

Public Sector Institutional Reform

Topic Guide

About this Topic Guide

This Topic Guide summarises the best available evidence on the key debates and challenges of public sector institutional reform. It considers institutional reform activities that address the rules and norms that shape the public sector.

It complements GSDRC Topic Guides on Inclusive Institutions, Institutional Development, Civil Service Reform, and Sequencing Reforms in Fragile States.

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The production of this Topic Guide was supported by the UK Government.

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Suggested citation

Joshi, A. & Carter, B. (2015). *Public Sector Institutional Reform: Topic guide*. Birmingham, UK: GSDRC, University of Birmingham.

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1 Public Sector Institutional Reform: What do we know?

1.1 Executive Summary

Institutions – formal and informal rules and norms – matter because they create incentives that shape behaviour. Many aid interventions have failed because they did not take into account governance and institutional issues. It is now widely accepted that institutions play a critical role in poverty reduction and growth. Influential econometric evidence has been important in showing the links between institutions and growth in particular.

The public sector is the single most important investment instrument for the state, and improving the way it is managed is critical for development outcomes including service delivery, social protection and private sector regulation. Public sector governance reform involves institutional reform – that is, changing the rules and norms that govern public sector activity. Donor support to institutional reform aims to improve the performance of the state through changing institutions and generating greater capacity, commitment, efficiency, integrity, and/or responsiveness to achieve poverty reduction and other developmental goals (Bunse & Fritz, 2012, p. 4).

However, while understanding of institutions and the role of aid has deepened in recent decades, critical **knowledge gaps and unresolved debates** remain. There is little rigorous and systematic evidence on how to design effective institutional support. The distribution of economic, social and political power influences the way institutions work in practice (Booth, 2013). The key challenge in this area is measurement and attribution – how to measure the effectiveness of institutional reform interventions in achieving poverty reduction and growth (Fukuyama, 2013).

Common challenges that need to be taken into account in public sector institutional reform are:

- Embedding a ‘thinking and working politically’ approach to reform
- Resolving the tension between the long-term processes of institutional change and short-term political horizons
- Ensuring reforms tackle problems with underlying functional effectiveness as opposed to simply adopting institutional forms
- Finding the right balance between a large scale centre of government approach and a small scale islands of effectiveness approach in specific contexts
- Achieving sustainable and systemic change through changes in the motivation and incentives of individuals, groups and organisations
- Ensuring that public sector institutions are inclusive and integrate a gendered perspective
- Working with non-state institutions, including informal norms and clientelism
- Fostering political support and local ownership to open space for reforms
- Building the capacity of individuals, organisations and the broader institutional framework.

The following emerging **lessons** have been identified by experts:

- To be effective, reform processes need to work within the political logic of the context
- Informal institutions are pervasive, and can undermine reforms unless they are taken into account
- Building on what’s there can help to maximise existing capacity and develop contextually appropriate reform
- The process of reform may be more important than its content
- Incremental, adaptive reforms can generate learning and momentum for change
- Successful reforms have started by identifying and framing the problem

- Power and political economy analysis can help in the ongoing process of identifying windows of opportunity
- Broad engagement with leaders and networks can help to build constituencies for change
- Brokering and convening change can provide effective assistance
- Institutional reform processes need to be aware of, and work with, the organisational constraints of donor agencies
- Complementary long-term, flexible and ‘hands-on’ aid modalities and instruments have been required to address institutional blockages.

1.2 Strength of Evidence

There is a lack of rigorous, systematic evidence on what external support for public sector institutional reform has or has not been effective, and on how and why this is the case. In the last decade, in-depth qualitative¹ research programmes have started to fill this gap. Nevertheless, the nature of the topic means that building the evidence base will continue to be challenging. The challenge is one of measurement: observed outcomes are very difficult to attribute to specific interventions (Fukuyama, 2013).

The evidence guide below summarises the evidence discussed in this topic guide about the impacts that various approaches to institutional reform have had. It is not a comprehensive map of all evidence available; it covers a selection of evaluations, chosen because they are most often mentioned in key publications. Multi-year, multi-case research programmes with multiple findings are categorised according to their main recommendations.

The literature largely consists of individual success stories of particular kinds of reform approaches, or stories of failure that are attributed to not following a particular approach. This explains the lack of evidence of negative impacts. There is a lack of rigorous evaluations of each individual reform approach – of evaluations that identify multiple cases where an approach was intended and investigate whether or not it was successful, and why. This lack of evidence is not accidental: there are enormous problems of measurement and attribution in assessing public sector institutional reform that need to be addressed (Fukuyama, 2013).

¹The evidence base on external support to public sector institutional reform predominantly relies on qualitative research methods. The findings show what has worked in particular contexts. Andrews’ (2013) work includes quantitative analysis, while others are starting to apply experimental methods in this field, focusing on corruption, community development and election programmes (Mcloughlin & Walton, 2011).

Public Sector Institutional Reform Evidence Guide

Approaches to public sector institutional reform (see section 4)				
	Working with political and social institutions (see section 4.1)	Starting with existing contexts (see section 4.2)	Problem- and process-driven approaches to designing PSIR (see section 4.3)	Donor roles and modalities (see section 4.4)
Strength of evidence of positive impacts on reform	[MEDIUM] Sierra Leone (R)	[MEDIUM] Multi-country (C) (H) (I) Philippines (T)	[MEDIUM] Multi-country (A) (B) (E) (S) Malawi (F) Philippines (T)	[WEAK] Multi-country (A) (I) (L) (O) Pakistan (J) Rwanda (K)
Strength of evidence of neutral impacts on reform			[WEAK] Multi-country (D) (G)	[WEAK] Multi-country (P) (Q)
Strength of evidence of negative impacts on reform	<i>None of the sources reviewed provided evidence of interventions negatively affecting institutional reform</i>			

Strength of the evidence base

[STRONG] Mix of methods; multiple contexts; significant number of relevant studies or literature reviews.

[MEDIUM] Mix of methods; multiple contexts; some relevant studies or reviews.

[WEAK] Limited methods; isolated context; few relevant studies.

Research descriptors

[P&E] Primary and Empirical

[S] Secondary

[EXP] Experimental

[SR] Systematic Review

[OBS] Observational

[OR] Other Review

Key references

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2 Concepts and Debates

2.1 What are Institutions?

A commonly accepted definition of institutions is that they are **the formal and informal rules that organise social, political and economic relations** (North, 1990). They are the systems of ‘established and prevalent social rules that structure social interactions’ (Hodgson, 2006, p. 2).

Key features of institutions include (see also the *Inclusive Institutions* Topic Guide):

- They are reproduced through routine actions – they live through enactment
- They provide relative certainty and predictability for everyday social, economic and political interactions
- They tend to persist over time but can change incrementally and, in rare instances, suddenly
- They are often internalised and unconscious, in that social actors may not even recognise that they are following institutionalised ways of interacting
- They shape behaviour and thus affect developmental outcomes.

Institutions operate in all spheres of life and can affect access to economic, legal, political, and social rights and opportunities. (See chapter 3 for a discussion of effects on development outcomes.)

Institutions are sometimes confused with **organisations**. One can think of the differences between them in this way: ‘If institutions can be defined as the “rules of the game”, organisations are how we structure ourselves to play’ (DFID, 2003a, p. ii). Organisations are shaped by institutions, and in turn shape institutional change. Organisations are the material expressions of institutions circumscribed by ‘groups of individuals bound by a common purpose’ (North, 1990, pp. 3, 5; Harper et al., 2012, p. 15).

Institutions can be formal or informal. **Formal** institutions are the (written) laws, regulations, legal agreements, contracts and constitutions that are enforced by third parties, while **informal** institutions are the (usually unwritten) norms, procedures, conventions and traditions that are often embedded in culture (Leftwich & Sen, 2010, p. 16). Informal institutions can complement, compete with, or overlap with formal institutions (Jutting et al., 2007, p. 36; Leftwich & Sen, 2010, p. 17). They are implicit and are revealed by investigation of the incentives and norms that drive actors’ behaviours. Whether institutions are relatively strong or weak, or are inclusive or discriminatory, depends on the context within which they operate (Unsworth, 2010; see also the *Inclusive Institutions* Topic Guide).

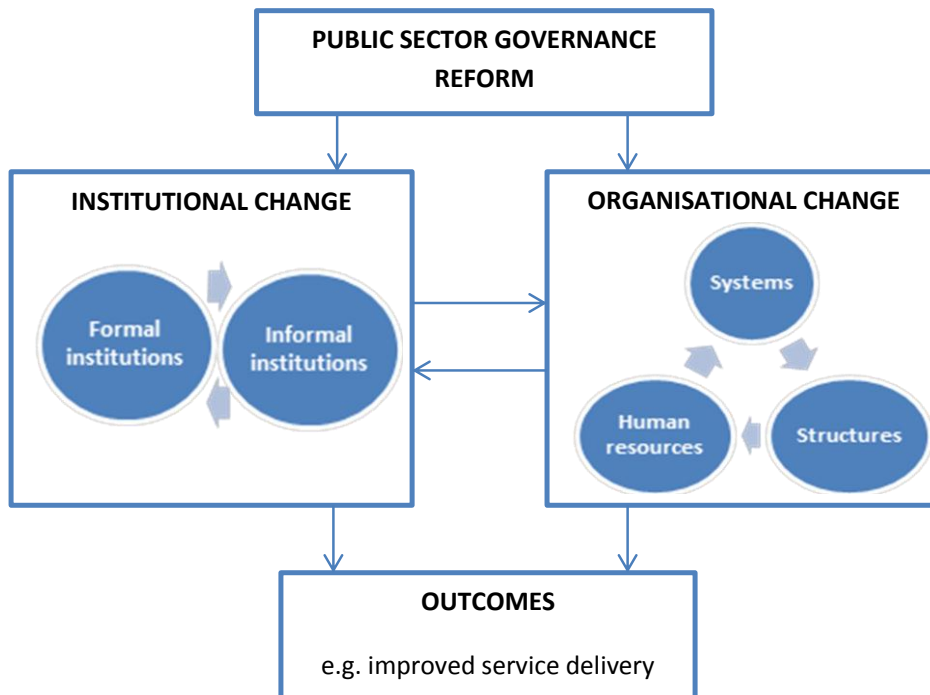
Public sector institutions² are **the policies, legal frameworks, informal norms and codes of conduct** that create the incentives that drive government decision-making, the behaviour of public sector workers, resource allocation – and ultimately the exercise of power within the state bureaucracy.

2.2 Institutional Reform and Organisational Change

How is public sector institutional reform different from organisational change? Public sector institutional reform attempts to change institutions and the way they function: the underlying incentives and norms that shape behaviour in organisations, rather than the formal organisational structures, rules and processes. The challenge for institutional reform in the past has been to identify institutions that are critical, and shape reforms to achieve underlying functional change (Pritchett & Weijer, 2010).

² The public sector comprises upstream core ministries and central agencies, downstream bodies (including sector ministries, regulators, State-Owned Enterprises and corporate bodies), and non-executive state institutions (including judiciaries, legislatures and Supreme Audit Institutions) (World Bank, 2012).

Public Sector Governance Reform



Source: Authors; adapted from DFID, 2003a, p. 12.

The literature on organisational change is large, and draws on theories of public administration and organisations (Demers, 2007; March, 2013; Mahoney & Thelen, 2009). The evidence base on public sector institutional reform in developing countries is smaller and draws on experience of civil service reform, decentralisation, policy setting, policy formulation, and policy coordination, and institutional change in both formal and informal institutions.

Public sector institutional reform aims to tackle underlying problems of motivation and behaviour by addressing formal and informal institutions. Because institutions are implemented, shaped and changed by people and organisations (DFID 2003a; Leftwich & Sen, 2010), institutional reform often involves organisational reform, and organisational reform can affect underlying incentives and norms.

Reforming public sector institutions requires looking at the structure of the state and its governance systems to identify where decisions are taken and how the various components connect. Three key perspectives to take into account are:

- **Intra-state relations:** How the core and sectors relate (Brinkerhoff & Goldsmith, 2004, p. 176; World Bank, 2012, p. 3). With about 80% of developing countries having undergone some form of decentralisation (Birner & von Braun, 2009), it is also important to consider how centralised and decentralised components of the public sector connect.
- **State-society relations:** Citizens engage in oversight relationships with policymakers and service providers, demanding goods and services (World Bank, 2004). Social norms that cut across state and society, such as norms on gender, ethnicity, and caste, shape discrimination, inequalities and access. Moreover state-society relations are a function of political settlements and elite pacts; the extent to which reforms threaten pacts can influence their success (Migdal, 2001).
- **Private sector/enterprise relations:** States have a reciprocal relationship with the private sector. States provide conditions for economic activity to flourish (rule of law, property rights, regulation, etc.) and the private sector, through economic growth and subsequent taxation, provides resources for states to operate (Evans, 1995).

2.3 Challenges to Reform in Public Sector Institutions

Public sector institutional reform faces some fundamental challenges. Successful reforms are not only about technical capacity and knowledge. Improving public sector effectiveness is fundamentally political and shaped by the political settlement (Bukenya & Yanguas, 2013). Reforms have to deal with complex political and social contexts including corruption, patronage, and political capture. Thus PSIR initiatives need to take politics seriously and move from ‘thinking politically’ to ‘working differently’ (Menocal, 2014). Moreover, we know that fundamental changes to institutional features (staff capacity, organisational culture) take decades if not centuries (Lange & Rueschemeyer 2005). This poses challenges for short term political opportunity spaces as well as donor funding.

Within these broad challenges, the following components of institutions need to be taken into account while considering reforms:

Table 1: Main Components of Institutions

Priorities	Has government identified its priorities amongst its desired outcomes and allocated resources accordingly? Are allocations adhered to? What are the core policy and decision making structures? What levels of expenditure can be afforded in the short, medium and long term? What mechanisms are available to ensure that poor people’s views are taken into account? Who sets priorities and in response to what interests? Can priorities be translated into resource allocation?
Policies	How effective are the core policy and decision making structures and processes? Are they based on evidence and data? What is the availability and quality of data? What is the impact of policy changes on the poor?
Incentives	What is the current formal/informal incentive structure? Who benefits? What are the incentives for state structures to deliver services; for the bureaucracy to attract and motivate staff; for the development of national skilled human resources? What incentives, if any, are there to modify behaviours of key players in support of the desired outcomes? What incentives are there to review and improve performance?
Rules and Law	Are formal rules and laws respected? Are there informal rules leading to corruption, patronage, victimisation, exclusion? Can rights be enforced through law? Are rules and law subject to political interference? Are there informal systems of dispute resolution?
Culture	National attitudes to risk, hierarchy, incentive systems, participation, donor interventions, etc. Willingness to engage in consultation. Responsiveness to information, Issues of community and individual identity.
Drivers for Change	What are the key drivers for change? Social, technological, economic or political? Are there sponsors or champions for reform? Extent of their power and influence. Level of commitment to reform. What benefits or incentives do they have to push a reform process? Level of political stability. What are the implications of the current electoral cycle?
Voice and Partnership	What mechanisms and structures are in place to promote the concerns of poor people? Awareness raising, capacity building, joint manage of e.g. forestry or water resources, participatory budgeting? How effective are they? What voice do people have to hold delivery organisations to account? Report cards? Public audits?

Source: DFID, 2003b, p. 4

Political commitment

Lack of political commitment is a common explanation for public sector institutional (or ‘governance’) reform failure. It can be linked to factors such as reform fatigue, patronage networks and a lack of financial incentives (Scott, 2011, p. 18), as well as aims such as staying in power and satisfying elite supporters. In such contexts, increasing political participation could simply enhance the power of local elites (Brinkerhoff & Goldsmith, 2004; Unsworth, 2010, p. 40; DFID, 2011b), while women are often excluded from male-dominated patronage and power networks (Gender Action, 2013).

Political commitment, in particular to higher order objectives such as independence or statehood, can open up space for reform. For example, a cross-country study of public financial management reforms in post-conflict situations concluded that a lack of incentives to pursue reforms was often the most critical bottleneck, more so than weak capacity (Fritz et al., 2012). Unsworth (2010) and Fritz et al. (2012) recommend thinking of political commitment in terms of incentives for and against reforms; this can help donors calibrate reforms to the available space and engage strategically. Political commitment is not static – it fluctuates and can be influenced by external actors and factors.

A key question relates to **assessing political commitment**. Brinkerhoff (2007, p. 115) proposes a framework of six elements to assess political commitment and ownership of reforms: a) whether impetus for change is external or internal, b) whether domestic actors have been the drivers behind assessing policy options, outcomes and costs/benefits; c) the extent of consultation with stakeholders; d) public commitment and allocation of resources; e) continuity of effort and commitment of resources and planning for the long term; and f) whether processes for adaptation and learning have been established.

Informal norms

Public sector institutions operate within systems of formal and informal norms. Informal norms and institutions are pervasive and can have negative (Collins, 2002) or positive impacts on development outcomes (Booth, 2012; Colignon & Usui 2003).

Public actors are subject to both formal and informal incentives, and in some instances, **informal norms can trump formal incentives** (Helmke & Levitsky 2004). In developing countries clientelism and patronage politics are particularly pervasive (see next section), but other informal norms and organisational cultures can be equally insidious. Helmke and Levitsky (2004, p. 726) cite the example of Brazilian state law which prohibits extra-judicial executions, but informal practices hint that this is encouraged, making police officers engage in such killings. Strengthening the law or enforcement policies under such circumstances is unlikely to have the desired effect.

One result of not taking informal institutions into account can be **'isomorphic mimicry'** – when governments copy formal rules without changing implicit rules and norms (Pritchett et al., 2010). Eventually the formal rules collapse without informal institutional foundations (Andrews, 2013).

Box 1: Honduras: Institutional form without function

From 1988 onward, Honduras engaged in 59 World Bank projects involving institutional reform:

- Projects produced laws on banking, trade and privatisation in the early 1990s and established regulatory, procurement, and concessions agencies.
- The late 1990s saw new civil service laws, privatisation decrees, downsizing, the creation of public financial management information systems, the formalisation of civil service payment systems, and wage bill controls.
- Projects in the early 2000s brought laws on civil service and procurement, Public Financial Management, competition and external audit. A treasury single account and multiyear budget was introduced; information technology capabilities improved; the audit court was revamped; and new strategies, procurement mechanisms, and results-based management systems were adopted.
- Between 2004 and 2008, the government revamped its civil service laws again and introduced anticorruption and transparency regulations, an anticorruption agency, participatory budgeting, merit-based hiring and performance-based compensation.
- Privatisation continued throughout the period.

Most of the World Bank projects were considered successful. During this time, however, Honduras' Quality of Government scores dropped, and GDP per capita grew at about 2 per cent per annum, much less than the average for other lower-middle income countries. In 2009, the President was ousted in a coup.

The large set of reforms cost over USD 700 million. They may have made the Honduran government look better, but apparently fell short of improving governance enough to register in external indicators or to prevent political upheaval.

Source: Andrews, 2013, pp. 24-25

Clientelism

Clientelism is the exchange of goods or services for political support. Mungui Pippidi (2006, p. 87) highlights how in clientelistic societies, access to public goods is predictable but unequal, and is based upon the closeness of groups to centres of power. Under such contexts, reforms need to tackle the pervasiveness of clientelism, rather than its manifestations within specific organisations (Mungui Pippidi, 2006). Clientelism can undermine reform efforts: Leftwich and Sen (2010) provide an example from India where organised interests blocked the implementation of the Forest Rights Act 2006 to protect their political power (and, possibly, rent-seeking abilities).

Clientelistic arrangements **may also have hidden positive effects**, such as appeasing elites, integrating people into the state, and giving poor people access to resources. Booth (2012, p. 26) finds that with divided societies or weak administrations, clientelism may be a pragmatic way of ensuring investors have access to resources, basic property security, and political stability, and of limiting corruption outcomes.

The challenge for international donors is how to **differentiate clientelistic institutions** that serve, or at least do not undermine, the majority's needs from similar-looking institutions that harm the majority (Brinkerhoff & Goldsmith, 2004, p. 165). One case study is documented by Schneider and Zúniga-Hamlin (2005) who found that advancing local people's rights in rural Peru was more successful when it adopted a pragmatic approach to the prevailing clientelism (Box 2).

Box 2: Advancing local people's rights in rural Peru

In Peru in 2002, members of Regional Coordinating Councils (CCRs) contested resource distribution to regional presidents' patronage networks. In the CCRs, local mayors and civil society organisations pressed for resource distribution based on the shared needs of rural municipalities. To organise these efforts, one district mayor took the lead in several neighbouring rural districts. To build up his coalition, he promised to divide the spoils among his supporters (including the Women's Neighbourhood Committee and the Association of Mothers).

Thus, a clientelist leader used rights norms to leverage resources. However, his efforts distributed resources to previously excluded areas and broke regional leaders' monopoly on power.

Source: Schneider & Zúñiga-Hamlin, 2005, pp. 575-576

Inclusivity

Exclusive public sector institutions can perpetuate socio-economic disadvantage and poverty through shaping policy priorities and implementation. They can lead to discrimination against socially marginalised groups in accessing services. Institutions can compound disadvantage in cases of groups who face multiple exclusions (e.g. a disabled, low caste, poor widow in a remote location).

Inclusive institutions are characterised by being **universal** (offering equal access and entitlements to all); **non-discriminatory** (based on merit) and can be **targeted** to address historical disadvantage (e.g. affirmative action) (see *Inclusive Institutions* Topic Guide).

Gender sensitivity

A gender perspective is key in institutional reform. There is enough evidence now to suggest that a gendered approach is developmentally beneficial. Potential positive outcomes include increasing uptake of services by everyone, providing positive role models for women, improving services for women, making policy responsive to women's needs and changing the organisational culture to be gender friendly (Joshi, 2011). However, attempts to increase the proportion of women in public organisations have had limited success (Zafarullah, 2000), and increasing the number of women in positions of power is not sufficient to achieve women's empowerment (Tinker & Zuckerman, 2013). A 'critical mass' is required to change organisational cultures.

Understanding the **proportion and different roles of women and men** involved in reform processes and related collective action matters for effective development (Gender Action, 2013). Women's and men's interests usually differ; moreover, women's disempowerment restricts their access to basic services and participation in collective decision-making (Gender Action, 2013).

To date, mainstream governance reforms have not focused on gender issues: programme documents rarely include gender benchmarks or indicators³ (Scott, 2011, p. 24). Further, there is a striking lack of research on the impacts of public sector governance reforms on gender and diversity, and on public sector governance reforms with a gender or diversity focus (Scott, 2011, p. ii). Gender Action (2013) provides recommendations on integrating gender into public sector institutional reform (see Box 3).

³ There are some exceptions: the Global Fund, the Global Alliance for Vaccines and Immunization, and two climate change funds (the Global Environmental Facility and the Adaptation Fund) attempt to integrate gender (Arend & Lowman, 2011).

Box 3: Integrating gender into public sector institutional reform

- Strengthen political will to achieve gender equality and equity at the local, national, regional and global levels
- Incorporate a gender perspective into the planning processes of all government ministries and departments
- Integrate a gender perspective into all phases of sectoral planning cycles, including the analysis, development, appraisal, implementation, monitoring and evaluation of policies, programmes and projects
- Use sex-disaggregated data in statistical analysis to reveal how policies affect women and men differently
- Increase the numbers of women in decision-making positions in government and the private and public sectors
- Provide tools and training in gender awareness, gender analysis and gender planning to key personnel
- Forge links among government, the private sector, civil society and other stakeholders to ensure better use of resources.

Source: Gender Action, 2013, p. 5

Capacity development

Capacity assessment and development refer to the capacity of **individuals, organisations and institutional frameworks** (DFID, 2013a). The three levels are interrelated, and institutional reform requires capacities for implementing change at all levels and can affect capacities at all levels.

Training, equipment and staff are elements of organisational capacity, but institutional effectiveness also depends on how organisations and individuals interact with institutions – on ‘political processes in which rules are respected, avoided or negotiated’ (DFID, 2013a). Moreover, as public sector institutions are affected by social and political norms, capacities need to be assessed in civil society and the private sector as well as the state. The creation of an **enabling environment** for organisational and institutional development requires looking beyond state structures to society, the economy and ideology (Berman, 2013).

3 Institutional Reform and Development Outcomes

Key Points

- Institutional theory highlights the importance of public sector institutions for development outcomes.
- The basic institutionalist framework is considered well evidenced.
- Inclusive institutions seem associated with positive development outcomes.
- The links between types of institutions and growth and poverty reduction are under-researched.
- Critiques of institutional theory include a concern that a focus on institutions might risk neglecting wider political, economic and geographical contextual issues.

3.1 Evidence of Links Between Institutions, Development Outcomes and Growth

In the late 1980s economics and political science started to explore the influence of institutions, giving rise to ‘new institutionalism’ (e.g. North, 1990; March & Olsen, 1989; Fritz & Menocal, 2007, p. 50). This mainstream development discourse posits a link between the right type of institutions and poverty reduction. The widely-accepted theory is that institutional change supports poverty reduction by improving the quality and accessibility of basic services, expanding income-earning opportunities, and increasing citizen participation (World Bank, 2000, p. 2).

International actors and research emphasise the importance of **inclusive and equitable institutions** (DFID, 2011b; see also *Inclusive Institutions* Topic Guide). Inequitable institutions result in high income inequality; this is understood as explaining much of the disparity in countries’ ability to transform growth into poverty reduction (OECD, 2011). Acemoglu and Robinson (2012) posit that economic and political institutions need to be inclusive to achieve sustainable growth. North et al. (2009) describe the key characteristics of ‘open-access societies’ in which political, economic and social organisation, by being open, enables societies to achieve positive developmental outcomes.

Empirical econometric studies on the relationship between types of institutions and development outcomes, typically growth, have been influential (World Bank, 2000). Statistical analyses have sought to find a correlational, even causal, relationship between governance and development (Grindle, 2007, p. 558). The IMF’s 2003 review of growth and institutions concludes that there is a strong link between income per capita and institutional quality, regardless of the measure of institutional quality used (International Monetary Fund, 2003). Issues identified with this body of evidence include:

- Establishing causality (governance causes growth and development outcomes) is controversial and ruling out reverse causality (growth and development cause governance) is difficult.
- ‘Institutions’ and ‘governance’ are often used inconsistently to refer to concepts (state capacity, rule of law, democracy) that affect growth in different ways (Fukuyama in North et al., 2008, p. 27).
- The impact of institutions on poverty reduction, health, education or broader measures of development such as sustainability has been under-researched (Casson et al., 2010, p. 138; Earle & Scott, 2010, p. 10).

- Econometric studies focus on the impact of institutions on growth, normally defined as GDP per capita (Fukuyama in North et al., 2008, p. 27). However, research has neglected the type or quality of growth and gender dimensions of developmental outcomes.
- There is a lack of systematic empirical evidence linking institutions involved in managing public sector financial and human resources to impacts on growth and poverty (World Bank, 2012, p. 4; Welham et al., 2013). The Dabla-Norris study (2010) (see below) starts to fill this gap.

Poverty reduction and other development outcomes

- Chong and Calderon (2000) find significant links between the *quality of institutions* and reduction in *poverty incidence*: ‘the degree, severity, and incidence of poverty appears to be robustly and negatively linked with the development of better institutions’ (p. 133).
- Using six aggregate governance indicators, Kaufmann et al. (1999) find that an increase in *governance indicators* of one standard deviation causes a 2.5 to 4-fold increase in *per capita incomes*, a 2.5 to 4-fold decrease in *infant mortality* and a 15-25% increase in *literacy* (p. 3). However, others have pointed out that an inherent reverse causality and endogeneity problem is still an issue (Goldsmith, 2007, cited in Rothstein, 2011).
- Channa and Faguet note that ‘the empirical evidence of *decentralisation’s* effects on *service delivery* is weak, incomplete, and often contradictory’ (2012, p. 1). However, their analysis focusing on empirical quality and credibility finds that ‘higher quality evidence indicates that decentralisation increases technical efficiency across a variety of public services, from student test scores to infant mortality rates’ (2012, p. 1).

Growth, income and related indicators

- Using the same six governance indicators mentioned above, Kaufmann (2003) finds that effects of *governance* on *income* are very large: a 400% improvement in per capita income is associated with an improvement in governance of one standard deviation (p. 14). He finds ‘an absence of (or even possibly negative) feedback from per capita income to governance’ (p. 12).
- Knack and Keefer (1995), with attempts to control for reverse causality, find that *growth and investment* are increased in the presence of institutions to protect *property rights*.
- Chong and Calderon (2000) find evidence of causation in both directions: growth increases the values of institutional indicators, but higher institutional values increase the growth rate.
- Woller and Phillips (1998) fail to find a strong systematic positive relationship between *fiscal decentralisation* and *growth* in less developed countries, but Huther and Shah (1998) do find that fiscal decentralisation is positively correlated with *good governance*.
- Using data from 29 developing and middle-income countries, Evans and Rauch (1999) identify a strong positive relationship between *bureaucratic quality* of public institutions and *economic growth*.
- Drabek and Payne (2001) find that low levels of *transparency* have a significant negative impact on *foreign direct investment* (cited in Parry, 2007).
- From a low-income and middle-income composite index of the quality of budget institutions, Dabla-Norris et al. (2010) find that *sound budget institutions* promote *fiscal discipline* and are relevant for shaping less procyclical responses to the fiscal cycle in low-income countries.

3.2 Critical Perspectives on Institutionalism

The basic institutionalist framework is well-evidenced. Some research has suggested, however, that an exclusive institutional focus risks missing other factors such as political, economic and geographical contextual concerns that are also important for development. The predominant causal role of institutions is not universally accepted: some experts (e.g. Sachs, 2003) posit that factors such as geography and resource endowments should not be underestimated in explaining why some countries have better development outcomes than others. Critiques of the mainstream institutionalist agenda include:

- Experts caution that it is **futile to look for empirical regularities** linking individual institutional forms to particular outcomes (World Bank, 2012, p. 4; Rodrik, 2004, p. 8-9). For example, the empirical finding that effective property rights are critical for sustainable growth and development offers little guidance on how to establish such rights (Rodrik, 2004, p. 9).
- Developing economies such as China, Botswana, and Mauritius have achieved fast growth under substantially different institutional arrangements (IMF, 2003, p. 113). This suggests that countries' institutional development differs in pace, sequence, and in **'more creative and less predictable ways'**. The Africa Power and Politics Programme finds that institutional arrangements in 'developmental patrimonialism' can generate dynamic growth for periods of more than a decade (Kelsall & Booth, 2010; Booth, 2012, p. S21).
- However, what is **'good enough governance'** is a contentious issue. Acemoglu and Robinson (2012) find that extractive economic and political institutions will not support sustainable growth in the long term. Grindle (2004; 2007) and Levy (2010) attempt to provide guidance on how to prioritise the overloaded good governance agenda.
- While there is relatively strong evidence that a broad cluster of institutions are essential for long-term development, there has been little unpicking, and a lack of robust evidence, about what specific aspects of institutions are required, in what conditions, and how change happens (World Bank, 2012, p.4; Fritz et al., 2012, p. 12). There is therefore little understanding of what reformers and donors should do differently to address complex, country-specific institutional reform challenges.⁴

3.3 Impact of Institutional Reform on Development Outcomes

The predominantly observational research assessing the impact of support to institutional reforms consistently finds mixed results⁵. While there are some success stories, recent studies find that many institutional reforms do not seem to make government function better, often have quite poor results, and rarely lead to sustainable change and impact on poverty reduction (Andrews, 2013, p. xi). The dominant challenge in assessing impact remains one of measurement.

The disappointing results have led to questions on how best to support popular tenets of donors' institutional reform agendas. Democratic decentralisation, citizen power for the marginalised, and social accountability may be intrinsically desirable, and there is some evidence of success – particularly with community participation in development processes⁶. However, success depends largely on context-specific factors (Booth, 2012, p. 66) and the aid effectiveness agenda has proven difficult to

⁴ Many of these reforms are 'wicked problems': issues that have innumerable and undefined causes and are difficult to understand, and result in outcomes that are uncertain or unknowable (Dentoni et al., 2012).

⁵ This consistent message is in spite of the challenges in evaluating the results of support to institutional reform. These challenges include: a lack of baseline information against which to measure success (which could be remedied by rigorous collection of sex-disaggregated data in PSIR programmes); difficulty in measuring outcomes (not easily captured by macro-level indicators of effectiveness and accountability) and impact (hard to establish clear and unambiguous evidence); and the lack of widely shared measures of reform activity or government effectiveness (Scott, 2011, p. 8; Andrews, 2013).

⁶ McGee & Gaventa, 2010; Gaventa & Barrett, 2010.

operationalise: institutional reforms before and since the Paris Declaration do not look much different (Andrews, 2013, p. 211-212).

Thinking and Working Politically

- Booth (2014), drawing on successful aid-funded institutional reform in the Philippines, shows how PSIR efforts need to work within the political context and give up some traditional ways of working – including traditional project tendering modalities, notions of country ownership, and stakeholder inclusion. He notes that PSIR efforts need to be willing to give up strict control of the process, trusting local reform leaders to adopt their own strategies.
- Srivastava & Larizza (2013) show, with an example from Sierra Leone, how successful institutional reform involves identifying the political functions of prevailing institutions, to identify potential entry points.

Good Governance Agenda

- Andrews (2013, p. 15) provides quantitative and qualitative analyses in his book on institutional reform. In one example he finds that of 145 countries that undertook donor-supported **institutional reforms** from 1998 to 2008, 50% declined in government effectiveness as measured by the World Governance Indicators. For example, Senegal dropped by a quarter of a point, despite 27 projects with institutional reform content costing over USD 1 billion. A smaller set of 19 countries saw improved indicators.

Decentralisation

- Scott's (2011, p. 12) literature review of public sector governance reforms finds that evidence for assumed outcomes of **decentralisation reforms** is 'largely missing': qualitative research shows that reforms 'have not had a consistent positive impact on service delivery, participation, poverty reduction or social cohesion'.
- However, other studies are more positive. Evidence from India suggests **building more inclusive democracies** may have a positive impact on development outcomes (Chattopadhyay & Duflo, 2004); Faguet (2004) finds that popular participation led to pro-poor outcomes in Bolivia; Scott (2011) reports evidence of local governance mechanisms opening up political space for women's participation; and Enikolopov and Zhuravskaya (2003) find that when national political parties are strong, outcomes of fiscal decentralisation improve significantly.

Aid Effectiveness

- DFID's 2013 Public Sector Management Portfolio Review found that policy management reforms, civil service reforms and human resources management reforms were the strongest performers for outputs in internal annual review scoring (DFID, 2013b, p. 7). The review suggested that all programmes were too ambitious, aiming for improved performance throughout the public sector; they would work better if they were focused and had more realistic time frames. An incremental approach was recommended, combined with a long-term commitment to reform. When programmes did not work, political drivers and reform capacity were the main constraints.
- A multi-donor governance reforms evaluation examined the impacts of decentralisation reforms, centre-of-government reforms, accountability reforms, social justice reforms and 'whole of civil service reforms' (SIDA et al., 2013). It found that the results were largely disappointing, with implementation, capacity and opposition to reforms being the main sources of derailment. The study concluded that reforms should emphasise sustainable changes working with realistic theories of change; that political economy analysis should be used to understand potential impacts of reforms; and that success requires a whole of system approach, good donor coordination and a

long term perspective, which is difficult. Most reforms need better M&E systems that are embedded at the outset and focus not just on outputs, but also on outcomes.

- A recent review of the World Bank's public sector management portfolio found that reforms worked better where the domestic political incentives were aligned to reform objectives (Blun, 2014). In general, projects performed better in a) democratic rather than autocratic regimes; b) in aid-dependent countries; and c) in contexts with programmatic political parties. The review also found that, given the importance of political factors, subjective risk assessments for reform were more reliable than standardised risk flags.
- A cross-country econometric analysis by de Renzio et al. (2011) finds that donor-funded **public financial management** (PFM) initiatives are positively but weakly associated with quality of PFM systems. The authors conclude that economic factors are most important in explaining differences in PFM system quality; aid-related factors have less explanatory power.
- An independent evaluation of AusAID's **law and justice** institutional assistance finds many examples of effective approaches, but also frustration regarding the pace and extent of achievements (Cox et al., 2012).

4 Lessons, Tools and Guidelines

Key Points

Working with political and social institutions

- To be effective, reform processes need to work within the political logic of the context
- Informal institutions are pervasive, and can undermine reforms unless they are taken into account

Starting with existing contexts

- Building on what's there can help maximise existing capacity and develop contextually appropriate reform
- The process of reform may be more important than its content
- Incremental, adaptive reforms can generate learning and momentum for change

Approaches to designing PSIR

- Successful reforms have started by identifying and framing the problem
- Preparation and political economy analysis can help identify windows of opportunity
- Broad engagement with leaders and networks can help to build constituencies for change

Donor roles, challenges and modalities

- Brokering and convening change can provide effective assistance
- Institutional reform processes need to work with the organisational constraints of donor agencies
- Complementary long-term, flexible and 'hands-on' aid modalities and instruments have been required to address institutional blockages.

The international development community has, until recently, tended to presume that the 'right' institutions can be imported into a country, and that this will incentivise behaviour to fit those institutions (Brinkerhoff & Goldsmith, 2005, p. 204). This idea has been reinforced by generic global institutional indicators that imply there are 'right rules' of government (Andrews, 2013, p. 12). However, as discussed below, evidence indicates that public sector reform efforts have failed because they have tended to be organisational change strategies based on blueprints and best practices.

The conceptual and empirical literature reviewed here points to an alternative approach to public sector institutional reform. The lessons can be organised around four sets of issues: a) working with political and social institutions; b) starting with existing contexts and focusing on processes as much as outcomes; c) approaches to designing PSIR; and d) donor roles, challenges and modalities.

4.1 Working with Political and Social Institutions

Politically smart aid

A growing body of scholarship is viewing development as a political process, and development cooperation as an inherently political activity (Hyden, 1992; DFID, 2011b). Carothers and de Gramont (2013, pp. 10-11) suggest that adopting politically smart methods requires donors to engage with state and non-state actors, and use aid to facilitate local processes of change.

Recent research by ODI on the politics of service delivery attempts to operationalise this perspective, identifying six explanatory factors for how politics and governance can constrain or enable equitable and efficient service delivery in developing countries (Wild et al., 2012). The study reviews evidence on interactions at regional, district and community level among local government officials, service providers and users and finds that the same constraints appear across different sectors and contexts. Foresti et al. (2013, p.2) summarise these as: credibility of political commitments; strength of oversight systems; coherence of policies and processes for implementation; capacity for local problem-solving and collective action; presence/absence and severity of moral hazard and of rent-seeking.

Politically smart aid has serious implications for the role of donors and the current aid and development model. There is a growing consensus that donors are limited to the extent to which, as external agents, they can promote and support countries' domestic reforms (Andrews, 2013, p. 209; North et al., 2008; Scott, 2011).⁷ Moreover, aid risks changing the domestic political economy, which could dilute incentives for institutional change (Booth, 2011, p. S11).

Delivering politically smart aid is not easy because it involves 'changing the rules of development itself' (Andrews, 2013, p. 17). It requires development agencies to invest in understanding local political dynamics, make (often uncomfortable) changes to their own organisations, values, practices and behaviour (Unsworth, 2010), and take risks. The way that donor staff performance is measured can also create barriers to change. Donors might embrace politically smart methods while avoiding political goals. However, Carothers and de Gramont (2013) note that institutional reform always affects power relations and involves political choices and values.

Some experts point out that broader global governance issues (e.g. ineffective financial regulation, the drugs and arms trade) can also incentivise non-developmental governance and lead to state breakdown (Unsworth, 2010). These issues are arguably easier for donor states to influence (Booth, 2011).

Working with informal institutions

The best practice approach has failed to understand and address informal institutions (Boesen, 2006). It has implied that these are unimportant or problematic and not only need to, but can, be replaced with neutral and technical formal devices (Andrews, 2013, pp. 7-10, 81).

In-depth qualitative research has identified experiences where informal non-state institutions (such as local decision-making structures) have been or could have been part of the governance solution (DFID, 2011b; Unsworth, 2010). However, maximising the opportunities provided by such institutions has sometimes been challenging for donors. Some feel this is compounded by donors being 'increasingly geared to minimising domestic reputational and fiduciary risk rather than supporting 'best-fit' institutional solutions that match political realities on the ground' (World Bank, 2011a, p. 180).

Moreover, there are complexities in dealing with social norms that cut across both state and society and shape discrimination, inequalities and access. Institutional reform needs to respond to this and incorporate appropriate strategies. (See also the *Inclusive Institutions* Topic Guide.)

4.2 Starting with Existing Contexts

Building on what works

Grindle (2007) points out that governance interventions are not introduced in a vacuum; some capacity is always present. Asking 'what is there to build on?' enables development agencies to identify where they can facilitate small changes that would not otherwise happen (Grindle, 2007; Booth, 2011, p. S22). Booth

(2013, p. 3) describes this as being '**locally anchored**' – addressing contextual constraints and opportunities, and being open to building on local practices. Fukuyama and Levy (2010) suggest that 'just enough governance' might be a feasible strategy in some environments, addressing discrete institutional barriers that are seen as binding constraints rather than seeking wholesale simultaneous change.

Booth (2012, p. xi) finds that local problem-solving has often involved adapting modern state practices to local practices. Such decisions to 'work with the grain' need to consider the risk of weakening capacity 'to generate other equally or more desirable transformations in society', or of breaching principles of entitlement and equity; such decisions might involve compromise (Villalón & Tidjani-Alou, 2012, p. 4).

Box 4: Hybrid designs in education institutional reform

In much of Africa – particularly Francophone Africa – the educational systems inherited from colonial times have been 'a very poor "fit" with societal demands and cultural values. The result has been a history of very low school enrolment and completion rates, and a consequent widespread failure of educational policies to support developmental outcomes.' (Villalón & Tidjani-Alou, 2012, p. 1)

Recent efforts to address this failure in Mali, Niger and Senegal have harnessed the strength of popular religiosity. Booth (2012, p. 86) explains that: 'These reforms attempt to address the unpopularity and poor educational performance of the government school systems by incorporating elements that reflect Muslim values and expectations while also ensuring training for employment. Findings suggest that incorporating religion into programmes has been highly effective in encouraging parents to send children, especially girls, to public schools. The main risk is of overburdening students and stretching curricula too thinly.'

However, the cases 'do *not* suggest a rejection of the state as a primary actor in development'. Rather, 'the "grain" of popular demand in contemporary Africa is not a desire for "traditional" institutions, but for modern state structures that have been adapted to, or infused with, local values.' (Booth, 2012, p. 87)

Sources: Villalón and Tidjani-Alou, 2012; Booth, 2012

Incremental adaptive change

Case studies highlight the benefits of incremental, collaborative initiatives that can demonstrate clear, tangible results, generate learning and build momentum for change (Cox et al., 2012). Adler et al. (2009) draw on experiences from Indonesia and Cambodia to show that focusing on the reform process as a change mechanism and **supporting interim institutions** can foster the development of locally appropriate institutions. They suggest that interim institutions need to be 'sufficiently removed from the state to escape the pull of its vested interests', but close enough to enable reforms to 'spill over into the mainstream' (Adler et al., 2009, p. 17; see Box 5).

A long-term, incremental approach might not be feasible where there are strong political imperatives for quick and large-scale action, such as in fragile states (Walton, 2011). However, increasing evidence from experience in fragile states finds that an incremental process to design policy frameworks and develop capacity has been less risky and is therefore preferable (Batley & Mcloughlin, 2009, p. 30).

Ensuring that incremental approaches accommodate coordinated and sequenced reform plans and pooled resources might be challenging. Evaluations of institutional reform continue to point out the pitfalls of donors working in professional and technical silos (Fölscher, 2012). Lawson (2012) and others (Barber et al., 2011) find that strong coordination arrangements are important to monitor and guide reforms. This could complement an incremental, evolutionary approach to reform, but has been seen by some as promoting a more top-down approach.

Box 5: Labour Arbitration Council in Cambodia

The ILO-supported Arbitration Council, set up in 2003, conducts negotiations between the state, international companies, and labour unions in the garment and tourism sectors. It implements the rule of law and acts as a forum for dialogue between organised labour and management. The Council has addressed hundreds of labour disputes and has, for the most part, found resolutions acceptable to all parties. Key strategies included:

- *Finding cracks in the infrastructure of power* (cf. Hirschman, 1963): Political factors created an enabling environment for the Council's establishment as part of incremental reform. Factors included conditionalities on labour rights in trade agreements with the US; the emergence of a potentially volatile union movement; and growing sensitivity among international consumers to how their clothing was produced.
- *Promoting equitable political contestation*: The Council introduced more equitable and transparent 'rules of the game'.
- *Harnessing collective action and diverse viewpoints*: At its best, this facilitates more equitable forums and decision-making modalities than would otherwise be prevalent.
- *Drawing on policy entrepreneurs and local knowledge*: The ILO's Chief Technical Advisor (CTA) was effective because of his neutrality and significant experience in Cambodia.

Source: Adler et al., 2009, pp. 5-10

4.3 Approaches to Designing Public Sector Institutional Reform

Process approaches

Recent research findings⁸ suggest that the *process* of reform (how a problem is identified and a solution developed) is more important than its content (World Bank, 2012, p. 10).⁹ A growing body of qualitative research explores process approaches, but does not form a systematic and rigorous evidence base.¹⁰ In a review of evaluations of process approaches, Walton (2011) finds mixed outcomes on development effectiveness. Two recent sets of research (Andrews, 2013; Tavakoli et al., 2013) provide frameworks designed to be adapted to context-specific diagnostics and evidence (Harris & Wild, 2013, p. 4).

Andrews' (2013) wide-ranging analysis concludes that what has worked is what he calls 'problem-driven iterative adaptation' (PDIA). This involves step-by-step flexible experimentation with relevant solutions ('purposive muddling'¹¹ and 'problem-driven learning'). It draws on (a broad scanning of) external and internal ideas and engagement, with many agents (not solitary champions) playing multiple roles to form hybrid solutions. Andrews emphasises that ensuring reforms are politically and practically feasible requires patience (to allow iterative learning and change) and a focus on small next steps, not final solutions.

⁸ Discussion at the ODI seminar on *Unblocking results: can aid get public services flowing?* in 2013 highlighted common themes emerging from recent research (Andrews, 2013; Booth, 2012; Tavakoli et al, 2013) and older research (Easterly, 2007; Unsworth, 2010).

⁹ Recommendations for donors to adopt a flexible process approach have been in circulation since the 1980s (for example, see Brinkerhoff and Ingle, 1989, on structured flexibility), if with little traction on programming (see Walton 2011). Features of this type of approach have appeared in work on organisational learning and in recent theory on complexity and development (Ramalingham & Jones, 2008; Jones, 2011).

¹⁰ Only a small number of programmes employ this terminology and an even smaller number of studies evaluate their effectiveness. Most of these studies focus on success stories to support an argument about the usefulness of the process approach. Difficulties in developing the evidence base include: the complexity of institutional reform; inconsistent and infrequent use of process-related terminology; and lack of explanation of programmes' implementation processes in evaluations (Walton, 2011).

¹¹This 'science of muddling through' has antecedents in earlier organisational sociology (e.g. Lindblom, 1959).

Table 2: Features of problem-driven iterative adaptation

Issue	Reform as signals	Problem-driven iterative adaptation
<i>Context</i>	Context is ignored, or only visible context is considered	Contextual complexities are revealed and addressed through problem-driven learning
<i>Content</i>	Some (visible) elements of externally-defined best practice are copied – ‘isomorphic mimicry’	Content is found and fitted through purposive muddling involving ongoing experiential learning and feedback
<i>Agents</i>	Narrow sets of high-level agents are relied on to champion reform; implementation by distributed agents is assumed to happen ‘by edict’	Broad sets of agents are mobilised into communities of change by conveners, connectors and motivators, fostering the emergence and diffusion of local solutions
<i>Result</i>	New forms do not improve functionality	Slow, incremental process whereby localised hybrids emerge to solve pressing local problems; new forms may not look impressive but they work

Source: Andrews, 2013, p. 216

Tavakoli et al. (2013) examine four case studies of aid programmes that addressed governance constraints in service delivery. They conclude that how programmes are designed and implemented affects whether they are able to gain domestic traction and support institutional change. They identify six characteristics that support institutional change and improved outcomes, and give examples of current and proposed practice for each of these enabling factors (see Table 3 below). Some of these may already be standard practice for some donors.

Table 3: Enabling factors in aid design and delivery: current and proposed practices

Enabling factor	Current practice (stylised)	Proposed practice
Windows of opportunity	Donor country strategies based on needs assessments	Weigh need against opportunity to effect change
Tangible political payoffs	Donors claim political neutrality	Accept that aid is inherently political and work with the political incentive structure
Building on what’s there	Tendency to want to start afresh with a revised legal, policy or regulatory framework	Implement existing framework, however imperfectly, then adjust
Moving beyond policy advice	Technical assistance engaged to advise on the content of policies	Technical assistance engaged to support implementation of policies
Acting as facilitators	External agents provide technical advice for governments to ‘take or leave’	External agents help to facilitate and mediate a local dialogue about problems and solutions
Adaptive and responsive to lessons learnt	Pre-defined logical frameworks that lock donors and implementers into a set of activities	Flexible frameworks that do not use pre-defined targets to judge performance

Source: Tavakoli, H., 2013

Identifying the problem

A number of experts (Andrews, 2013; Fritz et al., 2009) stress that the reform process has worked best when it has started with problem identification and framing. Fritz et al. (2009) find that such problem-driven analysis can promote innovation and support for proactive campaigns of change.

One example given by Andrews (2013, pp. 136-137) is the success of support to Nepal's Health Sector Programme 2005-2010. Despite political upheaval and regime transfer, successive governments remained committed and implementation stayed on track. He concludes this was partly because the intervention focused on problems that broad groups cared about deeply (providing basic health services to underserved people). These problems were framed using data about outcomes and outputs that politicians and bureaucrats were sensitive to (e.g. how many children were dying of measles because they had not been immunised, and how many hospitals were functioning in rural areas).

Windows of opportunity

Various strands of institutional theory propose different explanations for how institutional change occurs – either incrementally or through sudden exogenous shocks. In the incremental perspective, institutions are viewed as objects of political contestation, and change is a slow process of adaptation by various actors (North, 1990, p. 18). In contrast, a structural analysis suggests that institutions tend to resist change and only moments of exogenous shock or major power struggles between elites can shift them (Leftwich & Sen 2010). Public sector institutions can be initiators of change, but also sources of legitimation, implementation and enforcement of new institutions.

Leftwich and Sen (2010, p. 40) and Leftwich and Wheeler (2011, p. 9-10) note institutional change often has critical junctures, 'triggers' and windows of opportunity. Understanding these openings – 'being ready' for 'planned opportunism' (Eyben, 2010, p. 11) and identifying what is feasible – is a key skill. Yet 'path dependency' and 'institutional stickiness' often limit institutional reform or innovation (Leftwich & Sen, 2010, p. 40). Buse and Fritz (2012, pp. 21-22) identify the following political economy factors:

Table 4: Political economy factors for public sector reform

Grouping of +/- factors	Political economy factor	Frequency across countries
<i>Factors that can trigger or induce initiation of public sector reform (PSR)</i>	Fiscal pressures or crises	Some
	Recent democratisation	Some
	Global economic integration	Many
	Donor pressures and involvement	Some
<i>Disincentives for implementing PSR</i>	Time horizon: disincentive for current government to incur cost if benefit of PSRs cannot be reaped during tenure	Many
	Bureaucratic resistance increasing the political cost of implementation	Many
	Rent-seeking related to maintaining privileged insiders and clientelism	Many
	Limited demand for public sector reforms	Many
	Proportional electoral rules	Some
<i>Conditions strongly or possibly favouring PSR adoption and implementation</i>	Rapid and sustained growth	Few
	Post-crisis rebuilding efforts	Few
	Government seeking legitimacy	Many
	Legacies of meritocratic public sector	Some
	Majoritarian electoral system	Some
	Programmatic parties	Some
	Significant demand for public sector reforms	Few
<i>Proximate factors and strategies that may facilitate PSR implementation</i>	Policy entrepreneurs	Some
	Quick win strategy	-
	Piecemeal reforms	-

Tavakoli et al. (2013) highlight practical approaches for identifying windows of opportunity. Identifying opportunities is pertinent throughout the intervention cycle – from being in the right place to spot opportunities before a reform programme starts (case 1), to understanding the political economy and possibilities for reform during programme design (case 2), to keeping abreast of changing contexts and relationships (case 3). Other evaluations have highlighted the importance of being in the right place with committed support: Folscher (2012) finds that for public management reform in Malawi, even though political/institutional drive for reform was absent, donor inputs successfully introduced and sustained reforms until conditions were right for their acceleration.

Box 6: Windows of opportunity

Case 1: Investment in programme design – local government development programmes, Uganda	A large upfront investment in a year-long programme design and consultation phase revealed entry points. The design process included understanding the situation in each district, developing a mechanism to incentivise performance, and building understanding and support for the new grant mechanisms.
Case 2: Governance assessment – rural water and accountability programme, Tanzania	A ‘strategic governance and corruption assessment’ (including a power and change analysis) informs programme design. Updated every two years to help ensure entry points remain relevant and identify where adjustments are needed.
Case 3: Trial and error – support to the Strategy and Policy Unit (SPU), Sierra Leone	The Africa Governance Initiative (AGI) moved advisors to different ministries as it became apparent where there was true reform drive.

Source: Tavakoli et al., 2013, p. 36

4.4 Donor Roles, Challenges and Modalities

Working with leaders and constituency building

Unsworth (2010) finds that donors have tended to rely on individual champions of reform. Given the transience of individuals’ influence, Unsworth suggests considering instead the structures and institutions that shape the interests of influential individuals and groups (p. 10). Andrews (2013, pp. 89-90) recommends that reformers cultivate the **broad set of leaders** who are ‘mobilisers’ – who motivate, convene and connect people (p. 211). Such leaders need to be involved early in the reform process as designers, not just implementers. Moreover Andrews argues that to provoke change, agents who do not regularly engage in institution-building work should analyse and reflect on the problem. Such engagement can be encouraged by establishing awareness of deficiencies.

Constituency-building for change complements work with **senior leaders**. High-level political leaders have driven coalitions for change: Wilson (2013) highlights the role of senior leaders in education reform in Punjab, and another case is supported by the Africa Governance Foundation for reform of Rwanda’s senior leadership strategy formation process (Iyer, 2012). Some authors argue, however, that political support for reform will often be, at best, lukewarm or non-obstructive. In such contexts, they suggest that technocratic champions of change might suffice (Diamond, 2013, p. 101).

Box 7: School reform in the Punjab, Pakistan

One third of primary age children in Punjab are not in school at all, while 35% of those children who do attend school and make it to grade 3 cannot do single digit subtraction. A multi-donor budget support programme, the Punjab Education Sector Reforms Programme, has made significant progress in improving access to education in just 18 months, with approximately one million additional children now enrolled.

In a case study for DFID, Wilson (2013) finds that no one factor is solely responsible for this success. Rather, a crisis persuading a political leader to take action, well-judged external assistance, and well-designed accountability and capacity-building measures created a virtuous circle.

The programme demonstrates the necessity of **strong political leadership to mobilise resources and public opinion**. Wilson (2013) identifies the role of the Chief Minister as crucial. The Chief Minister was motivated to invest time and political capital by factors including: pressure to deliver results in an area seen to be failing; prestige from association with a successful programme and an international expert; and a credible plan that could deliver. The Chief Minister built a **cross-departmental coalition** for change at senior levels of government. His personal involvement in bi-monthly reviews ensured ongoing accountability. Wilson (2013) notes that more needs to be done regarding pressure from the community.

Source: Wilson, 2013.

Convening and brokering change

Recent studies have found that by facilitating and brokering interactions among stakeholders, donors can help local actors negotiate and implement locally appropriate institutions (Leftwich & Sen, 2010, p. 10). Donors can play an important role in bearing the transaction costs of bringing actors together (Tavakoli et al., 2013). They can also play a more direct role in calling meetings, helping identify relevant stakeholders within and outside the state, and using their 'neutral status' to facilitate discussions on collective action problems and contentious issues.

Booth (2013, p. 4) finds that international and local NGOs have already been 'working with some success as brokers of collective action or facilitators of change on either or both sides of a service relationship'. He highlights that this is often despite programme designs that focus on downward accountability of providers to users or rights-based stimulation of client demand. Examples include preliminary evidence from social contracts between health staff and communities used to improve service delivery in Sierra Leone (Hall, 2013); and public-service community scorecards used in Malawi to facilitate collective problem-solving by supply- and demand-side actors (Wild and Harris, 2012).

This has implications for the skills required of donor staff or their implementing partners. Booth (2012, p. xi) says it calls for 'exceptional local knowledge and learning capabilities'. The World Bank (2012, p. 19) highlights the need for skills in leadership and in bringing people together as well as technical knowledge, particularly in fragile states.

Organisational constraints in donor agencies

Experts, including those within donor agencies, have concluded that there are at times serious mismatches between the type of support required for effective institutional reform and what donors have been set up to provide. These mismatches include:

- Donors' **funding is volatile**, often short-term and unsustainable; complex reforms require long-term, steady commitment (Scott, 2011).¹² Donors' increasing focus on results could risk

¹²Historically, the 20 fastest-moving countries took 20 years to achieve functioning bureaucracies (World Bank, 2011a, p 108).

prioritising short-term gains over complex, less measurable, transformational and long-term reform (Eyben, 2013, p 10).

- Donor staff members are on **short-term placements**, often lacking knowledge of local languages or cultures; facilitating institutional reform requires in-depth local knowledge and more continuous contact with local stakeholders (Booth, 2013, p. 5).
- Donors' organisational structures tend to lead to a **disconnect between upstream and downstream interventions**. Upstream reforms can fail to address constraints on improvements in sector outputs, while sector reforms developed without consideration of the public sector enabling environment could lack sustainability (World Bank, 2012, p. 7).
- Donors are **set up to disburse funding**, but support to institutional reform may require more focus on skilful facilitation (Booth, 2013, p. 4).

Aid modalities and instruments

A number of experts call for donors to reassess traditional 'donor-recipient' relationships (Unsworth, 2010; Andrews, 2013; Booth, 2012; Tavakoli et al., 2013). This involves assessing when direct funding of development initiatives risks being ineffective and/or harmful (Booth, 2012, p. xi; Unsworth, 2010), and adopting a strategic and operational framework that supports long-term engagement with incremental change. The World Bank (2012) notes that approaches to reform based on experimentation and learning-by-doing require long-term commitment and more flexible instruments. The following aid modalities and instruments are thought to offer advantages when supporting institutional reform:

- Evidence is accumulating that financial aid for public service delivery objectives is 'often best delivered through **budget support-style modalities**'. The 2012 independent evaluation of UK budget support operations concludes that they have led to increased expenditure on poverty reduction and basic services (ICAI, 2012). However, recent research finds that political and institutional bottlenecks may require a complementary, 'more hands-on', approach (ICAI, 2012, p. 1; 2013, p. 13).
- **Cash on Delivery (COD) Aid**¹³ may strengthen public institutions by giving recipient governments 'full flexibility to try interventions or address policy issues' (Birdsall et al., 2010, p. v). In fragile and conflict affected states with weak public institutions, COD aid might be ideal because 'it effectively controls the use of funds by verifying the progress it achieves rather than the inputs it buys' (Birdsall et al., 2010, p. vi). A growing number of programmes are experimenting with results-based approaches (e.g. DFID and the World Bank – see World Bank, 2012, p. 16), many of them influenced by the concept of COD aid.
- A recent review by Commins et al. (2013) finds that **pooled funds** can play a critical role in supporting institutional reform through facilitating donor engagement with government and spreading donors' risk and transaction costs. However the review finds that performance of pooled funds frequently falls short of expectations: compromises (such as speed of service delivery versus capacity building) need to be understood, and good design needs to be accompanied by realistic expectations and sustained donor support (Commins et al., 2013, p. iv): 'Working with government, and if possible through government systems, should be the "default" approach when supporting service delivery' (Commins et al., 2013, p iii).

¹³ COD Aid goes beyond other forms of results-based aid because it aims to change the behaviour of both funders and recipients, transferring 'full ownership and responsibility over strategies to the recipient country' (Birdsall et al., 2010, p. v).

- Looking at health systems reform, the World Bank finds that **sector-wide approaches** (SWAps) have contributed to ‘greater government leadership, capacity, coordination, and harmonisation, but not necessarily to improved efficiency or better results’ (World Bank, 2011c, p. 42).
- Booth (2013) suggests greater use of ‘**arm’s length**’ forms of development cooperation, delivered by semi-autonomous organisations that can facilitate institutional change by working in more adaptive and locally relevant ways than donors. These could be ‘private non-profit companies, self-governing implementing agencies, development projects or NGOs’ (Booth, 2013, p. 5). Booth identifies three examples: The Tony Blair Africa Governance Initiative (AGI), the Overseas Development Institute’s Budget Strengthening Initiative and TradeMark East Africa (p. 6). These organisations share core features: they lack a pre-established influencing agenda, find solutions to problems and facilitate change; they monitor performance in a way that rewards learning and adjustment, and are answerable to local stakeholders (p. 9).

4.5 Trends in Development Assistance to Institutional Reform

Diagnoses of development problems and their solutions, and the role of the state, have changed; the state has been viewed as the primary development actor (1945-79), the problem (1979-97), and as a rehabilitated strategic state (1997 onwards) (Brinkerhoff, 2008). These changes have been accompanied by shifts in the perceived role of citizens and an evolution in development assistance. The result has been an increasing focus on public sector institutions as an object of reform by donors, and successive waves of different types of reform.

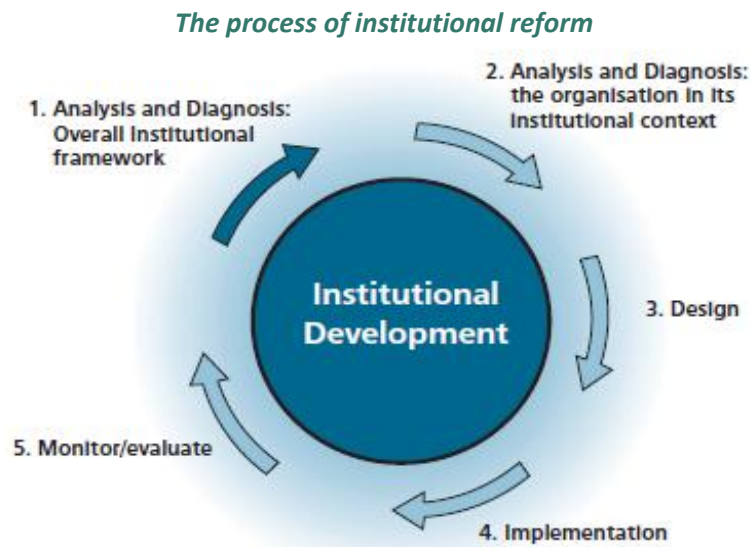
Today the mainstream development model involves the simultaneous pursuit of: 1) political liberalisation and democracy promotion, 2) economic liberalisation towards a market-based economy, and 3) state capacity-building (Fritz & Menocal, 2007, p. 38). Within this framework, key trends influencing donors’ institutional reform agendas include:

- Increasing attention to **thinking and working politically** (Menocal, 2014; Fritz et al., 2014)
- Continued prominence of the **good governance** agenda as the means and end of institutional reform
- A focus, in conflict-affected contexts, on building the **basic foundations** essential for a government to govern and on (re-)generating **state legitimacy** (Fritz & Menocal, 2007, p. 4; Paris & Sisk, 2009, p. 1)
- Emphasis on **decentralisation** for facilitating democratic evolution and improving accountability and service delivery (Scott, 2011, p. 12)
- The **aid effectiveness** agenda’s focus on supporting effective institutions through the use of country systems, capacity-building and mutual accountability (see the Busan New Consensus on More Effective Institutions for Development, 2011).
- The rise of **rights-based development**.

Development actors routinely emphasise the importance of institutions for poverty reduction and development in their commitments and policy agendas. The UK Prime Minister has promoted the ‘Golden Thread’ of conditions including ‘the rule of law, the absence of conflict and corruption, and the presence of property rights and strong institutions’ (Cameron, 2012). The post-MDG High Level Panel report identifies the need for rule of law, property rights, freedom of speech and the media, open political choice, access to justice, and accountable government and public institutions (United Nations, 2013, executive summary). The Africa ‘transformative’ agenda focuses on good public financial institutions and governance as prerequisites for Africa to grow out of aid (World Economic Forum, 2013).

4.6 Tools and Guidelines

A variety of tools and guidelines have emerged in recent years which provide practical guidance for institutional reform. One can think of the process of institutional reform as a series of steps, starting with political, institutional and organisational appraisals and ending in monitoring and evaluation.



Political economy analysis

Many analytical frameworks for political economic analysis (PEA) and power analysis have been developed.¹⁴ Most of these guide users ‘to investigate how power is exercised, how decisions are made, and how incentives and disincentives are brought to bear on specific organisations and individuals’ (Harris & Booth, 2013, p. 1). PEA can vary in scope and purpose, and by the level of analysis (e.g. issue-specific, sector-level, country and global/regional analysis). Harris (2013) and Fritz et al. (2009) provide frameworks for problem-driven PEA. There are also how-to-notes (DFID, 2009) and sourcebooks (DFID, 2003; World Bank, 2007; Edelmann, 2009; Petit 2013) that catalogue and review the available frameworks and summarise empirical cases.¹⁵

There is substantial guidance on the process of undertaking PEA (Harris and Booth, 2013; Fritz et al., 2009). Key tips are to time the analysis appropriately (with local events and the donor’s organisational cycles), ensure adequate triangulation of information, use the right mix of (international and local) skills and expertise, and collaborate on how to apply the findings.

There has been a lack of systematic evidence on the operational impact of PEAs (Duncan and Williams, 2010). However, case studies are starting to provide evidence of its analytical and operational usefulness (Foresti et al., 2013; Kelsall & Heng, 2014; Yanguas & Hulme, 2014).

Identifying problems and opportunities

The **Ishikawa (or fishbone) diagram** and the **five-way technique** can help to deconstruct problems and identify their causes (Andrews, 2013, pp. 142-3; Andrews et al., 2010, pp. 142-147). Leftwich and

¹⁴ See Petit and Mejia Acosta (2014) for a review of the strengths of combining the two approaches.

¹⁵ The GSDRC Topic Guide on Political Economy Analysis provides an overview of PEA tools (McCloughlin, 2012).

Wheeler (2011, p. 10) highlights the need to frame an issue or institutional proposal in multiple ways and for different audiences (e.g. to ensure compatibility between international conventions and cultural norms).

The well-developed field of **'realistic foresight'** offers a variety of tools for spotting and using windows of opportunity (Jones, 2011). For example, horizon scanning and trend/driver analysis aid identification of challenges and opportunities; scenarios and visioning focus on assessing future social, political and economic contexts; roadmaps and 'backcasting'¹⁶ help identify ideal actions; and models and simulations help explore the dynamics of future options (Ramalingam & Jones, 2007, cited in Jones, 2011, p. 41-42).

Institutional diagnostics

Understanding what reforms are required to resolve problems requires **institutional and organisational appraisals**. People often confuse the two. Organisational appraisals aim to understand the extent to which formal organisational structures, rules and processes are capable, and where organisational strengths and weaknesses lie. Institutional appraisals, on the other hand, attempt to unpack the root causes of problems that might arise from institutional incentives or norms. For example, a financial management system might be seen as the answer to poor expenditure controls, but if the root cause of the problem is a lack of political will, then reforming financial management systems will not be adequate. Organisational appraisals need to be done in conjunction with institutional appraisals (DFID, 2003b:9) and are better if carried out in a participatory manner with relevant stakeholders.

There are several toolkits to help in organisational and institutional assessments (World Bank, n. d.; DFID, 2003b). The DFID (2003b) Source Book offers a range of tools for undertaking organisational and institutional appraisals. Such appraisals need to begin with problem identification to anchor analysis in the different dimensions of the problem to be addressed.

Brokering collective action and managing change

Research findings suggest that development processes involve **linked problems that require collective solutions** (Leftwich & Wheeler, 2011, p. 4). According to Ostrom (1997), collective action problems are 'social dilemma' situations 'where the pursuit of short-term self-interested strategies leave everyone worse off than other possible alternatives might do' (cited in Leftwich & Wheeler, 2011, p. 4) and involve diverse stakeholders (Leftwich & Wheeler, 2011; Booth, 2012).

The focus on collective action problems challenges previous conceptions of accountability relationships between government and citizens. Booth (2012) finds that citizens do not always have a definite and uncomplicated interest in holding government to account for development performance, so reform should not just be about stimulating this 'demand'. Rather, 'institutional reform needs to be fundamentally about both sets of actors (government – citizens) finding ways to act collectively in their own best interests' (p. viii). The Centre for The Future State finds that 'networks linking public and private actors are critical to shaping public policy, and network structures influence the way they interact with the state' (Unsworth, 2010, p. 42). The research finds that it is important to facilitate links among existing actors, and between them and agents of the state, and to invest in strengthening networks with a strong vertical reach (from policymakers to the grassroots) (Unsworth, 2010, p. 45).

Davies (2007) finds that **Social Network Analysis (SNA)** tools provide a range of multi-disciplinary methods for analysing networks, and produce network diagrams and matrices that describe actors and their relationships using clear, verifiable terms. Reference materials include a comprehensive handbook that covers the theory and methodology (Scott & Carrington, 2011); a basic guide by Batchelor (2011)

¹⁶'Backcasting' involves defining a desirable future, then identifying policies/programmes to link that future to the present.

containing examples of SNA used in aid programmes;¹⁷ and guidance by the World Bank (2007), which includes a case study on multi-stakeholder water governance in Ghana.

Resources on brokering and managing change

- Chambers (2002) provides ideas, activities and tips for anyone working in the field of participatory learning and change.
- The DFID (2003) *Sourcebook of Tools and Techniques* for institutional and organisational development highlights four process tools: *impact analysis* (a structured workshop for all stakeholders at the start of a change process); *sponsor evaluation* (assessing the change sponsor's attitudes to and readiness for change); *change management* (elements to take into account in change management and a checklist of activities for a major change programme); and *stakeholder management* (identifying who will be affected by, or be able to affect, the change process, and developing strategies to manage these stakeholders).
- The European Centre for Development Policy Management's report on approaches and tools for supporting institutional development lists resources and summarises 22 tools that include techniques for change process management.
- Nauheimer's (2012) *Change Management Toolkit* is a collection of more than 120 tools, methods and strategies for different stages of personal, team and organisational development, in training, facilitation and consulting.
- The *Brokering Guidebook* (Tennyson, 2005) provides a methodology and tools for brokering partnerships.
- UNDP (2006) summarises *Tools and Methodologies in Implementation of Change Management*, covering two main areas: *managing the change environment* (creating momentum for change and analysing the context); and *executing the change process* (building change coalitions and harnessing champions, process consultation, decision-making methods, consensus building, brainstorming, and communications about change).
- The Centre for Development Innovation provides an extensive portal on multi-stakeholder processes, participatory methods and tools.

Monitoring and evaluation

Jones' (2011) framework provides guidance on using monitoring to **support adaptive responses** to complex problems by enabling interventions to respond to emerging lessons. He promotes the use of short feedback loops, autonomy for implementers to shape monitoring and evaluation frameworks, and space for redundancy and variety in the pursuit of innovative service delivery.

Quantitative and mixed method **impact evaluations** are important for attributing outcomes and understanding causality of reform interventions. There is much guidance available for doing impact evaluations (Khandekar et al 2010; White 2009; see also 3ieimpact.org). **Participatory and transparent** monitoring and evaluation techniques can be important (Jones, 2011, p. ix). From examples of health reforms in Brazil and Mexico, Unsworth (2010, p. 38) finds that monitoring can provide an opportunity to facilitate collective action, although others point out that the benefits of participatory monitoring and evaluation remain largely unproven (Walton, 2010, p. 2). Fritz et al. (2012, p. 65) recommend **broadening monitoring** to cover how reform interventions contribute to wider goals such as those of state building and service delivery.

¹⁷ These provide examples where social network analysis can: 1) Identify investments in training and enable effective targeting of capacity building; 2) analyse a policy environment for linkages between people and enable targeted interventions; 3) analyse an emerging policy environment and stimulate linkages between different converging sectors; and 4) look back on and understand the flow of ideas, thereby learning about enabling an environment for innovation.

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