of these measures in further detail later on in this paper.

None of these indices can be taken as a measure of public sector capacity as understood

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here, though all capture aspects of it. Transparency International's corruption index is very specific in focus. The others are too broad, particularly in making no clear-cut distinction between "political" questions such as the stability of governments or the pursuit of particular policies, and the capacity of the administrative apparatus. Many attempts to define or measure the quality of governance have at their heart a set of policy prescriptions relating to market liberalization, political decentralization, and so on.

There is hence scope for the development of a "policy-neutral" index of public sector capacity which would focus on the permanent administrative machinery of the state, irrespective of what policies are being followed by the elected government. Such an index would reflect and reinforce the growing realization that policy changes on their own are not enough to bring about sustained improvements in national competitiveness; and that the policy changes can fail unless attention is paid to the capacity of the institutions that must carry them out (Lamb, 1987; World Bank, 1997; Klitgaard, 1997).

This realization is expressed in the public sector reforms which are currently being undertaken by a large number of countries all over the world, often with donor support. But these reform projects can easily become inward-looking—preoccupied with implementing organizational and procedural changes, and counting implementation as success irrespective of whether or not it actually brings about better government. An index of public sector capacity might help concentrate the minds of governments more on the *outcomes* of reform, as opposed to the *outputs* (see Polidano, Hulme & Minogue, 1998).

It might also concentrate the minds of external aid donors. For it is now well documented that donors themselves can inadvertently damage the capacity of the very governments they are trying to assist (Hulme & Sanderatne, 1995; Cohen, 1992; Harrigan, 1998; Polidano & Hulme, 1999).

The extent to which an index can change behavior, as opposed to simply giving countries at the bottom of the ranking table a poor image, will no doubt be much debated. But the potential should not be too readily dismissed. The corruption index developed by Transparency International has had a profound impact, in spite of concerns about the methodology it uses:

Almost single-handedly it [the index] has raised awareness internationally to the prevalence of corruption in many countries and regions of the world, and it has sensitized many to the significant variations across settings. Arguably, it has even prompted some governments to take some actions ... in response to concerns about the bad "PR" that their country index ratings brought them. It is at any rate clear that many leaders now follow the ... ratings rather closely (Kaufman, 1998).

My aim in this paper is not to construct a fully-fledged index: I do no more than present rudimentary data for a small number of countries. I am more concerned with laying down a solid conceptual foundation. In the process I will draw extensively on the political science and public administration literature. There is an important body of work on the capacity of government, especially in political science, and any attempt to measure the quality of governance without due regard to this literature would be all the poorer for it.

2. A CONCEPTUAL FRAMEWORK OF PUBLIC SECTOR CAPACITY

The first task is to define public sector capacity in some detail. This must be done in two stages: defining the public sector, and defining capacity. We can take each in turn.

(a) *Defining the scope of the public sector*

It is necessary to set boundaries to the public sector—to decide where it begins and ends for the purpose of measuring its capacity. As mentioned in the introduction, we are not concerned directly with the political leadership of government. Many existing indices incorporate some understanding of what "good" policy should consist of, particularly in economic management. Our specific focus excludes political choices such as these.

To take a practical example, many indices incorporate measures of the size of government deficits. What we might measure instead, supposing the data were available, is the extent to which budgeted expenditure reflects actual expenditure at the end of the year. Our focus would be on whether the budget is a relevant and realistic policy document that is capable of regulating public sector behavior, not on whether political leaders choose to run a deficit or a surplus.

The two are by no means necessarily linked together. It is quite possible for reasonably effective budgeting at an administrative level to coexist with substantial budget deficits (the United Kingdom, Canada and the United States up to the mid-1990s) and, conversely, for tight overall control of expenditure to coexist with meaningless budgets. The latter is the case in several developing countries which manage public expenditure through control of cash outflows rather than the budget. This effectively means that government agencies have no idea whether they will actually get the money budgeted to them. Strong aggregate fiscal discipline here coexists with—indeed contributes to—weak budgeting.

Excluding political choices does not mean assuming that administration is or should be independent from politics. There has been a long debate in the Anglo-American public administration literature about whether any distinction can be drawn between the two, the consensus being that they are too intermingled.³ Two points are worth making about this.

First, excluding policy choices merely means that we are focusing on administrative capacity as our central variable. It does not mean we are assuming that other variables, including politics, have no impact on it. Indeed, Section 3 of this paper explores ways to account for that impact directly.

Second, in practice some countries are better than others at keeping politics distinct from administration. This in itself contributes to the maintenance of administrative capacity (see Carroll & Joypaul, 1993). Many outsiders may find it odd that academics in the United Kingdom, which surely has one of the world's least politicized administrations, are so united in denying the separability of politics and administration. The politics-administration distinction is an issue which needs to be looked at from a relativistic or comparative rather than absolute perspective (and an insular one at that).

Having excluded political choices, should we narrow our focus further? On this depends the kind of data we need to collect, and the availability of data in turn shapes the boundaries we adopt for our definition of the public sector. Key questions needing to be addressed to this end are discussed below.

Given the size and diversity of the public sector, should an attempt be made to differentiate between its various organizational components—core civil service, statutory

corporations and authorities, parastatal bodies? One could, for example, seek to limit the index to the core civil service.

But bodies outside the core civil service play a vital role in many policy areas. The regulation of banking and finance is a case in point: very few central banks are part of the core civil service. Organizational arrangements within the public sector can be so diverse, even within the same policy sector, that attempts to differentiate on the basis of organizational form could become an exercise in artificiality. This does not in any case appear to be viable owing to data limitations.

Should an attempt be made to distinguish between different levels of government? Central and local governments are usually separate juridical entities, and the capacity of each may differ markedly within the same country for a variety of reasons. Capacity can also differ markedly *within* subnational government: for instance, between large city councils and their remote rural counterparts (Olowu & Smoke, 1992; Crook & Manor, 1998).

Data concerning subnational governments are particularly scarce, however. There is little beyond subnational government accounts for some countries in the IMF's *Government Finance Statistics Yearbook* and local government credit ratings by Standard and Poor's. By far the most information available deals with the central government. Our choice is dictated by the availability of data: the index must be limited to public sector capacity within the central government.

A separate issue is whether an attempt should be made to distinguish between different *policy sectors* within the central government. Sector-specific indices of capacity would certainly be of value for specialized analysis, and it is possible that sufficient data for their construction may be found in some cases.

Sector-specific indices would take us away however from the concept of a general measure of public sector capacity that is easily comparable from one country to another. It would also be difficult to construct a sector-specific index without taking account of prescriptions for "good" policy. The regulation of banking and finance is a case in point here too. It would be hard to develop an index of capacity in this field in isolation from questions concerning the regulatory policy framework that is considered desirable by specialists.

A final issue is whether the index should cover nongovernment organizations (NGOs)

and other private bodies which deliver services on behalf of government. The logic of this would be that private bodies which deliver services to, or on behalf of, the government are effectively an extension to the public sector, and they thereby boost its capacity. But particularly in many developing countries, governments often resort to such bodies precisely because of declining or limited capacity within the public sector itself. In other words, heavy involvement of NGOs and other private bodies in the delivery of core public services could be a negative rather than positive indicator of public sector capacity.

The upshot of this section is that the index should be a *general* measure of administrative capacity within the *central* public sector, that is to say public bodies (core civil service or otherwise) that are owned or controlled by the central government.

(b) *Defining capacity*

Having set the boundaries of the public sector for our purposes, we now need to define capacity. The term is usually understood to mean the ability of an organization to act effectively on a sustained basis in pursuit of its objectives. But to serve as the foundation for the development of an index, this definition needs further elaboration. This is attempted surprisingly rarely in the literature on public or development administration (one exception being Cohen, 1995).

There is, however, a separate body of literature on "state capacity" in political science which, though not concerned specifically with the administrative machinery of government, is more helpful in this respect. The focus of this literature is broader than ours, but it still serves as a very good foundation for a definition of public sector capacity. Accordingly, we will consider *state* capacity and *public sector* capacity separately in turn.

(i) *The literature on state capacity*

In a pioneering study, Mann (1984) makes a useful distinction between the state's "despotic" and "infrastructural" power. Despotic power is the ability of decision-makers to act in isolation from or even against the wishes of nonstate actors. Infrastructural power is the ability of the state to penetrate society and see that its decisions are carried out. Weak despotic power combined with strong infrastructural power is the mark of the contemporary developed state:

These [infrastructural] powers are now immense. The state can assess and tax our income and wealth at source, without our consent or that of our neighbours and kin (which states before about 1850 were *never* able to do); it stores and can recall immediately a massive amount of information about all of us; it can enforce its will within the day almost anywhere in its domains; its influence on the overall economy is enormous; it even directly provides the subsistence of most of us (in state employment, in pensions, in family allowances, etc.). The state penetrates everyday life more than did any historical state. Its infrastructural power has increased enormously (Mann, 1984, p. 189, emphasis in original).

While Mann is concerned with the historical development of the more advanced states, Migdal (1988) focuses explicitly on developing countries. He sees state capacity as the ability to write "rules of the game" that hold sway throughout society and supersede any pre-existing rules that are in conflict with its own. These rules, says Migdal

encompass everything from living up to contractual commitments to driving on the right side of the road to paying alimony on time. They involve the entire array of property rights and countless definitions of the boundaries of acceptable behavior for people (Migdal, 1988, p. 14).

Migdal calls this social control: it is closely related to Mann's concept of infrastructural power. In addition to the *ability to regulate social behavior*, a key aspect of the state's social control is the *capacity to extract resources* which enable it to operate and achieve its ends. Many developing countries are weak in both areas. This is because much social authority continues to reside in landowning classes, ethnic groupings, or other social structures which pre-date the still relatively young and insecure states established by the colonial authorities, particularly in Africa. States in such countries are effectively in competition, overt or covert, with pre-existing social forces.

A less conflictual view of state-society relations is taken by Weiss and Hobson (1995), who take as their starting-point Mann's distinction between despotic and infrastructural power. To become competitive in a global economy, they argue, states must work *with* rather than *against* nonstate actors. States can vastly expand their infrastructural power by harnessing the power of civil society in pursuit of shared national goals. This is the manner in which they interpret the history of rapid economic growth in countries like Japan and

Taiwan: growth was generated through the coordination of markets by the state working in partnership with, and in support of, private firms.

Public-private coordination, say Weiss and Hobson, is carried out through a dense network of state-business linkages. But most important for our purposes is the institutional infrastructure *within the state itself* which Weiss and Hobson say must underpin those linkages. This infrastructure consists of three key elements: a prestigious civil service that attracts capable staff and shields them from excessive political interference; access to detailed and up-to-date information; and the concentration of authority over industrial policy in the hands of a single elite organization which can coordinate and direct the activities of other government agencies. Weiss and Hobson's argument deals specifically with industrial policy, but it can be extrapolated to other sectors.

This material is enough to give us a sense of the elements or components of state capacity. Three broad elements emerge:

- despotic power*, or the ability to take decisions unconstrained by special interests;
- coordinating or policy capacity*: the ability to take decisions on the basis of a knowledgeable assessment of a comprehensive range of information, and through a process which brings together the various agencies of government that are involved in the area;
- infrastructural power* or, perhaps a more apt term, *implementation authority*: the state's ability to ensure that its decisions are complied with and laws are obeyed (including laws obliging citizens to pay taxes: extractive power is a subcomponent of implementation authority).

Put simply, we have broken state capacity down into its *freedom* to take decisions, its ability to take *informed* decisions, and its ability to have those decisions *implemented*.

(ii) *Public sector capacity*

But these elements apply to state capacity in a broad sense; they need to be reexamined with a view to whether they are all appropriate as components of public sector capacity for the purposes of the index. Implementation authority is clearly an important aspect of public sector capacity; but we need to look at the relevance of the other two elements carefully.

We are concerned with the capacity of the permanent administrative machinery of

government, not the state as a whole. The logical implication of this is that despotic power should not be considered part of public sector capacity. Despotic power is the extent to which political leaders are unconstrained by nonstate actors in taking decisions. This relates more to the political than the administrative realm of government, and does not therefore come within the focus of our index.

This does not mean that politics has no bearing on public sector capacity. Public sector capacity and performance is profoundly shaped by a number of external influences, particularly political leaders and the system within which they operate. But if we begin incorporating such factors directly into the index, we run the risk of producing yet another index of "good governance" which tells us little about the capacity of the permanent machinery of government. As we will see shortly, it is possible to take external environmental influences into account without losing focus in this manner.

Does the reasoning we employed with regard to despotic power also dictate the exclusion from the index of coordinating or policy capacity? After all, if politicians are responsible for major policy choices, then surely it is up to them to ensure that those choices are knowledgeable and coordinated across government.

The permanent administrative machinery of government however contributes much to the quality and integrity even of high-level policy-making. Policy coordination, for instance, depends on institutionalized routines which are upheld and made to work by the central bureaucracy:

Policy routines ... are the province of bureaucrats. Knowledge about procedures must be widespread and easily accessible. This standardized process requires rule books, training and an agency with responsibility for enforcing standards. Behind the cabinet, therefore, must stand a central policy agency as the bureaucratic expression of executive authority, the tie which binds together policy work across the government. Such agencies are rarely popular with line departments, since they appear interfering and ill-informed, always imposing demands for information or briefing against otherwise sound policy submissions. Yet from the executive's point of view, these central policy agencies are essential for policy control and consistency. They make the policy domain manageable, and coordination possible (Davis, 1997, p. 141).

Moreover, political leaders take many decisions on the basis of information and advice that

is prepared by public servants. Permanent officials can exert a significant influence even on high-level policy; and there is an influential body of thought which sees this as legitimate, indeed desirable. This school of thought considers a competent public service playing an institutionalized policy role to be a safeguard against ill-conceived decisions or improper actions on the part of politicians. In Britain, for instance, major policy failures such as the poll tax in the early 1990s have led to fears that the civil service is no longer an effective source of "institutionalized skepticism" in policy-making (Hugo Young, quoted in Plowden, 1994, p. 104).⁴

In an African context, Luke (1990, pp. 437–438) says that the key to state coherence is the strength and authority of central agencies, which maintain leverage, coordination and accountability throughout the system. Such structures give decision-makers "a formidable base for strategic decision-making *vis-à-vis* policy options dictated by external agencies." Unfortunately, he finds, central agencies are all too often in disarray and unable to play such a role.

In short, a well-institutionalized bureaucracy makes a vital contribution to the quality and coherence of decision-making through policy advice and the structuring of the decision-making process, even though the decisions themselves are taken outside the bureaucracy. Policy capacity is indeed a crucial component of public sector capacity.

We are therefore left with two elements of public sector capacity. These we can call *policy capacity* (the ability to structure the decision-making process, coordinate it throughout government, and feed informed analysis into it) and *implementation authority* (the ability to carry out decisions and enforce rules, within the public sector itself and the wider society).

Given the public sector's professional concern with the management of government operations, a missing element concerns what we could call *operational efficiency*. This refers to the cost-effectiveness of the internal operations of the public sector and the quality of the services it provides to the public. If implementation authority is the ability to ensure that services are delivered—that employees do the work and funds are not illicitly siphoned off—operational efficiency is the ability to deliver those services well, that is to say efficiently and at a reasonable level of quality. Operational efficiency as understood here has become a major focus of public management reforms

worldwide. This is a vital aspect of public sector capacity which needs to be reflected in an index.

We have thus broken public sector capacity down into three dimensions or elements. The way is now open to compiling indicators for each on the basis of suitable data. But before we do this, we need to pause to consider the impact of external environmental influences on our elements of public sector capacity. There is no doubt that the public sector is profoundly shaped by forces beyond its control: we have already referred to the impact of politics, for instance. To what extent can environmental factors be incorporated into the index, and how?

3. THE ENABLING ENVIRONMENT OF THE PUBLIC SECTOR

The first part of an answer to this question is to establish just what environmental factors affect the public sector. This is not, of course, an area that can be tied down with absolute definitiveness. But it is possible to identify major sociopolitical and economic factors, such as the ones below.

(a) *Ethnic fragmentation*

We have already reviewed Migdal's (1988) discussion of how ethnic or regional fragmentation can debilitate a fledgling state by, essentially, robbing it of much of its implementation authority.

Ethnic fragmentation also has an impact on policy capacity. The need for representation of various groups within structures of government may result in, among other things, ministers taking an interest in whatever affects their group or region regardless of their formal portfolio responsibilities. This distorts decision-making and slows it down. Such problems have been noted in countries as diverse as Canada and Zambia (Aucoin, 1995; Andeweg, 1997; Osei-Hwedie, 1998). Policy capacity can also suffer if staffing falls victim to ethnic competition, particularly where the latter becomes intertwined with national party politics (Barkan, 1992; Carroll & Joypaul, 1993; Brown, 1999).

(b) *Civil society*

At the same time, however, there is an extensive literature on civil society which points

to the positive impact of nonstate actors on public sector capacity. Weiss and Hobson (1995) fall within this school of thought, as does Evans (1995). Its main exponent, however, is Putnam (1993), who looks at the impact of civic involvement on the quality of regional government in Italy.

Putnam finds that civic involvement promotes better government in two ways. First, the extent to which people take an interest in public affairs—gauged through indicators such as newspaper readership and voting in referendums—is positively correlated with the performance and efficiency of regional government. Second, public involvement in social groups of any kind, even football clubs and choral societies, generates “social capital”: a willingness to submit oneself to rules drawn up in the collective interest. This spills over into greater observance of government rules and laws. Social capital boosts the state’s implementation authority: a finding which is borne out by studies on developing countries such as Heller (1996).

Civil society can be broadly defined as a society’s power to constrain its political leaders. It diminishes a government’s despotic power (this does not concern us), but exerts a positive influence on both implementation authority and operational efficiency (this does).

The latter finding is diametrically opposed to Migdal’s argument. The difference is due to the nature of the social forces which Putnam and Migdal investigate: voluntary, “associational” groups centered on a shared interest in Putnam’s case, as opposed to ascriptive groups based on ethnic, clan, linguistic, or caste identities in Migdal’s case. Various authors make a clear distinction between these two types of group, arguing that the term “civil society” should be reserved only for the associational type (Bratton, 1989; Hyden, 1992; Blaney & Pasha, 1993). Associational civil society is taken as the embodiment of democratic accountability. Ascriptive groups, on the other hand, are thought to encourage the emergence of a particularistic style of politics based on competition for resources and the spoils of office (Hyden, 1992).

(c) *Political instability*

Migdal also discusses the impact of political instability on the institutions of state. Political leaders whose hold on power is insecure would not welcome the emergence of strong governing

institutions—the civil service, the army, even the party. They would see these institutions as potential bases from which rivals could bid for power. They would seek to undermine the institutions and put trusted persons in control of them.

Political instability thus leads to the politicization of the public sector, which becomes little more than a source of political and material resources used by leaders to shore up their support. There is no need to elaborate on the damage this does to the capacity of the public sector.

(d) *Economic crisis*

We should not ignore the impact of the economy itself on public sector capacity. The experience of many developing countries shows that a sharp economic downturn can reduce public sector capacity in two ways: by compelling governments to make sharp cutbacks to the public sector; and through inflation, which reduces the purchasing power of public officers and compels them to seek alternative means of earning their living.

Cutbacks need not, in theory, have an impact on public sector capacity. If savings are made entirely by cutting programs and activities, this means simply that the government is asking the public sector to perform fewer tasks. Its capacity to fulfill its remaining responsibilities is not affected. In practice, however, savings are also made in other ways: by cutting capital spending, by trimming nonwage operating budgets to the bone, or by freezing wages (which can sharply depress real wages and open up a wide public–private sector pay gap, particularly in times of high inflation).

Each of these eats away at the capacity of the public sector. Steep declines in real wages can be particularly damaging: they lead to a loss of qualified staff and a massive increase in moonlighting, “daylighting” or even corruption, to the point where organizational discipline breaks down. Colclough (1997) documents such developments at their most severe in Zambia during the 1980s.

(e) *Aid dependency*

Another potentially negative environmental factor, one to which I have already referred in the introduction to this paper, is aid dependency. This is of course related to economic crisis, but it brings into play a separate set of

influences relating to the behavior of overseas aid donors. Donors may provide vital assistance, but in the process they can negatively affect policy capacity in a number of ways.

First, the host country's budgetary cycle can get derailed when donors come through with project funding mid-way through its financial year. The result is to weaken expenditure control, particularly where the government has to provide counterpart funding for the project (Cromwell, 1995).

Second, where several donors are active in the same field, as is often the case, a proliferation of projects can result, often conflicting with or duplicating each other (Adamolekun, Kulemeka & Laleye, 1997). A ministry can end up balkanized into several project offices, each siphoning off key staff and working independently from the others (Wuyts, 1996).

Finally, aid money distorts policy processes in recipient countries. Governments may take initiatives because they are likely to get donor funding, not because they are needed (e.g., Myers, 1996 on Zanzibar, Tanzania). At an extreme, aid money can create a decision-making vacuum at the center of government as priorities turn to whatever brings in the most money. In Malawi, says Hirschmann (1993, p. 126), a culture has emerged of not raising objections—however valid—to donor-financed initiatives so as not to be seen as “a person who is blocking aid.”

(f) *Incorporating environmental variables into the index*

We have identified five environmental variables which can exert a major impact on public sector capacity. How do we incorporate them into the index? This is less straightforward than it sounds. If, for example, economic crisis has badly damaged public sector capacity in country x , this would presumably already be captured by the indicators used to measure capacity. Including economic crisis as a separate variable would effectively be double-counting, giving country x score a worse score than it deserves.

It is possible to argue that environmental variables should influence the index in the opposite direction—*compensating* for the reductions in capacity which they bring about. This would reflect the fact that a low-scoring public sector may be operating within severe constraints that are beyond its control, and would put country comparisons on a more

equitable footing. But the net result would again be to limit the ability of the index to capture relative variations in public sector capacity. This approach would artificially equalize country scores and render them meaningless.

A more viable option is to offer two scores side by side for each country: one relating to public sector capacity in the absolute, the other relating to the impact of the enabling environment. In this way country variations in public sector capacity would not be obscured, yet users of the index would still be prevented from losing sight of the environmental parameters which facilitate or obstruct public sector performance—and the role of various actors, governments and donors included, in setting those parameters. I will follow this option in the next part of the paper, which looks for suitable data from which to construct the index.⁵

4. A SURVEY OF AVAILABLE DATA

Different kinds of data will be found available for use in the construction of the index. Information can be categorized as follows:

- “hard” data, such as the percentage variance of actual from budgeted expenditure;
- estimates based on or extrapolated from hard data, such as revenue mobilization (tax revenue collected as a proportion of what is due);
- subjective assessments made by knowledgeable persons, e.g. whether staffing in the civil service is merit-based;
- survey results or polls, which are essentially similar to the category above except that they rely on large numbers of less knowledgeable people, thus reducing the risk of individual bias but making the results possibly more dependent on “image” and subject to transient variations.

The latter three categories are often known as soft data, reflecting the fact that reliability decreases as one goes down the list. Transparency International's corruption index and the World Bank's credibility index have both been criticized for relying on polling data (though the former seeks to insure against unreliability by incorporating several surveys). IMD boasts of using hard data as well as surveys in its world competitiveness rankings.

Ideally a public sector capacity index would be constructed entirely from hard data. As we will see, however, there is insufficient hard data to realize this ideal—particularly given the various intangible aspects of public sector capacity which a well-constructed index must capture.

A review of data sources is given below, starting with hard data. I make no claim however that this review is exhaustive. Sources are diverse and a further search would be likely to yield new ones. The findings presented here cannot be taken as definitive.

(a) *Hard data sources*

There is a variety of sources of statistical information about individual countries, published mostly by international agencies such as the United Nations, the World Bank, and the International Monetary Fund. Publications reviewed for this paper include:

- the World Bank's new *World Development Indicators*, as well as its *Global Development Finance* statistics (formerly *World Debt Tables*);
- the IMF's yearbooks on, respectively, *Government Finance Statistics*, *International Finance Statistics*, *Balance of Payments Statistics*, and *Direction of Trade Statistics*;
- the UN *International Trade Statistics Yearbook* and UNCTAD's *Handbook of International Trade and Development Statistics*.

The search was not very productive. Most of these publications provide economic, financial or trade-related information which is of little direct relevance to public sector capacity. Moreover, the information is usually presented in absolute terms, often in local currencies, making conversion to some kind of comparable basis a Herculean task. An exception is the World Bank's excellent *World Development Indicators*, which presents a wealth of information on several development-related themes in strictly comparable form.

Table 1 sets out those items of information in the various publications that are related—however remotely—to our three elements of public sector capacity (I deal with the five environmental variables later). As will be readily appreciated, the data are rather thin. We need to look at soft data derived from existing indices of governance and risk assessment ratings. These are reviewed below.

(b) *Soft data sources*

The International Institute for Management Development (IMD) publishes annual rankings of the "competitiveness" of 46 countries in its *World Competitiveness Yearbook*. The main elements of competitiveness are taken to be: the domestic economy, internationalization, government, finance, infrastructure, management, science and technology, and people. Measurement of these elements is based on a mix of hard data and survey responses by around 4000 businesspersons.

The "government" element is the one which concerns us. It is further broken down into six categories of indicators: national debt, government expenditure, fiscal policies, state efficiency, state involvement in the economy, and justice and security. The state efficiency category consists of several indicators relating to the quality of governance, including:

- transparency: the ability of government to communicate its intentions;
- public service: exposure to political interference;
- bureaucracy: the extent to which red tape hinders business development;
- government decisions: effectiveness of implementation;
- customs administration: efficiency of customs clearing procedures;
- improper practices: prevalence of bribery and corruption.

The fiscal policies category also includes a measure of the incidence of tax evasion. This indicator, like those listed above, is questionnaire-based.⁶

There are a number of commercial business risk assessment services which are aimed primarily at prospective overseas investors. One such service provider is Business Environment Risk Intelligence S.A. (BERI), which produces two main services of concern to us: the Business Risk Service and the FORELEND service which is concerned with lending risk. Around 50 countries are monitored by a panel of 105 persons.

The Business Risk Service consists of two indices, an operations risk index which gauges the business climate, and a political risk index which assesses general sociopolitical conditions. Each of these indices is made up of several indicators. Those relevant to us from the operations risk index include:

- policy continuity;
- bureaucratic delays;

Table 1. *Hard data relating to public sector capacity*

Element of capacity	Item of data	Relevance	Source
Policy capacity	Frequency of reporting on trade in endangered species since joining the CITES treaty (most countries are members)	Demonstrates information gathering aspect of policy capacity—but admittedly rather marginal	<i>World Development Indicators</i> 1998, pp. 164–166
Implementation authority	Net primary enrollment as % of relevant age group: data for 1980 and 1995	Social compliance with laws on mandatory schooling	<i>World Development Indicators</i> 1998, pp. 20–22, 76–78
	% of tax revenue coming from income, profits and capital gains: data for 1980 and 1995	Income tax collection requires more “infra-structural power” than customs duties or export tariffs (but of doubtful value owing to wide country variations)	<i>World Development Indicators</i> 1998, pp. 260–262; see also <i>Government Finance Statistics Yearbook</i> 1997; pp. 4–5
Operational efficiency	Wages and salaries as % of central government expenditure	Indirect measure of overstaffing: wages squeeze out other operating expenses	<i>Government Finance Statistics Yearbook</i> 1997, pp. 2–3
	Net financial flows from government to public enterprises as % of GDP: period averages for 1985–90, 1990–95	Indicates efficiency of public enterprise sector	<i>World Development Indicators</i> 1998, pp. 282–284
	Spending on teaching materials as % of total public spending on education, 1994 (data for few countries only)	Indirect measure of quality of service delivery in this sector	<i>World Development Indicators</i> 1998, pp. 72–74
	Average waiting time in years for new telephone lines, 1996	Measure of service quality (but privatization of telecoms in many countries is a problem)	<i>World Development Indicators</i> 1998, pp. 290–292

while relevant indicators from the political risk index include:

- ethnic/linguistic fractionalization;
- political instability (conflict/nonconstitutional changes of power);
- social conflict (demonstrations, street violence).

The FORELEND service again consists of two elements, one based on hard financial data (called LRQuant) and the other on panel assessments (LRQual). Relevant items among the panel-based subelements include:

- net technocratic competence (an overall assessment of the bureaucracy’s specialist expertise as well as the extent of political interference—that is, whether the specialists are allowed to operate);
- corruption in financial transactions.

The Economist Intelligence Unit issues periodic reports for 100 countries as part of its Country Risk Service. These reports include

country risk ratings which are also published separately as the Risk Ratings Review. Four types of risk are identified: political, economic policy, economic structure, and liquidity.

Indicators of political risk include:

- social unrest;
- orderliness of political transfer;
- politically motivated violence;
- institutional effectiveness;
- bureaucracy;
- transparency/fairness;
- corruption.

Indicators of economic policy risk include:

- government ability to generate tax revenue
- quality/timeliness of official data.

Political Risk Services offers a service known as the International Country Risk Guide (ICRG) covering 140 countries. Risk is assessed on the basis of three major elements: political, financial, and economic. Political risk is asses-

sed subjectively by the editors of the Guide, whereas financial and economic risk is assessed on the basis of hard data.

Political risk includes the following indicators:

- government stability (ability to act, stay in office);
- internal violence;
- corruption (includes nepotism, secret party funding);
- military influence in politics;
- ethnic tensions;
- democratic accountability (responsiveness of government);
- quality of the bureaucracy (including whether it has the autonomy, expertise and institutional weight needed to avoid abrupt policy changes).

Transparency International measures the perceived extent of corruption in around 50 countries on the basis of surveys. It does not conduct any surveys itself. It constructs its Corruption Perception Index by collecting results from a number of sources, standardizing them to a common rating scale (0 to 10), and averaging them out for each country.

Its 1997 results give scores for 52 countries on the basis of seven surveys, these having been undertaken by IMD (world competitiveness rankings for 1996 and 1997—see above), Political and Economic Risk Consultancy Ltd., Gallup, DRI/McGraw-Hill, Political Risk Services (ICRG—see above), and Gottingen University. The use of several sources is intended to ensure maximum reliability in the results. Countries in the index must appear in at least four of its component surveys, which means that the selection of countries in the index may vary from year to year (Kaufman, 1998).

Also deserving a mention is a study by Dean (1996) which attempts to measure the quality of government accounts. Dean developed his index on the basis of the IMF *Government Finance Statistics Yearbook*, which presents data submitted by country governments in a uniform format for each country. Dean rated a selection of countries on a 0 to 9 scale on the basis of:

- timeliness (most recent year for which data appears);
- completeness (items of data omitted);
- government debt (completeness of data relating to debt);
- local government (completeness of local government financial data).

The main score for each country was then derived by means of a simple average of scores for these four indicators, with the exception of countries with a population below 3.5 million where the local government score was excluded.

It should be borne in mind that not all the soft data reviewed here are available in published form. Some of the commercial risk assessment services only make their overall country risk ratings available. Obtaining the specific component scores which are of concern to us would be a matter for negotiation.

With this proviso in mind, it appears that the soft data reviewed above can fill the gaps left by the insufficiency of hard data. The final part of this paper considers this question further, going on to select indicators and propose a methodology for the construction of the index.

5. CONSTRUCTING THE INDEX

(a) *The viability of the index*

It appears possible to develop an index if one accepts that it would rely extensively on soft data, much of which amounts to subjective assessments of qualitative factors; and some gaps will always remain in the ability of the index to capture all aspects of public sector capacity. An approach to constructing the index is proposed in the next two sections. The first deals with the selection of indicators; the second with the actual construction of the index on the basis of the indicators.

I should emphasize that a crucial criterion for the selection of indicators is the availability of data from sources such as those we have reviewed. It is quite possible to come up with theoretically superior indicators, but this would be pointless without suitable data. The index must stand or fall on the basis of information currently published and available, unless one proposes to go and collect new data and has the resources to do so.

(b) *Selecting indicators: the three dimensions of public sector capacity*

(i) *Policy capacity*

Where policy capacity is concerned, one indicator would be the completeness of country data in international publications. This is not currently available, but could be constructed without difficulty. Dean has blazed the trail here: his approach can be adapted and further

extended to cover trade and balance of payments statistics as well as government accounts. In line with our focus, only data relating to central governments would be used. This indicator would measure the ability of the bureaucracy to collect information: an important aspect of policy capacity.

There are no data available from which to measure the quality of policy advice. But there are suitable proxies available in the form of assessments of technical competence or bureaucratic quality by BERI (FORELEND) and the ICRG.

Assessments of technical competence must however be complemented by an assessment of the institutional "weight" of the bureaucracy—the extent to which it can ensure that its advice is taken seriously by politicians. The relevant ratings of technical competence by both BERI and ICRG explicitly take this dimension into account. IMD explicitly measures political interference in the bureaucracy. A separate item which can serve as a proxy for institutional weight is BERI's rating of policy continuity.

(ii) *Implementation authority*

A general indicator of implementation authority, for what it is worth, is IMD's assessment of the effectiveness of implementation of government decisions. More specific indicators are needed. One such is the extent of corruption in the public sector. Assessments of corruption are made by IMD, BERI (FORELEND), the Economist Intelligence Unit, the ICRG, and of course Transparency International. The latter already incorporates the IMD and ICRG estimates: as a composite, it can be used on its own. On the other hand, the ICRG and Economist Intelligence Unit data covers a much larger number of countries.

Another possible indicator is net primary enrollment in schools (*World Development Indicators*). This would measure social compliance with laws on mandatory schooling (the assumption here being that compulsory education at primary level is universal). This is actually suggested by Migdal (1988) as an indicator of the state's ability to enforce rules.

This on its own is a rather narrow measure of compliance. Additional indicators are needed from a wider range of policy sectors. One would be tax revenue mobilization (taxes collected as a proportion of what ought to be due). In the absence of such figures, necessarily estimates, IMD's tax evasion indicator can be

used. Another measure, also an estimate, would be the size of the informal sector (unregulated labor) as a proportion of the total labor force. Such information is likely to be available, though sources have not as yet been found. This information, together with net primary enrollment, would cover compliance with rules in a fair spread of sectors.

There is admittedly a risk of "contamination" with tax mobilization and the size of the informal sector. These variables could be a function of, respectively, unrealistically high taxation or excessive labor market regulation (poor policy choices) as well as low implementation authority. But it is possible to adjust for this using comparative data on tax rates and labor market rigidity. Such information is available from a number of the risk assessment services we have reviewed above.

(iii) *Operational efficiency*

Hard data indicators of operational efficiency include:

- wages and salaries as a percentage of central government expenditure (IMF data): high percentages are an indication of overstaffing in that wages and salaries tend to crowd nonwage operating expenditure out of the budget, possibly leading to enforced idleness as staff find they lack the resources to perform their work properly;⁷

- net financial flows from government to public enterprises as a percentage of GDP (*World Development Indicators*): this indicates the overall efficiency of the public enterprise sector;

- spending on teaching materials as a percentage of total public spending on education (*World Development Indicators*): this could be used as an indicator of the quality of education that is delivered in state schools.

In addition, subjective assessments of efficiency are undertaken by IMD, BERI and the Economist Intelligence Unit.

All of these are necessarily crude, broad-brush indicators. Ideally, they would be complemented by hard data for efficiency or service quality in particular services that is directly comparable across countries. One example is the *World Development Indicators'* average waiting time for new telephone lines: but this is probably unusable for our purposes owing to the spread of privatization in the telecommunications industry worldwide. Similar information may possibly be found for

other sectors which remain the province of government (inland postal services, perhaps): the search must continue.

(c) *Selecting indicators: environmental factors*

(i) *Ethnic/regional fragmentation*

Some of the risk assessment services we have reviewed cover this factor, or something close to it. BERI measures “ethnic/linguistic fractionalization”; the ICRG looks at “ethnic tensions”. These data would do. Environmental factors are background information rather than an integral part of our index: we do not need very precise or incontrovertible indicators.

(ii) *Civil society*

Some hard data are available here in the form of newspaper circulation and the number of radios per 1,000 persons (*World Development Indicators*). The use of such information as an indicator of interest in public affairs (and, indirectly, civil society) is validated by Putnam (1993).

Additional information may be desirable in this case. The ICRG measures democratic accountability or political responsiveness. In so far as this measures public involvement in public affairs, it can be taken as an additional indicator of civil society.

(iii) *Political instability*

It is possible to compile hard data concerning political instability—for example, the number of nonconstitutional changes of power in the last 25 years. But Indonesia among others would rate as stable by this measure. This is one instance where subjective assessments may actually be preferable to hard data.

All the commercial risk assessment services we have reviewed incorporate measures of political instability or social conflict. The ICRG also assesses military influence in politics. These data are ample for our purposes.

(iv) *Economic crisis*

An issue needing to be addressed is how best to measure this factor. One way would be to

Table 2. *Summary of proposed indicators of public sector capacity*

Element of public sector capacity	Indicator	What it measures	Data source(s)
Policy capacity	Completeness of country data in international publications (Dean, 1996)	Ability to collect and process information	IMF statistical yearbooks
	Bureaucratic quality/technical competence	Ability to provide policy advice	BERI, ICRG
	Political intrusiveness/policy continuity	Institutional weight of the bureaucracy	IMD, BERI
	Implementation authority	Effectiveness of implementation of government decisions	General indicator
Corruption		Ability to enforce rules uniformly	Transparency International, IMD, BERI, ICRG
Net primary school enrollment		Compliance with rules on mandatory schooling	<i>World Development Indicators</i>
Tax revenue mobilization		Ability to enforce tax laws, combat evasion	IMD
Operational efficiency	Percentage of labor force working in the informal sector	Ability to enforce labor laws	Source not identified
	Wages and salaries as percentage of government expenditure	Indication of overstaffing	<i>Government Finance Statistics Yearbook</i>
	Net financial flows from government to public enterprises as % of GDP	Efficiency of public enterprise/parastatal sector	<i>World Development Indicators</i>
	Spending on teaching materials as percentage of total public spending on education	Indirect measure of quality of service	<i>World Development Indicators</i>
	Bureaucratic red tape/ delays	Service quality	IMD, BERI, Economist Intelligence Unit

measure the percentage change in GDP from one year to the next, significant negative changes being taken as an indicator of crisis.

An alternative approach would be to combine the size of the government's budget deficit as a percentage of GDP and the inflation rate: these are the two variables specifically identified in our earlier discussion on the impact of economic crisis on public sector capacity.

(v) *Aid dependency*

Aid received as a percentage of GNP is also readily available. Ideally this would be complemented by figures as to the number of donors active in each country. Equally ideally, the information would need to distinguish further between general budgetary subventions and project-related or tied aid.

Such information as exists regarding sources of aid refers however only to major official donors and is not broken down by recipient countries. Information regarding the nature of the aid is also very limited. The overall figure will have to suffice as a proxy.

A summary of the proposed indicators is given in Tables 2 and 3. A methodology for the construction of index results now needs to be established on the basis of these indicators. The next section makes suggestions to this end.

(d) *A methodology for construction of index results*

As already mentioned, each country would receive two separate ratings under the proposed

approach: one overall score for public sector capacity, and another score to indicate how conducive the socio-political environment is to developing and maintaining that capacity. The latter rating will keep the former in context. This section proposes a simple methodology to construct each rating from the various indicators.

First of all, all indicators should be scored on a common rating scale of 0 (worst implications for capacity) to 10 (best implications for capacity). This approach is similar to that used by Transparency International. It would allow us to add new indicators, as they become available, to each element of capacity and then take averages. It would also allow for the possibility of some indicators within each element not being common to all countries, while maintaining comparability of results.

The overall index rating should also be scored on a 0 to 10 scale, without use of decimal points. This is in the interest of simplicity, and to avoid the sense of spurious precision that might be given by larger numbers.

To enable new indicators to be added without upsetting the internal balance of the index, each element of capacity can be "compartmentalized" into discrete subelements within which the new indicators would fit. Each subelement would have its own weighting relative to the other subelements. This would allow us, for instance, to add as many assessments of bureaucratic expertise as we can find to policy capacity without leaving the whole

Table 3. *Summary of proposed indicators of the enabling environment*

Environmental factor	Indicator	What it measures	Data source(s)
Ethnic/regional fragmentation	Ethnic fractionalization/tensions	Extent of cleavages and political impact	BERI, ICRG
Civil society	Daily newspaper circulation, no. of radios per 1,000 people	Indirect indicator of concern with public affairs (Putnam, 1993)	<i>World Development Indicators</i>
	Democratic accountability/political responsiveness	Impact of public concern on politics	ICRG
Political instability	Political instability/orderliness of regime transfer/military influence in politics	Direct indicators of political instability	BERI, Economist Intelligence Unit, ICRG
Economic crisis	Overall deficit/surplus as % of GDP, central government expenditure; rate of inflation	Pressure on government finances, coupled with impact of prolonged wage restraint	<i>World Development Indicators</i> , <i>Government Finance Statistics Yearbook</i>
Aid dependency	Aid as % of GDP, central government expenditure	Straightforward indicators	<i>World Development Indicators</i>

Table 4. *Index elements and subelements*

Policy capacity	—Information-gathering capacity —Staff expertise —Institutional weight in the policy process
Implementation authority	—Internal compliance (including corruption) —Social compliance in different policy sectors
Operational efficiency	—Cost-efficiency —Service quality (including delays).

element understrength in other aspects, such as information-gathering and imperviousness to politicization.

Where a single indicator straddles two subelements (such as BERI's net technocratic competence rating, which takes account of politicization, or IMD's general rating of implementation effectiveness), the best approach is simply to include it separately under each subelement.

Elements and subelements are drawn up in Table 4. All subelement weightings within individual elements are equal, and elements have equal weighting as part of the overall index score.

Environmental factors should be given equal weighting within the enabling environment score.

By way of illustration, I have drawn up a set of scores along these lines for a selection of countries. Results can be seen at Table 5. It should be borne in mind that the figures are very rudimentary; they rely only on a limited number of ICRG and IMD indicators, and they do not include scores for the enabling environment. But they do at least show how the index would be compiled and give an indication of what results would look like.

6. CONCLUSION

To recapitulate briefly, this paper has sought to explore whether and how an index of public sector capacity could be set up. It finds that enough data exist for such an index to be constructed. It proposes that there should be

two indices side by side: one measuring public sector capacity in terms of the three elements of policy capacity, implementation authority, and operational efficiency; and another to indicate the strength of key socio-political and economic factors which exert an influence on that capacity.

Such an index would naturally have limitations. Among other things, implementation authority can only be measured over a limited spread of policy sectors: ideally, as many sectors as possible would be taken into account to guard against the possibility of sectoral variations within each country. The available measures for operational efficiency lack precision. In addition, there is substantial reliance on "soft" data, many of which are biased toward the needs of business investors. In many countries, for instance, it is the poor rather than foreign investors who feel the brunt of corruption—perhaps because they are less likely to complain or to have backers in high places. This may lead to its prevalence being understated in a survey of business executives. Because of such limitations, the data would need to be used with caution.

On the other hand, any attempt to assess or compare public sector capacity must rely on subjective assessments of qualitative aspects of capacity. The data sources reviewed above represent an attempt to do so systematically. The companies which compile the assessments have a commercial interest in ensuring that their data are considered to be dependable.

Nor should an index such as this be expected to give a complete picture of public sector capacity. No attempt to assess or compare public sector capacity can do so, not least because there will always be disagreement over what that full picture should include. The real issue is whether the index can reflect significant variations in public sector capacity in a reasonably fair manner on the basis of the data available. It is this which potential users of the index would need to establish for themselves.

There is probably substantial scope for refinement in the structure and methodology of the index as proposed here. And questions will always remain about the reliability of the data, given the use of "soft" information. A full-scale trial run covering as many countries as possible may well be the best way to determine whether or not the index is worth proceeding with.

Table 5. *Specimen public sector capacity scores for selected countries (based on limited data)*^a

Country	Public sector capacity (overall score)	Policy capacity			Implementation authority			Operational efficiency				
		Overall	Bureaucratic quality (ICRG)	Immunity to politicization (IMD)	Overall	Corruption (ICRG)	Corruption (IMD)	Effective implementation (IMD)	Tax evasion (IMD)	Overall	Bureaucratic delays (IMD)	Customs admin. (IMD)
New Zealand	7.80	8.56	10.00	7.12	7.69	8.33	9.00	6.00	7.60	7.16	6.08	8.24
Singapore	7.69	7.44	10.00	4.88	7.93	6.67	7.84	8.32	8.24	7.71	6.88	8.53
Germany	5.94	7.17	10.00	4.33	5.20	8.33	5.81	4.16	4.29	5.46	3.07	7.85
Chile	5.31	5.14	7.50	2.77	5.90	6.67	4.12	4.42	6.73	4.89	3.68	6.10
Taiwan	5.29	5.59	7.50	3.67	5.07	8.33	3.91	4.28	4.64	5.23	4.38	6.07
Japan	4.80	6.70	10.00	3.40	4.06	3.33	2.67	3.53	4.95	3.64	1.98	5.29
South Africa	4.12	4.91	7.50	2.32	3.71	8.33	2.72	3.04	2.72	3.74	3.13	4.35
Italy	3.94	4.78	7.50	2.06	3.47	6.67	2.57	4.38	2.40	3.58	1.70	5.46
India	3.45	4.81	7.50	2.12	2.84	5.00	1.74	2.59	2.57	2.71	2.59	2.83
Brazil	3.41	3.49	5.00	1.97	3.66	5.00	2.80	5.62	2.84	3.08	2.84	3.31

^a All individual scores have been converted to a 10-point scale. Overall scores of each of the three capacity elements are simple averages of the component scores, except for implementation authority where the corruption and effective implementation scores have been averaged separately before averaging with tax evasion. This is to preserve the component weightings as proposed in Section 5 of this paper. Decimal places in the overall capacity scores have been retained for maximum clarity. Overall scores should otherwise be rounded off to avoid the spurious impression of precision in these ratings, as recommended in Section 5 of the paper. Source: IMD (1998) and ICRG data as reproduced in Howell (1998).

NOTES

1. The paper referenced here was kindly made available by Elisabeth Thioléron of the OECD.
2. Howell (1998) provides a very good overview of commercial rating schemes.
3. For a review of this debate, see Campbell and Peters (1988) and, in a UK context, Polidano (1999, pp. 204–208).
4. This is a widely shared concern in the British public administration literature. Key works include Butler, Adonis and Travers (1994), Campbell and Wilson (1995) and Foster and Plowden (1996).
5. This approach was suggested to me by Nick Manning.
6. I am indebted to Anne-France Borgeaud Pierazzi at IMD for providing me with this information. The rest of this section draws extensively on Howell (1998).
7. A possible objection to this indicator is that one could boost efficiency artificially by cutting salaries, even though this would have an adverse impact on capacity as key staff depart and others resort to corruption. Strictly speaking, however, cutting salaries *does* lead to lower cost per unit of output, so the positive effect on our efficiency indicator is not a spurious one. Moreover, if lower salaries produce negative effects for the reasons just mentioned, this should be captured by other components of the index: specifically, the indicators of bureaucratic competence and the incidence of corruption. It might seem odd that the index allows for contradictory effects from a measure such as cutting salaries, but it is thereby only reflecting real life—as it should. Almost anything a government does will have both positive and negative effects, and it is for decision-makers to chart a suitable course of compromise between conflicting imperatives.

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