

Notes

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The term “dollar” normally refers to the United States dollar (\$).

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FOREWORD

With the advance of globalization and the increasing pressures from citizens for greater participation in policy-making processes, the role of the State in the economic and social domains, as well as the concept of public management have been changing in many ways. After the Second World War, the State, especially in Western countries, assumed a pivotal role in the reconstruction efforts of many nations; took a proactive stance in the production of goods and the delivery of services; and had an important role in managing and providing social services.

In the 1980s, due to rising fiscal deficits and inefficiencies in the public sector, a tendency to portray the State in essentially negative terms led to the belief that the market could perform in a more efficient way many of the tasks undertaken by the State. Some proponents of what might be called “market fundamentalism” went as far as to claim that the functions and role of the State should be reduced to a minimum. Today both extremes have been replaced by a new understanding of the role of the State and the market, as well as the other important actor, i.e. civil society. There has been a growing awareness that the State, the private sector and civil society have, each in their own way, an important role to play in the promotion of democracy and development, and that partnerships in many areas are essential to advance these goals.

In light of the above, the Fourth Global Forum on Reinventing Government, which took place in Marrakech on 11-13 December 2002 and was organized by the Kingdom of Morocco, with the support of the United Nations Department of Economic and Social Affairs (UNDESA) focused on the theme “Citizens, Businesses, and Governments: Dialogue and Partnerships for the Promotion of Democracy and Development”.

The Global Forum on Reinventing Government, which takes place every year, has become the most significant international gathering of Heads of State and Government in the field of governance and public administration. Its objective is to provide a platform for policy makers, experts, civil society and the private sector to exchange views and experiences in areas related to governance and public sector reform. Accordingly, the United Nations General Assembly has welcomed the substantive support that the UN Secretariat provided to the Fourth Global Forum and requested that such support be extended to the future forums according to General Assembly resolution 57/277.

The Global Forum on Reinventing Government was launched in 1999 by the Government of the United States in Washington, D.C. The Second Global Forum, which focused on the theme “Democratic State and Governance in the 21st Century”, was organized by the Government of Brazil, and was held in Brasilia in May 2000. In March 2001, the Government of Italy organized in Naples the Third Global Forum on “Fostering Democracy and Development through e-Government”. On that occasion, the Government of Italy sponsored and organized high-level training workshops, which preceded the Forum and were intended for government officials as a preparatory activity to the Forum.

The Fourth Global Forum was also preceded by parallel Capacity Development Workshops, which took place in Marrakech on 10-11 December 2002 and were made possible by the generous support of the Government of Italy through its Department of Public Administration and under the auspices of the Ministry of Foreign Affairs. The Workshops were hosted by the Government of Morocco and organized by the United Nations Department of Economic and Social Affairs, through its Division for Public Administration and Development Management, in partnership with a number of United Nations entities and other international institutions. The collaborating institutions included the International Institute for Democracy and Electoral

Assistance-IDEA, and the United Nations Development Programme Human Development Report Office (UNDP); United Nations Development Programme (UNDP); *Scuola Superiore della Pubblica Amministrazione* (SSPA) [School of Public Administration], Italy; Center of Public and Health Management (IPAS), Bocconi University, Italy; Formez, Training Centre, Italy; the World Bank; United Nations Conference on Trade and Development (UNCTAD); *Association de Planification Fiscale et Financiere*, Montreal; Transparency International, and United Nations Development Fund for Women (UNIFEM). Participants from over 80 developing countries attended the two-day workshop, and later had the opportunity to participate in the Fourth Global Forum.

The purpose of this report is to highlight the policy recommendations and insights that have emerged during the aforementioned Workshops. This publication will not be able to capture all the varied contributions made by experts, government officials and participants, but we believe that it will give at least a concise overview of the main themes addressed and of the key messages, which have resulted from two days of intense discussions.

It is my hope that the ideas contained in this publication may enrich the debate on democracy, globalization and the role of the State, as well as on the importance of partnerships between citizens, businesses and government in the promotion of development and higher quality of life for all. Discussions on these issues will continue to be of great relevance in the near future and our contribution is just a first step in that direction.

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CHAPTER I

STRENGTHENING PARTNERSHIPS BETWEEN THE STATE, THE PRIVATE SECTOR AND CIVIL SOCIETY*

1. Background

After two decades during which increasing reliance on the private sector seemed to be leading to a permanent reduction in the role of the State and the distinctiveness of the public sector, the tide is turning. Excessive reliance on the private sector – like excessive reliance on the public sector in earlier decades – has not been an effective recipe for meeting the challenges of today’s public policy problems. It is increasingly apparent that neither the State alone nor the market alone provides adequate solutions to many of the problems related to managing service provision and social development. Implementing effective public policy solutions frequently requires a combined effort that brings together public and private actors in various forms of partnership.

The debate about public/private partnerships has a number of different facets. From a management perspective, the key question is whether partnerships can, in practice, deliver what they promise. Answering this seemingly simple question involves dealing with the ambiguity surrounding the concept of partnership and selecting criteria of effectiveness that take into account the public interest and the interests of other stakeholders. Successful partnerships need adequate management capacities to ensure effectiveness and appropriate forms of organization and governance to safeguard the interests of third parties. Often the prerequisites of success are not adequately met. Even if it is accepted that there are many areas in which good results can be achieved, partnerships fail to deliver because it is often difficult to specify: (a) what the terms of partnership should be, and (b) what capacities are needed to manage partnerships productively.

2. Partnerships: Fashion and fundamentals

It is important to distinguish between fashion and fundamentals in the partnership debate. As with any reform proposal, over-enthusiasm may tempt advocates into lobbying for superficial and ill-thought-out schemes that discredit the original idea. Because “partnership” has become a fashionable political slogan, there is a danger that it is regarded as a newly discovered panacea for all problems of public management. But partnerships are not new phenomena in public management. Public procurement and contracting out have long been common practice, even if the language of partnership was not used. In many countries the relations between levels of government or, “the social partners” have been described in terms of partnership. Often, it has been unclear precisely what the term signified. A misunderstanding can arise between actors at the global and local levels if there are discrepancies between the set of values a “partnership” is presumed to embody and the management tools through which it is implemented.

There is certainly an element of fashion in the current enthusiasm for partnerships, and the political rhetoric of partnership, emphasizing egalitarian, voluntary and participative forms of relationship has oversimplified and polarized the issues. Partnerships do offer valuable alternatives but that does not mean they provide a standard formula diametrically opposed to conventional methods of public management. One message that came through strongly from this

* This workshop was organized by the Institute of Public Administration and Health Care Management (IPAS), Bocconi University, Italy.

panel is that “partnership” does not denote one single type of relationship or a single set of core values. Partnerships come in a variety of forms with different uses and different management implications. But before considering differences, it is important to begin by clarifying what is meant by partnership in general.

3. Partnerships as working relationships between organizations

All partnerships share some common features because they are based on cooperative working relationships between two or more organizations. The types of working relationships may be different, and the ultimate beneficiaries of services delivered can range from individuals, families, communities, regions or even national governments. Yet, the common factor is that the process of service provision depends on organizations working together. In all cases there is: (a) a division of labor among organizations, (b) management processes between the partners to cope with interdependence, and (c) a framework of governance to regulate their mutual relationships. Inter-organizational management capacities are crucial to effective performance. This definition is broad enough to encompass many forms of public/private partnership as well as partnerships between different levels of government or among non-governmental organizations.

Partnerships are based on the premise that there is added value in cooperation and joint action. At the same time, however, there are costs in creating and managing partnerships because they require investments in skills and capacities for managing organizational interdependence. Performance suffers – and conflict may ensue – if there is lack of agreement or non-clarity about objectives, roles and responsibilities among the organizations involved. Managing partnerships involves negotiations to set the terms of cooperation and to implement agreements. The success of partnerships depends on skills in negotiation, across organizational boundaries, to deal with a number of generic problems and inherent sources of conflict that arise from the combination of joint responsibility and shared risk. Negotiations are needed to establish mutual trust and shared assumptions. Even if partnership is legally mandated, the precise terms of cooperation are better agreed through bilateral or multilateral negotiation than through the unilateral exercise of authority.

4. Four main forms of partnership

Within this broad definition many different forms of partnership are possible. A large array of practical possibilities exists, particularly in Africa, Asia and South America. Nonetheless, it is possible to see some common themes in the diversity. Partnerships appear to be variations or combinations of four fundamental forms of partnership. For ease of reference they are called “commercial”, “professional”, “administrative” and “democratic” partnerships.

Commercial partnerships are based on exchange, and involve the negotiation of performance contracts between customers and suppliers. Often commercial partnerships utilize or simulate competitive market processes in order to secure best value on price, quality and delivery. Professional partnerships are based on expertise rather than exchange. The basic value underlying them is service to clients rather than the commercial self-interest of customers and suppliers. Administrative partnerships are based on the extension of hierarchical authority across organizational boundaries. This type of partnership may be in the form of links from one level of government to another, or from governmental to non-governmental organizations. Democratic partnerships are based on consensus and shared, rather than contingent, interests. Their crucial features are participative processes for joint decision-making and mechanisms for agreeing on, and implementing, collective actions.

The four partnership labels reflect familiar and generally recognizable categorizations. More importantly, they provide a basis for examining distinctive ways of managing partnerships. The underlying logic of the typology is that each form of partnership is based on a combination of complementary roles. To choose one of the roles is, in effect, to propose the other as its counterpart. The pairs of complementary roles that partners must play and the implications for managing a partnership will be analyzed in the following sections. An important corollary is that “strengthening” partnerships means different things in the four different cases.

4.1 Commercial partnerships

Commercial partnerships are strongly associated with recent public management reforms. They are regularly portrayed as the “New Public Management” antidote to bureaucracy. They reduce the scope of what government does and ostensibly introduce business management methods into the way it works. Government is cast in the role of customer or purchaser rather than supplier or provider. Instead of services being provided *by* government, commercial partnerships change relationships around so that services are provided *to* government by the private sector on a contractual basis. Commercial partnerships rely upon the adoption of business style management methods and utilize the pressures of competitive markets to ensure value for money in the provision of services. This is not just an extension of public procurement. What is different is that there are strong pressures on governments to contract out the provision of public services such as welfare, education, health, prison management and policy advice, which have normally been provided in-house.

A major misconception about this kind of outsourcing of public services is that it simply hands public management tasks to private organizations. Government buys in the market place what it formerly produced in-house, but often this is not what happens. Government does not buy standardized products or services already available in the market place. Commercial partnerships usually give the governmental customer a significant management role. Rather than defining fully what will be provided, contracts usually leave a range of discretion to deal with unforeseeable contingencies. When such “incomplete contracts” are agreed, government is drawn into the management process of defining and re-specifying what it wants and also into managing delivery. Thus, commercial partnerships change government’s responsibilities from operational management to contract preparation and management of suppliers.

As stated in Osborne and Gaebler’s “Re-inventing Government”¹, shifting the boundary between what is done in-house and what is contracted enables government to switch its focus from *rowing* to *steering*, i.e. from operational management to strategic management. However, this masks a number of significant management questions. The role of purchaser presumes that government has the capacities not only to be an active and informed customer but also good at contract management. There are often significant transactions costs in steering the service supply chain. “Managing the market” for public services becomes more important as government’s requirements become less standardized, more complex, more subject to change and dependent on technical or policy innovation. Government becomes involved in structuring the market for public services and defining what should be produced rather than just buying in the market.

4.2 Professional partnerships

Professional partnerships are less prominent in public debate than commercial partnerships, but not less important in practice. Many public services, in fields ranging from health and welfare

¹D. Osborne and T. Gaebler (1992). *Reinventing Government*, Addison Wesley, Reading, MA.

through education to urban planning, justice, transport, scientific research and defence are professional services in the sense that their provision depends on the deployment of professional expertise of teachers, doctors, lawyers, social workers, police, engineers, architects, and scientists. The roles of professional and client are different from those of supplier and customer. Managing professionals implies a distinctive set of demands which are unlike those of conventional public organizations and also unlike those of contract management referred to above. Some of the differences are familiar from the extensive work that has been done on the management of professional organizations from architectural practices to universities. Contrary to the usual assumptions of command-and-control bureaucracy and profit-seeking commercial organizations, professionals expect autonomy in the exercise of their skills and support from their organization rather than direction from above.

On the client side of the partnership there are also important differences. First, what is the difference between a customer and a client? A client is not a customer by another name. Customer *wants* and client *needs* are defined and met in different ways. Although the two terms are sometimes used interchangeably and in some languages it is difficult even to find words that draw any kind of distinction, it is important to clarify how they differ. Whereas a commercial partnership is based on the principle of consumer sovereignty – on satisfying consumer wants as they are expressed – a professional partnership is based on an independent diagnosis of clients' needs and the application of expertise to develop solutions. Customers are supposed to know what they want and expect to get what they are prepared to pay for. By contrast, clients are not equipped with the expertise to diagnose their own needs. Whereas suppliers are supposed to be responsive to what customers want, professionals should conduct an independent diagnosis of needs and advise on that basis. Professional autonomy presupposes professional integrity in operating in accord with professional ethics that put the interests of clients first. The professional/client relationship presupposes trust in the integrity of professionals.

A second key question in professional partnerships is “who is the client?” Sometimes government is the client. But often, government employs the services of professionals to meet the needs of other clients/individuals – families, communities, regions or industries or even another government. The European Commission has employed professionals of various kinds as consultants in projects designed to strengthen the administrations of candidate countries engaged in the accession process for European Union membership. Development projects frequently utilize the services of consultants and establish trilateral relationships between professional, client and sponsor. This complicates the management of professional partnerships. Government (or an international organization) is involved in setting up and funding professional partnerships as the sponsor, or donor, rather than the client. Professionals seeking future contracts may become excessively concerned with what the sponsor or donor expects rather than what the client needs. The disparities in power and potential conflicts of interest need to be recognized, and managed.

4.3 Administrative partnerships

Administrative partnerships have much in common with traditional forms of hierarchical organization. The crucial difference is that, instead of being integrated into a chain of command within one organization, superiors and subordinates are located in separate organizations. Though subordinates are subject to hierarchical authority in the partnership, they often have to account to a different political constituency and network of stakeholders. The respective roles of administrative partners can be defined in terms of principal/agent relationships. For example, national government may act as the principal with regional or local government units acting as its agents. There are various degrees of specification from relationships prescribed in considerable detail to relationships in which great discretion is allowed to adjust and adapt general policies to

specific local circumstances. The exact requirements also depend on whether the purpose is to establish a partnership for managing a project or for managing an ongoing activity.

The key management issues in administrative partnerships centre on familiar questions of decentralization and central control. The fact that relationships between organizations are involved means, however, that it is not feasible or effective to rely on intrusive old-fashioned hierarchical methods of supervision. The main question is how best to decentralize operational management functions while retaining strategic management responsibilities at the centre. In this context there is a need for sophisticated management tools that offer better combinations of operational decentralization within the framework of centrally defined and monitored policy parameters. Administrative partnerships are currently unfashionable, but they are still a useful part of the public management repertoire and can work well provided the appropriate investments are made in management capacities at the periphery and the centre. Agents must possess the operational management capacities to carry out the work and principals must have complementary supervisory and strategic management capacities.

4.4 Democratic partnerships

Democratic partnerships embody values that are regarded as essential to securing commitment and motivation in community development and institution-building programmes, which have the character of public goods where outcomes depend on shared commitment to joint action and are vulnerable to “free-riding”. They include programmes to prevent the overexploitation of natural resources, such as irrigation schemes or fisheries management and development projects, which require coordinated action on a large scale to realize their full potential. Democratic partnerships are distinctive in that they are based on voluntarism, participation and consensus. They are more egalitarian than administrative and professional partnerships both of which involve the exercise of authority. They presume and produce greater solidarity than commercial partnerships (which are based on coincident rather than common interests). Partners are jointly involved in a common enterprise and expect to participate in deciding what is to be done and contributing to collective action to implement agreed policies. As well as being a value in its own right, democratic participation in formulating policies is an important means for establishing mutual understanding and trust among partners that facilitates the process of implementation.

It is possible to envisage democratic partnerships working more or less spontaneously on a small scale when there are relatively simple tasks and clear-cut common interests. But there is usually a need for deliberate management when the tasks involved in providing public goods are more complex, long-term and large-scale. Here the key management questions are about leadership and coordination. Leadership is essential in order to achieve integration and define common interests. But it is important to establish a bottom-up rather than a top-down leadership process. Issues of trust and empowerment are paramount. Rather than a leader exerting authority, the appropriate style of leadership in democratic partnerships is that of a representative seeking to articulate and integrate the views of members or constituents, and to construct a vision of the common interest. In large part this style of integrative or participative leadership is an exercise in creating conditions for teamwork among the various stakeholders.

5. Partnerships, power and governance

While it is useful for purposes of presentation to consider the four types of partnership separately, in practice they are often combined. Commercial partnerships are often interlocked with administrative or professional relationships. The former combination occurs when governments purchase non-standard services or are continually involved in contract management along with

suppliers. The latter combination comes into existence when governments sponsor or finance professional services, but are not themselves the clients.

One of the contributions of “public entrepreneurship” is to bring partners together and ensure that the appropriate combination of capacities for managing a partnership network is developed. This is not easy to do. Combinations of partnerships are more difficult to manage than separate partnerships. Managers have to be aware of tensions between partners and role conflicts which arise from the different demands and expectations of, say, customer supplier and professional client relationships. In different phases of the same partnership managers may have to be able to negotiate between shared power between customer and supplier, and the unequal distribution of power between principal and agent.

There is also a more general point. One of the major challenges in strengthening partnerships is that they are not just technical means of coordinating activities to achieve joint objectives. They also raise political questions about power and governance. The four forms of partnership, based on different roles and relationships, generate distinct configurations of power. But how should power holders be held to account? What checks and balances are needed to ensure that power is effectively used and partners are constrained and motivated to cooperate in fulfilling their respective obligations? Concerns about “good governance” have highlighted the fact that partnerships do not fit neatly into conventional frameworks of accountability, but there has been little discussion about how to design alternatives.

Very briefly, it is possible to sketch out the main forms of governance that provide the rules of the game to legitimize and constrain the exercise of power in each of the four forms of partnership. This will be done in terms of what *should* exist rather than what *does* exist because it is evident that in current practice there are frequently gaps and mismatches between types of partnership and forms of governance. Commercial partnerships should be subject to the competitive constraints of the market that in the usual economics textbook way are supposed to limit the exercise of monopoly power. Professional partnerships should be constrained and guided by peer group review and also by feedback from clients. Administrative partnerships should be subject to some form of independent oversight and appeal to higher authority outside the hierarchy. Democratic partnerships should operate within a framework of citizen or membership control over representatives to ensure that they are responsive to grass roots opinion. When different types of partnerships are combined in public management networks, the design of corresponding governance frameworks poses delicate problems of setting priorities and resolving conflicts among overlapping systems of checks and balances.

6. Partnerships in practice

6.1 Outcomes and processes

Drawing on experience in government and in universities, and in the four continents of Asia, North America, Europe and Australia, in practice five types of partnerships were identified. First, there were partnerships between the public and private sectors, which include two main sub-types. The first sub-type consists of partnerships between the public authorities and private sector organizations operating on a for-profit basis. The second sub-type consists of rather different partnerships between the public authorities and organizations which are primarily religious, voluntary or charitable in their orientation. In the former case, the motivations for developing partnerships can include promoting more efficient use of resources, gaining access to improved technology (including management techniques, organizational approaches and production processes or products) and reducing the need for capital expenditure by governments. In the latter

case the motivation can be rather different, including providing services at lower cost, as when members of religious orders work at equivalent levels of achievement, but at rates of pay and conditions which are less expensive, or catering in a more flexible way for the diverse needs and aspirations of particular client groups.

A second type of partnership relates to partnerships between the social partners, employees and trade unions on the one hand, and employers and their representative bodies on the other. In some cases such partnerships involve only these two social partners. In other cases the government is involved as a third party. Such partnerships have been important in particular countries, including Australia. The social partners certainly have some divergent interests, but they also can have common interests, which benefit from cooperative partnerships. This is similar to the situation in business, where firms may be competing in relation to some parts of their overall activities, while at the same time cooperating in relation to others.

A third type of partnership arrangement concerns the effective planning, organizing, implementing and evaluation of activities which involve different levels of government. Often the distribution of financial strength and the desire to ensure reasonably similar levels of provision throughout a country ensure an important role for the national authorities. Nevertheless, the variations which exist in local circumstances, the desire to remain close to the particular combination of needs of local people, and the opportunities for local flexibility ensure an important role for the lower levels of government. This tends to be especially the case in relation to the delivery of services. Local pilot schemes and trials can also play a valuable role in appropriate policy development and effective implementation.

The fourth type of partnership, which is identified here, is partnerships among organizations in different countries, sometimes directly, but often involving intermediaries, including private firms and international organizations. In this instance, there can be problems when the parties to the partnership are of unequal strength, for example in income, knowledge or experience. While partnerships often benefit from the diverse contributions of the participants, where the strength of the partners is very unequal the result can be subservience rather than partnership, with the objectives of the stronger party dominating those of its ostensible partner. When countries are poor and beset by many serious problems it may be hard to reject an offer of assistance, even when the problem which is to be addressed is far from being the highest priority in the recipient's estimation.

Finally, there can be productive partnerships in relation to knowledge. There is a danger that we think of partnerships in terms of interests and institutions, but take less account of possible partnerships in relation to knowledge – its augmentation, its utilization and its potential power - and how they can be harnessed for useful ends. Experience suggests that sustained interactivity is required, rather than merely dissemination of results at the end of a research project. Mutual esteem between the various participants, which must be earned, has been shown to facilitate their effective contribution to improved outcomes. Also, it has been shown that movement of people across the various boundaries (such as those between research, practice or policy-making) can contribute significantly to improved linkages between the various actors and sectors. This can occur at the national, state (or provincial) or local (municipal or equivalent) government level, at the level of specific institutions, or at the level of individual practitioners, such as teachers in education or doctors in health care.

In considering the politics of partnerships it is important to keep in mind some of the participants' less obvious intentions, which are in evidence from time to time, such as rewarding supporters or penalising opponents. Some of the necessary conditions for effective partnerships include the

development of additional skills in contract management in the public sector, especially when contracts are intended to extend over decades during which objective circumstances or political and social priorities change. Partnerships can involve more than two partners, and they often do, just as they can cross more than one sort of boundary. When considering the implementation of changes recommended by the recently completed review for the Australian Government of nursing education, training and work, an example concerned the need for more effective partnerships between the public and private sectors, between the health and education sectors, and between the different levels of government.

6.2 Views from the field

Partnership has become a fashionable idea among international organizations, without sufficient attention to what it means in practice at the local (and other) levels. In fact, “partnership” is in danger of becoming just another trendy word in the international arena. As with other “key words” (for example “governance”, “ownership”, etc.) it may mean different things. For some it represents a value, an approach that is almost an end in itself. For others it is an organizational/implementation model that is simply a technical means to other ends. For example, the 1996 OECD Development Assistance Committee defined partnership as a comprehensive approach, drawing on the resources, energies and commitment of institutions and individuals in government at all levels, in the private sector, in non-governmental organizations, in developing and industrialized countries, and in international organizations, as well as an individual approach that recognizes diversity among countries and societies and that respects local ownership of the development process.

Partnership is often presented as a panacea, an indispensable requirement with the concept being sometimes reinforced with attributes like “strong” or “true”. But too often, behind this is a specific model of global public/private partnership that does not serve well for all purposes. Too much attention is paid to securing the participation of private corporate and philanthropic organizations, with United Nations and government representatives at the global level, and not enough to building links downwards to the local level. The growing prevalence and uncritical adoption of this model has significant disadvantages if management capacities to handle implementation at the local level are lacking and if a sufficiently robust framework of governance to ensure accountability is missing.

The global governance role of the United Nations seems to require an emphasis on an integrated rather than a segmented approach to problems at the local level. This is not easy to do because in the interests of demonstrating progress, global public/private partnerships may focus too narrowly on specific issues (i.e. diseases, for health global public/private partnership) and seek to push solutions from the center. The danger here is that “verticalism” does not allow for a thorough diagnosis of the structural origin of crosscutting problems and actually weakens existing comprehensive and integrated approaches to development at the local level. Two examples of this are the Global Alliance on Vaccines and Immunization (GAVI) and the Global Fund for the Fight against AIDS, Tuberculosis and Malaria (GFATM).

Experience also shows that, in developing countries that can ill afford it, this vertical approach adds to management costs rather than reducing them. A growing number of vertically driven initiatives employing different procedures and based on competing international agendas can result in a misallocation of local resources towards meeting external “conditions” and satisfying an excessive load of managerial requirements coming from above, rather than being directed towards, completing the locally defined task. “Success”, both in terms of efficiency and

effectiveness, measured by progress in dealing with single problems (diseases), may overstate what is being achieved if it is evaluated in a more comprehensive health perspective.

Yet, at the country level the “sector-wide approach” remains a good example of partnership among development actors (national and international). The sector-wide approach represents an important step forward from project to programme focus. It offers the opportunity for joint planning, monitoring and evaluation of policies and activities, as well as the possibility of pooling international and national resources. It would be valuable to insist on this as a condition for initiating sector-wide initiatives. It has to be said, however, that such partnerships are difficult to manage because roles, responsibilities and power are widely distributed rather than concentrated. Even if a country’s government is “in the driver’s seat” it does not have sole control of the steering wheel.

Sector-wide initiatives should be part of wider and more comprehensive poverty reduction strategies. In current practice these also respond to a “model” defined at a global level to which countries must adhere to gain access to international aid (i.e. World Bank loans). However, they can also be seen as a valid opportunity to integrate national strategies for poverty reduction in a single plan and as an adequate intersectoral framework for partnership among development actors. At present, in many cases, participation in their development and open debate about the form they take is too limited. The danger is that “poverty reduction strategy papers” prepared by a small group of officials (in many cases limited to economy and finance ministries), in combination with external consultants, run the risk of producing documents that are too general and do not take enough account of the local details of particular situations.

The local level seems to be the most appropriate for real partnership among development “stakeholders”. Here is where sectoral policies are more naturally integrated. In development work, priorities, policies, strategies and procedures should always be developed in recipient countries and be fully respected. Real, active participation between institutions and civil society is possible with each partner retaining its core values, identities and responsibilities, while committing to common goals and outcomes. The objectives of a particular partnership should be identified and negotiated by the partners. But it is here that management capacities are often in very short supply. Partnerships are often associated with implementation, but it is also possible to develop them at other stages of the policy cycle such as issue identification, policy development, policy implementation, monitoring and evaluation. Extensive successful experience of developing and managing partnerships and this type of policy entrepreneurship deserves a higher public profile. Experience shows that at the local level international twinning with counterparts in other countries (North or South) may provide added value to partnership through exchange of experience and knowledge as well as resources.

7. Key policy messages/recommendations

The resulting policy implications on strengthening partnerships between the State, the private sector and civil society are listed below.

7.1 Critical analysis of needs and opportunities for developing partnerships is important both to avoid raising false expectations and to guard against simplistic general prescriptions

Like many developments in public management reform, public/private partnerships have acquired a fashionable status as a “remedy” for the disease of old-fashioned rigid centralized public

bureaucracy. Yet, there is no one-size-fits-all solution. Rather, there is an array of problems and a range of possible solutions.

7.2 In public management, the development of partnerships is usually about building working relationships between organizations

Although in theory partnerships can be constructed at many different levels from the individual to the global, in practice the common factor is that they are partnerships between organizations.

7.3 Objectives should be clearly defined and agreed by the partner organizations

Public/private partnerships may serve a variety of purposes better than government or non-governmental organizations could do on their own, but objectives should not be taken for granted. On the contrary, the objectives of partnership should be explicitly agreed.

7.4 The benefits of partnership will only accrue if the transactions costs of designing and managing them are met

Partnerships are not free goods. There are costs as well as benefits. The benefits sought may take the form of efficiency savings, better service, greater flexibility, and responsiveness to local diversity, identification of new opportunities. The costs are principally in the form of investments in management capacities and many of the responsibilities for making partnerships work fall on government.

7.5 The partnership relationship itself has to be managed, not just the tasks

Within any partnership there is a division of labour, but partnership is about managing interdependence, as well as allocating tasks and monitoring compliance. Interdependence means that there is always an explicit or implicit sharing of risks and costs. The stability and productivity of partnerships depends on having a sufficient basis of trust to resolve the problems and conflicts that arise between partners. It is better to manage risks and costs explicitly.

7.6 Partnerships take many different forms, but the strategic policy choices are among a few basic types on pairs of complementary roles

The typology of commercial, professional, administrative and democratic partnerships helps to structure policy debate about the design of partnerships and development of management capacities.

7.7 Strengthening partnerships means different things depending on the types of roles and relationships between partners

The design and management of partnerships should take account of the differences in the roles and responsibilities that are assigned to partners.

7.8 Whatever pattern of partnership is adopted, a framework of governance appropriate to it should also be established

The design of governance frameworks is an important, but neglected, aspect of the public/private partnership debate. Given that partnerships involve the exercise of power under conditions of uncertainty and risk, and that third party interests may also be involved, the rules of the game

within which partners work should be clearly established. The performance of a partnership will suffer if it is not embedded in an appropriate framework of governance. Even in cases where government does not participate itself, it is in the public interest to ensure that there is an appropriate and reliable governance framework.

CHAPTER II

STRENGTHENING GOVERNANCE INSTITUTIONS AND SYSTEMS*

1. Background

The past decade has witnessed an unprecedented consensus on the relation between democracy, human rights and good governance on the one hand, and peace, security and development on the other. Several conferences held over the past years in different countries and regions, including the three preceding Global Forums on Reinventing Government, have underscored and resolved that democracy and good governance at the local and international levels are the cornerstones of peace, stability and development in the XXI century (see for instance, UN Millennium Goals, 2000).¹

Many governments in developed countries and international development organizations have responded positively to the call for democracy assistance to help sustain a new era of democratization in developing countries. Researchers estimate that some 2 billion dollars are disbursed annually under the category of democracy, human rights and governance assistance. This assistance goes to support programs for parliaments, electoral management commissions/committees, public sector reform, strengthening local governance and decentralization, academic and semi-academic policy think tanks, civil society groups, political parties and even indirectly to private sector programmes in individual countries and regions.

According to recent data, the number of “democratic” countries compared to non-democratic countries has increased from 27 per cent in 1974 to 62 per cent in 2000 (Linz, 2000, Freedom House 2000).² Since 1980, some 81 countries became democratic and 33 military regimes were replaced by civilian governments (UNDP Human Development Report, 2002).³ International IDEA reports that a total of 175 countries and territories around the world hold elections regularly (IDEA Global Voter Turnout Report, 2002).⁴ Most of the new democracies have already conducted their second successful multi-party elections, and some are in the third generation of multiparty elections since 1990. Elections apart, many of the countries have comprehensive and democratic constitutions, well-defined institutions of governance and separation of power.

Moreover, the past few years have witnessed a positive development for democracy and good governance as a number of governments improved their earlier antagonistic relations with reformist civil society organizations. Some of these countries are evolving a *rapprochement* with

* This workshop was organized by the International Institute for Democracy and Electoral Assistance - IDEA, Sweden, in collaboration with the UNDP Human Development Report Office.

¹ The Declaration of the Millennium Assembly of the United Nations (2002). *Official Records of the General Assembly, Fifty-fifth Session, A/RES/55/2*.

² *Freedom in the World. The Annual Survey of Political Rights and Civil Liberties, 2000-2001* Freedom House.

³ UNDP Human Development Report 2002. *Deepening Democracy in a Fragmented World*, Oxford University Press, 2002.

⁴ International IDEA. *Voter Turnout since 1945. A Global Report, 2002*.

civil society organizations that is leading to cooperation whereby civil society is becoming a key player in democratic governance programmes, such as carrying out voter/civic education, local service delivery and human rights awareness activities. However, in many other countries tensions between civil society groups and the government still exist, and these make cooperation in the implementation of democratic governance programmes difficult.

Despite the growing consensus on democratic governance and the efforts of some governments, civil society groups, international organizations and donors to finance and support democracy, good governance and human rights, progress has been slow and painful. In a large number of countries, the political system has evolved into a single party dominant system, a system of fragmented and weak political parties, weak parliaments dominated by backbenchers of the ruling party who are inadequately prepared for the challenges of representation, law making and oversight of the executive. In many countries too, elections are still a major source of conflict and mistrust, particularly between the party in government and the opposition. When it comes to horizontal accountability and good governance within government institutions, there is evidence of efforts being made to establish “autonomous institutions” and to make them function so as to restrain arbitrary power of the State. Yet, even these “watchdog institutions” are often created without sufficient legal power to monitor and report, as well as prosecute abuses of power.

2. Democracy assessment: A methodology developed by International IDEA

The International IDEA’s methodology was developed by a carefully selected and geographically representative team of international scholars, researchers, civil society and IDEA’s development workers in 1999. It took as its starting point a few democratic audit techniques used in the United Kingdom, Sweden and Austria. The main objective of the methodology is to provide a simple but comprehensive tool of analysis to governments, civil society, donors and researchers to independently and/or collectively assess qualitative democratic performance of each institution and country according to its objectives. The methodology has now been tested over a period of two years in eight countries: Bangladesh, South Korea, Kenya, Malawi, El Salvador, Peru, Italy and New Zealand. Both the detailed step by step on how, who, what and why of the assessment and the comparative analysis of the results on key aspects of the state of democracy in the eight countries have been published by Kluwer Law International in 2001 and 2002. The main tenets of IDEA’s assessment methodology are described below.

2.1 Simple definition of democracy

The International IDEA’s assessment methodology is based on two central principles which constitute the core definition of democracy. It is important to define democracy in order to identify processes and assess institutions in terms of their functional goals. The chosen definition identifies the core principles of a democratic system as popular control over decision-making and decision makers; and equality between citizens in the exercise of that control (Beetham et al. 2001).⁵ In practice, however, the two principles are realized through a set of mediating values which the assessment framework identifies as participation, authorization, representation, accountability, transparency, responsiveness and solidarity. As it can be inferred, the mediating values are also the core aspects of good governance.

⁵ David Beetham et al., *Handbook on Democracy Assessment*. The Hague Kluwer Law International and International IDEA.

2.2 Comprehensiveness of coverage

The assessment framework is made up of four main areas of focus:

- Citizenship, law and rights;
- Representative and accountable government;
- Civil society and popular participation; and
- Democracy beyond the State.

Each of these main areas or pillars of democracy is assessed through search questions based on the “how much” rather than the “what” questions. The purpose of the “how” approach is to emphasize that democracy is not an all-or-nothing matter, rather it is a process through which countries move and improve incrementally over time.

2.3 Sensitivity and specificity to each country’s situation

The framework has eight important requirements, which include the following:

- The prime purpose of the assessment is to contribute to public debate, raising awareness and identifying reform priorities, and to monitor their progress.
- The assessment agents should as much as possible be citizens of the country being assessed.
- The criteria for assessment should be derived from clearly identified democratic principles.
- The criteria should embrace the widest range of democracy issues, while allowing for selection within them.
- The assessment should include present qualitative indicators of strengths as well as weaknesses in each area. Statistical evidence should only be complementary and used as appropriate.
- The choice of benchmarks or standards should be a matter for decision by the country assessors.
- The assessment process should involve wide public consultation, including a national workshop to debate and compare the findings.
- Old as well as new democracies can and should be subject to a similar framework of assessment.

The application and results of this assessment methodology relate to the cases of Bangladesh and the United Kingdom which have since been assessed. Individual country reports of some of the countries in the pilot study have been published at the country level – Peru, New Zealand and Bangladesh – and will be placed on the International IDEA website for wider dissemination. The

expectation is that local politicians, media, civil society and donors who were consulted during the assessment and were involved in testing the findings will take up the findings and initiate a process of discussion and reforms on identified weaknesses and gaps in the governance system of the countries concerned. Governments too should find these country- based research activities useful for their efforts to advance democracy in their countries. International IDEA believes that a carefully designed assessment, using a globally tested, comprehensive and yet flexible methodology, can ultimately contribute to global level indicators based on practical country experiences and on professional work by local experts. The primary aim of the assessment is, however, to assist countries promote their democracy and good governance.

The International IDEA's methodology can be utilized for the following purposes:

- Use by governments and other organizations to first diagnose the problems of advancing democracy and improving efficiency of governance institutions. The results of the assessment are to form the basis of dialogue and reform. This is a promotional tool.
- The democracy assessment tool is not intended to produce indicators for global comparison, but it can produce some useful qualitative indicators for a number of areas.
- Different components of the framework can be applied independently or integrally. That is to say, the section on the rule of law, or on accountable government, can be used independently.
- Both aid organizations and civil society groups can use the tool to assess the realization of project goals.

3. Governance studies and associated techniques

In the past few years, UNDP has strengthened its governance support programmes and has established centres for governance support in a number of regions, including Oslo, Norway. UNDP governance programmes are targeted to strengthen parliaments, local governance and decentralization, civil society, media, and other institutions. In 2002, UNDP published its annual Human Development Report on Deepening Democracy in a Fragmented World as a tool for achieving a better human development record. A complementary report, focusing on related issues in the Arab region, was published in the same year.⁶ The essence of the UNDP reports on democracy and good governance was that governance is “about mechanisms and processes, not about ends” and that in order to guide public policy, governance reforms require a more explicit definition of the economic, social and political ends sought. Governance analysis requires an explicit normative framework.

The authors of the 2002 UNDP Human Development Report (ibid.) emphasized that the ultimate purpose of the agenda of good governance is to go beyond macroeconomic stability and economic growth (the origin and context of governance debate) and to promote and secure human development. Thus, good governance is appropriate for promoting the respect for human rights, broader participation of people, and institutions that are fair and just, not solely efficient. In this

⁶ UNDP Arab Human Development Report 2002. *Creating Opportunities for Future Generations*.

context both the Human Development Report and the Arab World Human Development Report (ibid.) are tools to:

- Examine the progress of countries in the implementation of democracy and good governance – particularly to assess the levels of freedom, or lack of it, meted to groups such as women, young people and minorities; and
- Show the link between democracy and good governance on the one hand, and human development on the other.

The key message of the 2002 UNDP Human Development Report (ibid.) on Democracy is that many countries still have much to do to progress on key issues affecting human rights, human security, good governance and performance of key governance institutions.

The 2002 UNDP Human Development Report has not produced any methodology or indicators for measuring progress in democratic governance. Instead, the Report drew from the work of international research institutes and organizations, such as Freedom House and Transparency International. UNDP is, however, fully aware of the limitations of the indicators developed by these institutions. These indicators are often too general, subjective and not transparent enough methodologically. Yet if progress has to be tracked and performance assessed, preferably in comparative terms, quantitative indicators are a must. Hence, in the absence of better alternatives, these indicators serve the intended purpose, provided that their limitations are understood.

According to the 2002 Arab Human Development Report (ibid.) there is little progress in the region regarding women's political participation, promotion of basic freedoms and development of civil society. In its view, the lack of progress had much to do with the culture, history and system of governance of each country.

The work of UNDP on governance is twofold:

- To improve the efficiency and performance of governance institutions so that they can contribute to peace and stability at the country level; and
- To establish conceptual and practical links between good governance and human development indicators.

The methods and techniques are generally used at the global comparative level because UNDP seeks to monitor and advise countries both individually and as a group so that they can learn from each other experiences. For this reason, the UNDP Human Development Report Office is keen to see the development of global quantitative and qualitative indicators.

4. Governance indicators: A methodology developed by the United Nations Economic Commission for Africa

The United Nations Economic Commission for Africa (ECA) started working in the governance area some five years ago⁷. The experience of working in this area, coupled by the perception that bad governance has a negative impact on African economic management and development, has led ECA to design a comprehensive programme to study the challenges of governance and to

⁷ For more information on ECA, refer to www.uneca.org.

formulate strategies for good governance in African countries. Starting in 1999, ECA – in consultation with governments in the region and the assistance of regional scholars and researchers, international experts, regional and international organizations – has designed a governance assessment framework which focuses on three dimensions of good governance:

- Political governance – institutional representativity, effective transfer of power, inclusion of women and minorities, political parties, etc.;
- Institutional effectiveness – transparency and responsiveness, accountability, availability of information to the public; and
- Economic and corporate governance – macroeconomic management; revenue collection; measures to facilitate the functioning of the business sector; fiscal discipline; supervisory bodies; financial policy transparency; tax collection; transparent budgetary procedures; independent auditing systems; stable and secure property rights; building of an effective insolvency regime.

Quantitative and qualitative indicators have been developed around each of the above three areas, and country studies in thirty countries are currently underway. Local institutions have been commissioned to undertake the assessment using a set of commonly developed data-collection tools. The assessment tool has three components:

- Desk research/study,
- Leadership survey (for policy-makers, business leaders and others in comparable positions), and
- Public opinion survey of a cross-section of the population.

The data from these sources are analyzed in the recipient country and the draft report discussed with the local stakeholders including some of the key respondents. The country reports will then be synthesized into a Regional Governance Report, which will be tabled at one of the African Governance Forums held each year.

4.1 Implications

- ECA is planning to generate quantitative indicators and rank countries in the region on the basis of their performance in the above-mentioned three areas of good governance;
- The purpose of the indicators is to form the basis of dialogue with African governments and other sectors on causes of bad governance and how best to improve it.

5. Assessing democratic development: A methodology developed by Rights & Democracy

Rights & Democracy (the International Centre for Human Rights and Democratic Development), based in Montreal, Canada, developed in 1993 a methodology for assessing the state of democracy in any country, whether an “established” or a “developing” democracy. It is based on a conception of human rights and democracy as mutually constitutive processes and, therefore,

analyzes struggles for rights as the basis of the democratic process, and the institutionalization of rights as the foundation of democratic institutions. This focus on process rather than on specific structures allows us to understand democracy as an evolving interface between the State and civil society. This methodology has to date been applied in eight countries. Each country is assessed on its own terms. After extensive review of existing tools for democracy assessment, it was decided not to create a comparative ranking. This methodology aims at producing an analysis to inform strategic policy formulations for strengthening democracy. The validity of this methodology has been confirmed by IDEA's experience in applying it in its democracy assessment.

5.1 The structure of the framework

Structured as an analytical grid, the framework is based on the major international human rights instruments – principally the Universal Declaration of Human Rights (UDHR); the International Covenant on Civil and Political Rights (ICCPR); the International Covenant on Economic, Social and Cultural Rights (ICESCR); the Convention on the Elimination of All Forms of Discrimination against Women (CEDAW); and ILO Convention 169 – as *the only existing set of universally accepted standards* for democracy. It is organized into a series of seven categories informed by the several dozens of rights contained in the above-mentioned international treaties. These categories are participation, security, non-discrimination, well-being, collectivities, political institutions and the rule of law. Each is analyzed on three levels: institutionalization, effectivity and access⁸.

5.2 Implications

Despite having a common methodology and analytical grid, each country study is unique in its content, emphasis and recommendations. They do, however, all converge towards similar lessons about democracy. Perhaps the most far-reaching common finding is that virtually all new democracies are constructed on a truncated base: often the majority of the population is excluded from the political sphere. In such situations, it becomes a strategic priority to focus on participation from a rights perspective as the key to enabling individuals in those sectors to become effective citizens, to articulate other rights and to influence policy formulation.

Concerning the debate on indicators, Rights & Democracy strongly contends that:

- If the goal is to strengthen democracy, comparison is secondary. The pursuit of comparative ratings diverts intellectual and political resources from serious attempts to adopt a common methodology for democracy assessment;
- Quantitative indicators are useful only in the context of qualitative analysis – they cannot be stand-alone measures;
- Substantial thought and discussion with the whole range of stakeholders is necessary to the development of a meaningful set of indicators.

⁸ The full methodology and individual studies can be accessed at www.ichrdd.ca.

6. Practical experience in the application of IDEA's democracy assessment methodology in Bangladesh and the United Kingdom

In Bangladesh a team of three researchers, based at Dhaka University, undertook an assessment over a period of one year using the IDEA methodology⁹. They produced an elaborate report on the rule of law, citizenship rights, the rights of women and minorities, the electoral experience and its history, and the performance of different parties over time. The report covered all the four dimensions of the assessment framework, including transparency and the functioning of parliament, courts, the executive, local councils, civil society groups, and media, and the role of donors and international development agencies.

6.1 Achievements

- A comprehensive and generally respected Constitution;
- Regular free and fair elections;
- An entrenched party system;
- Established local government with a good degree of participation;
- Generally free environment for civil society groups and media to operate;
- A “pro-poor” development programme.

6.2 Challenges

The challenges, however, were many and significant:

- A generally weak and conflict-ridden parliament;
- Parliament's poor law-making functions;
- Corrupt and badly managed political parties, increasingly dominated by family and private business interests;
- Poor accountability and corruption in public institutions, including the judiciary, police, etc.;
- Poor information flow to the public;
- Weak and dependent local government; and
- Strong dependence of the country on donors and external policy advisers.

The report has been discussed in two workshops in the country, but is still to be widely shared with more people and decision-makers.

⁹ For more details on this project, see www.democraticaudit.essex.ac.uk, and mrdalem@bangla.net.

The United Kingdom assessment showed how the Government has made much progress and implemented a comprehensive governance reform by, *inter alia*:

- Adoption of the Human Rights Act in 1998;
- Adoption of new legislation in 2001 which requires almost all public bodies to draw up plans to eradicate institutional racism from their operations and to promote good race relations;
- Devolution of power to new administrations in Scotland, Wales and Northern Ireland after referendums. The elections to the Scottish Parliament and both assemblies use proportional system;
- Signing of the Council of Europe Charter for Local Self-Government and introducing new governing arrangement and constitutions into local government;
- Establishment of the Electoral Commission in 2000 to register political parties, to oversee a new transparent regime for donations, to control election spending and to oversee and review the conduct of elections and referendums;
- Reform of the House of Lords.

At another level the United Kingdom study showed many areas of governance where reforms are still needed. The recommendations made in this connection include the following:

- To consult the public widely on drafting a constitution for the United Kingdom;
- To introduce proportional representation for elections to the House of Commons;
- To set up a Human Rights Commission;
- To make policing locally accountable;
- To make local government more independent on the European model;
- To raise aid spending to the UN target and abolish protectionist and subsidy regimes.

6.3. Implications

The two cases using the same framework have shown several important policy-related issues and lessons, including:

- There is no end to governance reforms. Each country has to constantly address the issues from its own perspective;
- Some of the challenges are similar, such as giving the public access to information, empowering local government, improving transparency of elections, etc.;
- Others are very country specific such as reforming the House of Lords or the writing of a constitution after centuries of operating without one;

- Evidently by using a comparable assessment framework countries have a lot to learn from each other on the basis of contextual qualitative analysis but each case has limited application beyond individual countries.

There is a large consensus on what the issues and challenges are about democracy, human rights and good governance. The focus should therefore be not so much on *what is* but on *how to*:

- Make democracy and good governance institutions function efficiently and transparently not just at the national, but also at the local and global levels;
- Link democracy and good governance issues to human development and macro-economic policy so that they will facilitate the attainment of development goals in favor of pro-poor policies in less developed countries; and
- Measure progress on democratization, human rights promotion and good governance over time, and ensure that reforms are entrenched as part of the good governance strategy.

Although great appreciation has been expressed for the different assessment tools presented above and their strengths in encouraging clarity of definition, for grounding the techniques in the normative framework of democracy and good governance, and for the efforts to have local people take the lead in the assessment process, these tools seem to be limited in addressing the following issues:

- The link between governance and development. Thus, more effort and research is required in this area.
- The difference between the promotion of democracy at the national and local levels and the development of global indicators based on generalizations and comparability of the results of the assessment. Each country is unique and political issues are not easy to quantify and generalize from one country to another.
- The broad participation of the population in the assessment and the reform process must be encouraged, and so far none of the tools does this sufficiently.
- Many of the tools described above were “snapshot” activities and would fail to capture change over time unless they are repeated.
- In any case, there is much subjective interpretation involved in the choice of data, interviewees, interpretation, etc.
- The assessment tools may not be adequate in establishing change dynamics, causal relationships and historical contexts. For instance, a long exchange took place on the role of religion – Islam in particular – in promoting or inhibiting democracy and good governance.
- The tools do not adequately provide opportunity for assessment at the local and sub-national levels.

7. Key policy messages/recommendations

The following messages/recommendations reflect five substantive issues of policy relevance.

7.1 The need for global indicators of progress in democracy, human rights and good governance

Although they are extremely difficult and sensitive and require careful comparative research and scholarly analysis, global indicators for measuring progress in democratization, human rights and good governance are necessary. They might in their own right encourage governments and other stakeholders to work harder on reforming governance institutions. Yet, at present there are no analytical tools for global indicators in this field, and when indicators are developed they should be both quantitative and qualitative.

7.2 Progress monitoring is a necessary part of good governance and governments should take the lead in this activity

Governments should take the lead in the performance assessment of their governance institutions. It is first and foremost the responsibility of each country and of its citizens to assess the quality of their own democracy and good governance. Such assessment must be representative and inclusive leading to national dialogue to identify feasible reform strategies. A variety of measurement instruments need to be applied in assessing democracy. Opinion polls, expert surveys and extensive desk-research are all important instances of such instruments.

7.3 Knowledge and experience sharing in policy-oriented techniques, as well as training, should be encouraged and supported

The governments, aid organizations and the United Nations system can benefit from innovative policy-oriented research done by independent research institutions, civil society organizations and others on democracy, human rights and good governance. In this respect, knowledge and experience-sharing measures and training should be encouraged and supported.

7.4 Capacity building on conducting democracy assessments for governments and research institutes should be strengthened

Capacity building for government, public research institutes and independent research institutes on conducting democracy assessment is required. Before global rankings are published by international or other organizations, capacity should exist to respond on behalf of the countries that are being assessed. Capacity building for key institutions and civil society organizations is also required in order for these institutions to develop assessment capacity of their own.

7.5 More analytical tools are required to link governance and democratic institutional performance with macroeconomic policies and general development goals

Frustration and disengagement towards political institutions derive from the perceived disarticulation of governance institutions and systems with the “bread and butter” issues of the ordinary citizens. At present, however, not much policy research is being done to systematically link good governance work with development policy neither at the country level nor at the global level. Existing policy advice in this area is based on assumptions and speculative evidence of generalized indicators.

CHAPTER III

DECENTRALIZED GOVERNANCE AND POVERTY REDUCTION*

1. Background

Decentralization and local governance are increasingly recognized as basic components of democratic governance, since they provide an enabling environment in which decision-making and service delivery can be brought closer to the people, especially the poor.

Decentralization is instrumental to the overall issue of reinventing government and is essential to achieving the internationally set Millennium Development Goals (MDGs). Under the combined pressure of accelerating globalization and persistent demands for deeper and expanded democratization, central governments are seeing their traditional roles continuously challenged. Reinventing government would then require revisiting the nature and role of the State itself and the sharing of political power and administrative responsibilities.

Responding to the dual challenges of globalization and democratization would necessitate greater decentralization, as it calls for communities to participate more effectively in the development process. There is now empirical evidence that poverty eradication, and broadly speaking, sustainable economic and social progress is contingent on good governance with a strong focus on local governance.

Yet, existing local government capacities pose a major constraint at the very time that local governments are being called upon to carry out greater responsibilities with respect to economic and social development. Shortages of skills, particularly in the financial and administrative areas, compromise the ability of many local government structures to promote development and deliver public services effectively and efficiently.

One of the major findings of the Fifth African Governance Forum, held in Maputo, Mozambique from 23 to 25 May 2002,¹ is that the fundamental challenge for good governance in Africa is to strengthen the political will in support of decentralization. The first step in this direction would be for leaders of the African countries to show real commitment to decentralize. In many African countries, clear constitutional principles as well as legislative and regulatory frameworks, which are key for decentralization, are not yet in place. Other major constraints to effective political participation by the citizenry include: scarcity of resources, poorly trained cadres at the local government level, intra-partisan rivalries and non-responsive political parties, weak governance structures to control corruption and to promote accountability and transparency, and inadequate attention of local authorities to the importance of decentralization.

Capacity development – that will enable participation of key stakeholders – is crucial to achieving sustainable development. Experience has shown that there is a gap between existing capacities and the demand for services and accountability at the local level. This situation calls for the

* This workshop was organized by the United Nations Development Programme.

¹ Fifth African Governance Forum (AGFV), “Local Governance for Poverty Reduction in Africa”, Maputo, Mozambique, 23-25 May 2002.

creation of awareness, clear articulation of roles, and harnessing of the potentials of the different actors involved.

Major relevant issues include:

- Accountability should be ensured by putting in place sustainable systems at all levels, i.e., from national to sub-national and local levels.
- Decentralization is crucial for every city and other local government units. Yet, decentralization, if not implemented properly, may lead to decentralization of corruption. It is important to safeguard the process of decentralization by educating those affected by the process itself.
- Building capacities at the lower level and engaging the participation of indigenous groups in local planning and, eventually, ensuring that a bottom-up approach is adopted in the overall planning process is one of the greatest challenges of decentralization. How can decentralization enable people's empowerment to the point that people are able to bring about desired results, i.e., to improve their lives? There is a need to build the level of confidence in, and to improve the capacities of, local governance actors, i.e., communities, civil society, private sector and government.
- A related challenge is how to create a network for sustainable development to help promote the formulation and implementation of policies to reduce poverty and to improve the lives of citizens.
- Decentralization policies sometimes call for establishing new structures, participatory mechanisms, and accountability systems. However, the option of strengthening existing traditional structures should not be totally discounted.

2. Lessons and tools in decentralization and urban development

2.1 Decentralization, participation and poverty reduction

Human development and good governance are indivisible. Human development is the ultimate goal of development, i.e., generating economic growth and distributing its benefits equitably, giving priority to the poor and enlarging their choices and opportunities and enabling them to participate in making decisions affecting their lives. Governance is the way through which society makes and implements decisions.

Yet, as the 2000 UNDP Poverty Report² states, responsive and accountable governance institutions are often the missing link between anti-poverty efforts and poverty reduction. Local governments must be strengthened and held accountable to central governments for the funds that they receive from the latter and to their constituents for how they use those funds. Similarly, poor communities must organize themselves to advance their interests.

Broadly speaking, decentralized governance may be defined as the restructuring of authority so that there is a system of co-responsibility between governance institutions at the central, regional and local levels based on the principle of subsidiarity, increasing the authority and capacity of

² UNDP Poverty Report 2000, *Overcoming Human Poverty*, UN sales number E.00.III.B.2.

sub-national levels and the overall quality of the governance system. There are four types of decentralization: administrative, fiscal, political and divestment.

The conceptual elements of decentralized governance include:

- Goals – poverty eradication, gender equality, environmental sustainability;
- Actors – government, civil society, private sector;
- Functions – policy formulation, service delivery, resource management;
- Dynamics – participation, partnerships, micro/macro linkages;
- Entry points – system, entity, individual;
- Principles – accountability, equity, sustainability;
- Levels – national, sub-national, local community;
- Resources – fiscal/natural, political, socio-cultural.

A number of policy lessons have emerged over the years, including:

- *Administrative development* – Clear and precise division of tasks and functions between levels of government remains an unresolved issue, resulting in overlapping and parallel authority causing conflict and weak coordination, duplication of efforts and resources, and weak planning, service delivery and accountability competence of all service providing institutions. The tasks, roles and responsibilities between the central government and tiers of local governments must be clearly assigned, based on the subsidiarity principle. Roles and functions of political representatives of national and local levels should also be spelled out.
- *Capacity building* – Building capacity is still not sufficiently addressed in the decentralization policy frameworks. Process consultation as a strategy for building local capacity and ownership, for policy formulation and implementation, and as a way of re-engineering the decentralization policy process, through expert advice, is necessary for injecting new and comparative knowledge to the policy process.
- *Fiscal decentralization/accountability* – Central governments need to devolve more direct taxation authority to sub-national governments, while local governments need to strengthen their tax management capacities. A suitable local government financial equalization system needs to be developed in order to reduce gaps among different local governments and segments of population.
- *Poverty alleviation* – Social mobilization is the appropriate vehicle for local governments to implement poverty reduction programmes. Social programmes to alleviate poverty have been encouraged by decentralization to a limited extent. Decentralization policy and poverty reduction are not always linked with the devolution of resources and functions to the local governments.

- *Civil society and private sector* – Partnerships and coordination between non-governmental organizations and local governments should be encouraged in the promotion of social mobilization and community participation in the development and delivery of public services. The private sector needs to seize the opportunities that exist in decentralization processes, as it is well positioned to undertake service delivery roles.
- *International donors* – Donor assistance in some cases has tended to become a substitute for the creation of national capacity to plan and implement development programmes. It is recommended that a sequential decentralization implementation plan be designed, identifying the priority areas for donor support.

Key lessons from nine case studies conducted by UNDP show that:

- The broader enabling environment for decentralization, including government policies and attitudes about local governments, is typically important for reform, but the degree of significance varies.
- Carefully crafted new institutional structures, that go beyond the common “business as usual” approach and alleviate the resistance of existing institutions to change, can play an important role in supporting decentralization.
- Enhanced community and neighborhood participation, if appropriately structured and implemented, are often critical in ensuring successful local government activities.
- Appropriately designed partnerships among different interested parties can lead to major improvements in the way local governments do business.
- Decentralization is normally thought of as a central government undertaking, but motivated actors from various levels of government and society can play a crucial role in initiating and/or energizing decentralization and local government reforms.
- Decentralization reform programmes need to integrate key components of local governance and service delivery systems rather than focus on single dimensions.
- Decentralization is often seen as a goal or as an output, but in fact, successful decentralization is a process of gradually and strategically building capacity and trust.
- Decentralization can help to achieve sustainable human development goals, but this is a long-term process.

From the above-mentioned studies, it may be concluded that decentralization does not always result in a more participatory approach to development management, nor does it always foster greater partnership with other stakeholders. Nevertheless, the right combination of participation and partnerships tends to result in more effective service delivery at the local level and in the improvement of the quality of people's lives.

2.2 Urban Management Programme (UMP)

What kind of world do we live in? We live in a world where one of the biggest businesses is selling weapons, an industry worth nearly one trillion dollars a year. At the same time, it would cost less than 10 billion dollars or a hundred times less, to provide basic education to every boy and girl on the planet. On the other hand, we also live in a world that in the past 50 years has managed to reduce poverty more efficiently than in the previous 500 years.

It is at the local level that development cooperation reaches or does not reach people. “Local” implies both urban and rural. Cities, on average, occupy less than 1 per cent of the area of a country but produce, on average, 65 per cent of its GDP. They promote an efficient use of space, which explains their growth. At the same time, urban growth brings urban poverty, urban environmental challenges and urban governance issues. Following are some of the key points regarding urban management:

- Local governments need to be empowered in order to address poverty issues. People should also be empowered in order to participate effectively in the decentralization process.
- Decentralized governance and poverty reduction is a long-term learning process that requires sustained commitment from stakeholders at various levels.
- A basic issue is how to establish a network that links all actors committed to poverty reduction and sustainable human development strategically, and allows effective sharing of powers and responsibilities in decision-making.
- Political, administrative and fiscal decentralizations are all essential and interdependent. A coherent strategy promoting all these types of decentralization is necessary.
- An enabling environment is necessary to allow decentralization and poverty reduction to work. The delegation of authority and transfer of resources to the local level should go hand in hand.
- For decentralization to succeed, certain basic requirements need to be fulfilled, e.g., addressing natural resistance emanating from different stakeholders or agenda-setters, obtaining political commitment from the top, educating citizens about their rights and responsibilities in the development process, and ensuring that target beneficiaries are given prominence in planning processes.
- It is important to contextualize decentralization processes, in order to take into account local cultures, social artistry and local norms.
- Monitoring and evaluation at the local level should be given adequate attention.

3. Lessons and tools in partnerships, local governance and the MDGs

3.1 Public/private partnerships for the urban environment (PPPUE)

A significant growth in private capital flows to developing countries has resulted from increased globalization. The private sector has assumed an increasing role in the development process, and new opportunities and resources have opened up for partnerships. However, new risks for inequalities in development have emerged. The trend towards localization is demonstrated in the transfer of responsibilities to sub-national levels through decentralization, local authorities having a decisive role in poverty reduction efforts, and innovations in addressing urban problems. However, the capacity to respond to these challenges is limited.

Following are examples of initiatives under the UNDP Innovative Partnerships Grants (IPG):

- *Urban water supply management (Mozambique)* – Engaging civil society organizations (CSOs) and community-based organizations (CBOs) in instituting reforms that would bring about sustainable water supply delivery and sanitation to the poor at least cost.
- *Reliable energy efficient municipal services (Russia)* – Developing legal and institutional provisions for self-organization to address communal problems, developing new arrangements in the field of energy efficiency in the housing sector.
- *Habitable environments through municipality/CBOs/NGOs partnerships (South Africa)* – Consolidating the habitable environment experiences in Msunduzi through the development of policy and institutional capacity and conditions for sustainability, and promoting the model nationwide and supporting its replication in poor South African municipalities. Providing delivery of basic services to 4,500 households and creating jobs especially for poor women; the model is viewed as a viable pro-poor option for the delivery of cost-effective and high quality infrastructure maintenance and environmental management services.
- *Public/Private Partnerships (PPP) national programme (Namibia: 30 municipalities)* – Building capacity of local authorities and small and medium-sized enterprises (SMEs) to allow them to enter into partnerships for the provision of basic services to poor communities.
- *Capacity building on PPP (Indonesia) for Jakarta Parliament to fight urban poverty through improved environmental services* – Supporting the Parliament to pilot its new powers under the Regional Autonomy Act in order to engage new opportunities for local sustainable development through PPP arrangements.

Key lessons from the PPPUE experience include the following:

- Effective policy and regulatory reforms for PPP must involve local governments, the private sector, and CSOs/CBOs. Building partnerships is a long process and requires continuous dialogue among the actors concerned. It also entails building capacities of stakeholders.

- The formulation of policy reforms for local governance requires the building of solid trust among all these stakeholders, a process that takes time. There is a need to build consensus around priorities, for example, in reducing poverty, an area where local governments, the private sector and CSOs are considered to have important roles to play.
- Knowledge documentation, sharing and dissemination are key to maintaining a community of practitioners.

Decentralization and local governance is one of the key areas under the Democratic Governance Programme of UNDP in Albania. The Local Governance Programme (LGP) serves as an entry point for Millennium Development Goals (MDGs) initiatives through, as well as a source of technical support to, a number of projects: advocacy for democratic politics, capacity for Agenda 21, support to community-based organizations and small and medium-sized enterprises, e-governance, small arms and light weapons control, clean and green, participatory poverty monitoring, and village development fund. SIDA, FINNIDA, NORAD, the European Community, the Government of the Netherlands, the Arab-Gulf Fund, UNV, and the UNDP Thematic Trust Funds for Poverty and for Democratic Governance provide funding for the programme.

LGP is based on the simple formula that local governance necessarily involves local government elected leaders, communities, civil society, and the business sector. The capacities of each of these actors need to be strengthened, especially the local governments that are responsible for providing basic services, local productive systems, and the forums for participation in decision-making.

Effective governance for poverty reduction and sustainable human development also has to provide all actors with incentives to change behaviors and perceptions and with space for participation. This may be done through the MDGs as an engine for comprehensive development and through the human development approach.

The overall strategy for capacity building, behavioral change and participation involves a holistic approach to policy design, implementation and monitoring, i.e., looking at the broader context of development and formulating a long-term vision, conceptualizing local government functions within the overall development conditions of the country, and producing a critical mass of cadre with shared vision, commitment, leadership and skills. It also entails effective management with leadership to produce results.

In terms of building statistical capacities, LGP will support the local office of the Statistical Institute (INSTAT) in producing qualitative and quantitative data and in elaborating comparable methodologies. It will also assist local governments in the effective use of available data and information for planning and monitoring purposes, and in adapting MDG targets and indicators to local realities.

Building planning capacities of local governments will be supported through the translation of MDGs in local planning, MDG scoping and costing exercise, and local budgeting in support of MDG targets. For civil society organizations, assistance will be extended to develop skills in prioritizing local needs and aligning them with the MDGs.

Capacity building for monitoring and reporting involves both local governments and citizen's participation. Local governments will be assisted in monitoring progress against locally aligned

MDG targets and indicators, producing local MDG reports with clear indicators on achievements/failures, and discussing local plans with stakeholders based on the MDG report findings. The programme will also help stimulate public debate on the MDGs and create bottom-up demand to hold leaders accountable for the achievement of MDGs and initiate a Societal Watchdog function in monitoring the commitments to MDGs.

The programme has been in operation for less than a year and has already made significant strides in capacity building at the local level, as follow:

- Local governments – establishment of information centers for local planning and monitoring, introduction of participatory process for local development planning, developing participatory poverty monitoring system, sharing local government resources with community projects
- Communities – social mobilization for people's participation and empowerment for decision-making, skills training in planning, self-help initiatives for generating community capital, trust building between the communities and local governments, planning and implementing projects addressing the needs of men and women in the communities

4. Key policy messages/recommendations

The following messages/recommendations are based on experiences and lessons learned in this field.

4.1 Decentralized governance for poverty reduction is a long-term learning and development process that requires a sustained commitment from, coordination of, and strengthened capacities of all stakeholders at various levels

Among others, political commitment from the top is crucial to ensure that systems and institutions are put in place to function optimally and that the interests of the beneficiaries are given prominence in national planning and agenda setting. Credibility of political leaders is also a critical factor in effective decentralized governance.

4.2 At the national/central level, there must be an enabling environment to ensure that devolution of authority/power to the local level would succeed for community empowerment

At the local level, particularly in poor economies, local government authorities in partnership with civil society and the private sector should be empowered to design and deliver “quick-wins” to arrest the abject poverty of the people and to attain other set goals (e.g. MDGs).

4.3 For decentralization to contribute to poverty reduction, it is necessary to give due attention to administrative and fiscal decentralization and not just to political decentralization

Fiscal decentralization, for example, is often ignored until political and administrative decentralization is put in place. There should be an interactive relationship and a coherent connection between and among the three types of decentralization. Transfer of functions, funds and functionaries to local bodies, together with capacity building, will lead to participatory decentralization that supports poverty reduction.

4.4 For decentralization to be effective, adequate emphasis should be placed on ensuring participatory monitoring and evaluation at all levels

There is a need to contextualize and monitor MDGs at the local level as a means for ensuring accountability, and to build the required capacities for such responsibilities.

4.5 Decentralization initiatives should not be prescriptive, but instead take into account the specific contexts (e.g. local cultures)

Useful tools, systems and processes need to be developed at the regional, national and local levels through a consultative process.

CHAPTER IV

PUBLIC ADMINISTRATION REFORM AND MANAGEMENT INNOVATION IN DEVELOPING COUNTRIES*

1. Background

The functions and role of the State have been transformed substantially. The general configuration of its responsibilities has changed and this has introduced important modifications both in the policy arena and in the State's requirements for high-level skills, qualitatively and quantitatively. Overall, the role of the State has shifted, to varying degrees, from controlling the economy to steering it, from direct production of goods and services to the provision of an "enabling" environment for economic development, and to the promotion of an enabling framework for private enterprise and individual initiative.

At the same time, a number of tasks and functions that were traditionally handled by national governments are now being increasingly transferred to the local level and to the inter-governmental or supranational level. As a consequence, the role of the public sector is changing in response to pressures from a number of stakeholders. Citizens are demanding enhanced integrity and accountability of government actions; the private sector is urging the creation of a sound market environment and regulatory framework, while supranational and global institutions are demanding greater national compliance with global standards. In light of the above, the public sector needs to adapt its capacities and skills to cope with twin challenges – effectively respond to citizens' increasing demands, and cope with the requirements of the global economy.

In recent years, there has been a growing consensus over the need to foster democracy and development through more dynamic and participatory approaches to governance. These ideas have been discussed over the past decade at several United Nations conferences and other major international meetings. Among the latter, the Global Forums on Reinventing Government have been quite successful in galvanizing the attention of government leaders and international actors on crucial issues related to this new "development" approach.

Within this context, public administration – whether it is conceptualized as an organizational structure, a system, a function, an institutional construct, or just a set of practices – plays an important role as an instrument of state action, and must be well honed for effectiveness in overall development and public service delivery. The United Nations General Assembly recognized this in its resolution 50/225 of 19 April 1996 by stating that:

“There is a need for public administration systems to be sound, efficient and well equipped with the appropriate capacities and capabilities through, *inter alia*, capacity-building, promotion of transfer, access and utilization of technology, establishment or improvement of training programmes for public services strengthening of partnership of the public sector with the private sector and civil society, as well as providing an enabling environment for private sector activities.” (A/RES/50/225, para. 7, 1996)¹

* This workshop was organized by the Division for Public Administration and Development Management, United Nations Department of Economic and Social Affairs (UNDESA).

¹ *Official Records of the General Assembly, Fiftieth Session, Supplement No. 49.*

Almost every country around the world has been for a long time devising means of ensuring that its public administration is as sharp as the demands of its development. The sharpening of public administration has been differently baptized as restructuring, rehabilitation, rebuilding, reconstruction, reform, etc. But beyond the differences in nomenclature, the main aim has been to make public administration perform better in accomplishing the missions of the State.

Public administration embodies several aspects including institutions, structures, systems, functions, practices, norms, and values of the Legislature, the Executive, the Judiciary, and of government/public agencies, including decentralized ones. While reforming public administration for improved performance has been a preoccupation of most countries, it is considered an absolute necessity and prerequisite for sustainable development in developing countries. The task is even more daunting because developing countries are not a homogeneous entity. Some countries' public administration systems are completely ruptured and therefore need to be rebuilt from scratch. This is mostly the case with countries emerging out of severe/violent conflict. Other countries' public administration systems are so archaic that they have to be remodelled along modern lines. There are also others, which are so much out of tune with the environments they serve that they need to undergo substantive innovations to make them responsive to the needs of the public they are supposed to serve.

It is clear that much will have to be done to make public administration an efficient, effective, responsive, transparent and accountable instrument for public policy, planning, implementation, monitoring, evaluation and overall sustainable development.

Key aspects of public administration reform include:

- Institutional and organizational restructuring of the civil service in developing countries;
- Cooperative delivery of public services;
- Civil service reform and human resources development;
- Management of innovation in civil service reform;
- Rebuilding of public administration in post-conflict countries.

Within these areas of public administration reform, particular attention should be devoted to:

- The changing role of the public sector, and the capacity of governance institutions to promote development in a globalizing world and to foster partnerships for social development;
- Experiences and best practices in promoting dialogue and partnerships between the government and the citizens;
- Strategies and approaches to formulate and implement policies, programmes and initiatives fostering synergies between the State and its citizens;

- How to promote cooperation among government, private sector, and non-governmental organizations; and
- Existing or potential areas of North/South and South/South cooperation in promoting good governance and enhanced capacity of countries to cope with globalization.

2. Institutional and organizational restructuring of the civil service in developing countries

The notion of a modern State in many developing countries emerged by and large after their independence from colonial power. The rapid expansion in the demand of public services that accompanied independence, and the failures of such States to satisfy growing demands, culminated in a crisis of service delivery and State legitimacy.

Despite some progress in selected areas, developing countries are still facing increasing challenges and pressures, including:

- Growing demand for services and weaker capacity of States to deliver;
- Tension between the modern model of the State and the societal forms of organization;
- Increasing pressure for a growing regulatory role;
- Regulatory role much more complex than direct management;
- Need to look more into the basics of the State;
- Increased resistance in people and organizations rooted in established traditions;
- Tension between centralization and decentralization, and devolution;
- Need to achieve fiscal balance and growing need to provide services of better quality to a large number of citizens;
- Need to develop an efficient system of tax collection in an increasingly informal economy;
- Tension between long-term requirements of reform and short-term political pressure;
- Difficulty for States in crisis to cope not only with traditional functions, but to confront relatively new trends;
- Loss of the traditional monopoly of state functions.

New Public Management (NPM) has been one of the most advocated paradigms to improve the functioning of the public sector. However, it has become clear that there are limits to where NPM can be implemented since NPM principles cannot be applied across the board. Moreover, while all these reform initiatives and experiments were taking place, a specific set of relatively new problems emerged in the developing countries:

- The dire need to rehabilitate infrastructure required to make privatization attractive, something that could only be done with foreign assistance;
- Increasing imbalances in wages between the public and private sector, leading to a brain drain from the public sector;
- Falling morale within the civil service;
- Unprecedented crisis of ethical values, with one aspect of market values – profit – pervading public sector through use or abuse of state power; and finally
- A crisis in privatized sectors providing public goods, *inter alia*, because of a lack of infrastructure investment.

In some cases, the demise of the role of the State reached such proportions that, at first, parallel structures were put in place and in extreme cases essential parts of the public service were captured by private interest groups or “mafias” both through peaceful or violent means.

It is necessary to link the concept of civil service to the core functions of the State or alternatively create a special cadre for those who take the main decisions. New methods of training on policy choices and management of public affairs have to be devised both jointly and separately by the State and civil society. To make real improvements within the public sector, the paradigm has to change from training individuals to training whole institutions – complete, well-defined units or if possible full institutions – using tailor-made curricula that are based on specific needs assessments.

Up to now all major reforms have concerned only the modern part of the State, while criticizing its centralized nature. In most of Sub-Saharan Africa, the modern formal State still follows an external model. The way ahead is to link the State with the communities it was supposed to have evolved from. It is a problem of legitimacy and stability.

3. Cooperative delivery of public services: Reflections on the dynamics of public sector/private sector/civil society collaboration on governmental service delivery

The first and most important point to make about public sector/private sector/civil society relationships involving the delivery of public services is that these relationships are numerous, complex, and ever-growing. At the national level, the two-decade long worldwide focus upon privatization has actually served to expand and add much complexity to public sector/private sector relationships. At the local level, the emergence of non-governmental organizations as a major component of civil society institutions in many countries has also served to greatly increase and intensify such relationships. There are five very significant aspects of such developments, which are highlighted in the following paragraphs.

3.1 What forms does this increasingly frequent public sector/private sector/civil society collaboration take?

- Direct government service delivery;

- Service delivery through the use of contracts and grants;
- Loans and loan guarantees;
- Tax breaks or – more appropriately – tax expenditures;
- Public regulation of the private sector;
- Publicly established private or non-profit organizations.

3.2 Why is there increasing use of cooperative efforts in public service delivery?

There are a variety of reasons why governments are increasingly engaging in cooperative service delivery with both the private sector and civil society. These range in nature from issues of philosophical preference, to managerial efficiency, to the impact of political pressure. Much has been written regarding the philosophical and managerial factors contributing to this development. In contrast, generally, not much attention has been paid to the political factors that have helped promote this rapidly emerging development in the area of government service delivery. Especially in developing or transitional countries, the impact of external forces has been important. Often, the logic behind these efforts has involved the belief, and in some cases the reality, that private sector and NGO service delivery can be done with greater efficiency, more flexibility and at a lower cost. Most assessments of these developments suggest mixed results.

3.3 What structural arrangements should be put in place to ensure effective cooperative service delivery?

Without question, the single most important contributing factor that would facilitate effective cooperation in cooperative service delivery is the existence of a strong governmental sector, a strong private sector and a vibrant civil society. Unfortunately, for many transitional countries, the possession of three strong sectors is not a likely reality. Furthermore, it is important to look not only at the activities of the national government in supporting these relationships, but also at the activities of the local government. This is because increasingly local governments are playing a very important role in collaborating with the private and non-profit sectors in public service delivery. The reality is that the more decentralized government is, and the stronger local governance capacity is, the more opportunities — in essence, the more arenas — are provided for the involvement of the private sector and NGO/civil society.

Perhaps the most important factor contributing to the emergence of private sector and civil society organizations that can effectively deliver public services is the availability of skilled and committed personnel.

3.4 When public service goes into partnership with the private sector and civil society organizations to deliver services, how does it guarantee the quality and the quantity of services and how will it ensure accountability to the public in this respect?

A key factor in that regard is the government's ability and willingness to do those things that will maximize the likelihood of effective, cooperative service delivery. One seemingly very simple but in reality quite complex thing that government can do is to keep in mind that it must always focus on broad questions of public interest. Particularly important are:

- Training public employees in contract management skills;
- Utilizing various techniques of performance measurement;
- Using strategic planning techniques; and
- Utilizing mechanisms that enable citizens to give voice to their concerns.

3.5 Given the particular circumstances of developing countries, where the public sector, the private sector and civil society may all be weak, how can capacities be harnessed in all the sectors to ensure effectiveness in cooperative service delivery, and what lessons have been learned in respect to cooperative service delivery in developing countries?

While there has been a substantial expansion of collaborative service delivery involving all three sectors in all parts of the world, there can be no doubt that the development of these relationships can be complicated and difficult.

The most important factors in contributing to the improvement of such relationships are:

- Familiarity with, and knowledge of each other;
- Special emphasis on joint development of small businesses;
- Arrangements consistent with the broad public interests;
- Effective procedures in terms of establishing collaborative arrangements.

4. Civil service reform: the Philippines experience

There are 1.3 million civil servants throughout the Philippine archipelago. To date, the civil service is structured into two major categories: the career service and the non-career service. The career service is founded on merit and fitness; it features a competitive examination, opportunity for advancement and security of tenure. The non-career service pertains to that part of the civil service characterized by entrance not based on the usual tests of merit and fitness. It covers elective officials.

The administration of the public personnel system devolves upon the Civil Service Commission. It is responsible for adopting measures designed to promote morale, efficiency, integrity, responsiveness, progressiveness and courtesy in the civil service. It is also mandated to strengthen the merit and reward system, integrate human resource development for all levels, and rank and institutionalize a management climate conducive to public accountability.

The programme to implement Civil Service Reform Initiatives designed in the Philippines to fight patronage, corruption, inefficiency and incompetence, includes three major pillars:

- (a) Nurturing public service ethics through:
- Courtesy/service/recognition;
 - Radio programmes;

- One-stop shop;
- Honours award programme;

(b) Striving for public service excellence through:

- Brightest for Bureaucracy Programme;
- Scholarships;
- Development supervision;
- Performance Evaluation Committee;
- Job Opportunity Bank System;

(c) Empowering employees through:

- Vibrant unions;
- Mediation and negotiation;
- Fight against discrimination in the workplace;
- A strong welfare component.

The above reform measures have produced positive results; however, much remains to be done. The future agenda of the civil service reform in the Philippines includes the following five building blocks:

- A dynamic and proactive response mechanism to citizens' demand for a better public service;
- Stronger capability for the public service to fulfil its mission – improved qualifications and continuous learning;
- The pursuit of an empowered civil service not rigidly rule-bound with flexibility to perform its tasks effectively and speedily;
- Shared personal values and commitment in the workplace;
- Mainstreaming of technological applications.

The fundamental point is that administrative reform should not be a “one-shot” deal but rather a continuing endeavour. Thus it is incumbent upon the Philippine Civil Service Commission to vigorously pursue innovation.

5. Public administrative reform and management innovation for developing countries

Public administrative reform and management innovation are relative terms whose practical manifestations should reflect the nature of the problems they are meant to solve and the governance and societal circumstances in which they are to be applied. Reform or innovation that involves fashionable management ideas and/or so-called international best practice should only be applied where these conditions are satisfied, and not as a matter of course, which can amount to cultural and/or ideological hegemony. In many development settings, problems and circumstances will demand simple and relatively straightforward solutions that, nevertheless, may be innovative or revolutionary in these settings. Practical examples of this approach to capacity

building are consumer protection in Lebanon, policing in India, post-crisis administration in East Timor, and decentralization in South Asia.

In light of the above, the implications for public administrative reform and development assistance are the following:

- There are few quick fixes or ready-made solutions to complex development problems;
- Innovation and reform should not be confused with fashion or fad;
- Reform should not be driven by notions of ideological or cultural supremacy but by the practical nature of problems and circumstance;
- Chronic, localized poor performance in the civil service is frequently symptomatic of deeper and wider problems in the governance system as a whole;
- Questions of political will and societal culture set the ground rules and limits for civil service reform and management innovation;
- Development strategy and tactics are therefore crucial in project design. That is to say, in their design projects must be fully conscious and realistic about questions of political will, customary practice, and the utilitarian demands of the settings in which they are to operate. What can realistically be expected, in terms of demonstration effects up-stream, of a down-stream project? How can policy makers best be motivated to pay attention and to make changes in the interests of sustainable development? Is it safe to assume that the governance system will respond solely, or even partly, to the performance merits of recommendations? What are the implications of the answer to this question;
- Civil service reform and management innovation should be as basic or as advanced as development problems and circumstances demand;
- First and foremost, development consultants need to be good at helping others to analyze difficult and complicated problems and at finding solutions that make sense locally. Management fashion and international best practice count for nothing unless this condition is met;
- Sponsors and recipients of development assistance should be more critical and demanding of projects in the above respects, particularly at the design phase.

6. Approaches, processes and methodologies for reconstructing public administration in post-conflict countries

The daunting issue in relation to reforming public administration in developing countries, especially those in Africa, is that while the countries are in the process of mastering the traditional bureaucratic models of public administration, they are being required to introduce modern and probably more complex models. In countries emerging from severely destructive violence, there is no public administration system to reform. Therefore, post violence/conflict countries present peculiar circumstances, which require different approaches and actions for re-

establishing their public administration. The process needs to be highly participative involving government, civil society, the private sector, the international community working within the country, academia, and the press as well as all political parties or forces. The process can be long but worthwhile.

Emergency/relief

Administration of survival concerns often performed through massive external technical, financial, logistical, and human assistance

Rehabilitation

Administration of basic infrastructure, structures, facilities, equipment, logistics, and basic human capacities rehabilitation

Reform

Re-design of institutions, systems, structures, human capacities, with concerns of effectiveness, efficiency, economy, etc.

Reconfiguration

Participatory re-design of public administration to include the governed (civil society and private sector, at all levels)

6.1 Seven-step process in designing the national programme for strengthening good governance

There are seven steps that countries can follow in designing national programmes for strengthening good governance. The basic assumption is that entire countries are undergoing a self-examination and assessment exercise. Here are the following seven recommended steps to rebuild the civil service on a sound basis, which can apply to any country:

- (a) To carry out a thorough diagnostic situation analysis – It is best done with strong support from a team of intellectually competent people who do diagnostic and analytical research;
- (b) To draft a comprehensive report of the governance situation in the country as it stands and as the historical socio-politico-economic and cultural forces have shaped it. Most importantly, the issues and problematic concerns of the society have to be clearly articulated because basically they are the issues and concerns that the programme will address;
- (c) To design a governance strengthening strategic framework that briefly summarizes the problematic situation, the specific missions, the strategic objective and actions, the capacity strengths and gaps as well as the environmental opportunities and challenges;

- (d) To organize a national workshop bringing together representatives of government, the private sector, civil society, local government and the international community who will enrich it with their inputs and discussion;
- (e) To write the second draft of the strategic programme, which is now not only richer but also more representative. This draft is then presented to a number of consultative planning forums throughout the country;
- (f) To write the final draft of the programme. The draft is then presented to a final national stakeholders workshop to validate the programme. The stakeholders will discuss the draft, make whatever changes they wish to make to it, and validate it as a national programme;
- (g) To plan the implementation of the programme which will take various forms. Some of its components cannot be implemented until new laws are created to support them. Some can be immediately implemented, but first they have to be formulated into projects. What is useful in this process is that it mobilizes most decision-makers to take decisions quickly on the various aspects of the programme. This is because the decision-makers have followed the design of the programme and are no longer in doubt as to either its validity or its acceptability. There have been cases where donors and development partners, having participated in and followed this process, immediately allocate funds to the components that are in their line of intervention. It is an effective resource mobilization process.

6.2 Benefits of the seven-step process

The temptation is to consider the process as useful only in as far as it helps to produce a national strategic programme for good governance. In fact the benefits from this process go far beyond that and include the following:

- Acquisition of participative planning skills;
- Facilitation of dialogue and reduction of tension among conflicting groups;
- Galvanization of commitment to the programme;
- Resource mobilization;
- Mobilization of political support for the government.

6.3 Success factors for the process

- Commitment from top leadership to let the people participate in the determination of their development and destiny;
- Highly competent and trusted participatory planning facilitator;
- Financial resources;
- Appropriate timing.

7. Key policy messages/recommendations

There is not one single solution to the complex problem of strengthening the public service. Nevertheless, in order to move forward, the basis for action is the understanding that reform is a combination of leadership, resources and sensitivity to context. The revival of the “public good” concept is also paramount. Although the challenges are countless, the following are some of the top priorities in public administration reform.

7.1 Public sector reforms should be home-grown initiatives based on local culture and societal model

Importing foreign models has proved to be unproductive. Countries have to develop their capacity to think and create their own solutions based on their societal organization. Reforms should be initiated from inside even when financed from outside. There is an important relation between structures and content. Therefore management practices should be reviewed because in most developing countries the style is too autocratic, and it influences the administrative culture and alienates people. There is need to promote a team culture and turn it to result-orientation.

7.2 Enabling governance and political environment

Civil service reforms do not happen in a vacuum. They are an integral part of a more holistic approach to social and economic development. Countries may be identified as: progressing, stagnating, going backwards, and collapsing. The emphasis should be on ways and means to improve the political environment. Foremost, administrative reform cannot be achieved unless it has the political support from the head of government: in some countries, a commitment has been made to this end. In others, the government has formed committees of senior administrators, political appointees, academics and representatives of the private sector and the NGOs. Many of the participants in the workshop felt that the main bottleneck for administrative reform was the lack of a clear message from the leadership. It was generally agreed that if the political environment improved, reform would take place. The key point was to convey a message to governments to pay administrative reform the attention it deserves.

7.3 Respect for diversity

It is important to take into account the variety of cultures and regions, and to respect diversity in the administration of a country. This includes, in particular, paying attention to gender equality in the civil service. Recruitment is a crucial step in promoting respect for diversity by allowing representation of all ethnic groups, regions, religions, and languages. It is sometimes difficult to implement these principles, because given the need to base recruitment on merit, the differences in education may prevent the achievement of satisfactory representation of each sub-group. Efforts to reach a balanced staffing should be a goal for the civil service, which should be a role model employer. This would also prevent conflicts and lead to improved service delivery.

7.4 Role of innovation and best practices

Best practices discourage thinking in many countries. Innovation involves risks. Public administration should be more tolerant of failures: this would allow it to move forward with innovations. However, best practices should not be denounced outright but should be used with care. There are many ideas and many situations: the key is to take interesting ideas and redefine them for individual situations. This requires a mechanism to identify which best practice has

positive elements, which could be used in a specific environment. It requires ingenuity and development of “own-thinking” capacity. Sometimes this is made difficult by the requirements imposed from outsiders. It was also noted that innovations come often from the bottom, and therefore senior administrators should listen more to the ideas which come from their staff. In this spirit, it could be worthwhile to give more flexibility to solve problems at the level at which they occur.

7.5 Partnerships and balance between sectors

How do you ensure a level playing field between government, private sector and NGOs? In many developing countries, these three actors are weak. These three sectors need to be strengthened in parallel. The issue is that when government wants to give up part of its functions, who are the “takers”? In the case of privatization, the national private sector is usually weak. In many instances, functions are taken by multinationals or foreign-based organizations, which creates tension. The government should have a role in building capacity for strengthening the private sector. If the government does not have the capacity for regulation, privatization causes quality problems. The same is seen when the government shares responsibilities with NGOs: it sometimes appears as if the government were running away from its responsibilities. The solution is a parallel effort to strengthen all sectors: government, private sector and NGOs in order to develop harmoniously and to build up on synergies. To address these issues, new programmes of education in schools and institutes are required.

7.6 Values and ethics in the public service

A major shift has been observed towards civil service reforms, which are dynamic and result-oriented. For this to happen, there should be a change in values and mindsets and the promotion of a culture of excellence. It requires a shared vision between the top levels, the civil servants and the general public. It means a shift from something “written”, which stays unapplied, to “real value”, which most people believe in and seek in their everyday professional life.

7.7 Empowerment of civil servants

Civil servants do not want to be considered as children. They should be empowered to take their future in their hands and politics should be left aside. This also means “the right person is in the right place”. It requires healthy discussions between government and civil servants who feel they can voice their concerns. It involves providing training and improving the work environment. When civil servants feel empowered, it leads to better performance.

7.8 Strategic planning

So far reforms are usually defined from the outside. It is crucial for success to nurture the intellectual capacity in developing countries so that they can design their own reform at a pace adequate to the country. This will ensure that reforms are implemented to solve and not to create more problems. To this end, government, civil service and all others concerned have to engage in serious critique, then brainstorm using the SWOT analysis (strengths, weaknesses, opportunities and threats) principles; and from the analysis of the situation, they should formulate a vision of what they want to be. Finally, a consensus has to be reached on this new direction. It is important that key leaders support the programme and that as many groups as possible discuss the value system. This implies much work but it pays off because it ensures ownership and participation.

7.9 Interface with politicians

The issue of how to reconcile the interface between government and elected officials is often debated. Many believe that the civil service should be an instrument in this task and be given legitimacy for effectiveness. If politicians excessively manipulate the civil service, it leads to significant changes in personnel and leadership, and thus to increased instability. In this respect, governments may wish to: (a) promote dialogue between politicians and public administration so that new ideas are encouraged and the possibility of mistakes are allowed for; (b) promote depoliticization of the civil service so that civil servants can be free to think about the greater objectives of the State without being partisan.

7.10 Leadership

In any case, leadership skills are a key ingredient of the success to administrative reforms. Commitment to the reform programme should be at all levels. However, leaders should be role models and inspire a vision for change. With strong support from the top, it is easier to rally all segments of society behind a holistic approach to promote change in the public service. This means that programmes of leadership enhancement have to be developed taking into account the diversity of situations, but also the demand of increasing globalization.

7.11 Learning organization

The issue of building capacity is central to carrying out administrative reform in terms of human resources, institutional, physical and financial capacities. The need to create synergies in building all of these capacities in parallel should be stressed. Solutions have to be found to the current “brain drain” problem, since it takes much talent from developing countries. The development of a learning organization is a way to promote innovative, incremental but also continuous improvements in the administrative environment, taking into account capacity limits.

7.12 Performance and evaluation

The need for monitoring and evaluating public administration reform programmes should be emphasized. In order to provide a sound evaluation, good data and benchmarks should be available. Not many countries have a good system so far, even among the developed countries. More work needs to be done on this issue and the United Nations could provide assistance in the development of guidelines for monitoring and evaluation.

In considering and/or applying the above messages/recommendations:

- Countries should promote ownership of home-grown reforms.
- They should develop the intellectual capacity to design their own reform at a pace adequate with their cultural, political, social and economic environment: reforms by developing countries and not reform to develop countries.
- Holistic capacity for all the three partners (equal partners) should be developed. The public sector, the private sector and civil society have to build their capacity in a synergetic manner. The goal is not to overpower each other, but to support each other. However, ultimately the public sector is the guarantor of liberty, property and life because it sets the rules.

- Shared vision, monitoring, and continuous evaluation should be developed. The vision and missions of the State are key to achieving results which have to be constantly monitored through a system of benchmarking and evaluation.
- Responsible neutrality in public servants and dialogue with politicians should be encouraged. The issue of interface between politicians and public administration has to be addressed in order to promote more dialogue and ensure stability for the civil service to play its role effectively, among other things, in promoting an enabling environment for economic development.
- Leadership capacity and environmental sensitivity of reforms should be enhanced. Successful administrative reform is a combination of leadership, resources and sensitivity to the context. It can be achieved through more holistic human resources development with a view to creating a culture of excellence for all sectors: public, private and civil society.
- International organizations should concentrate less on designing programmes in loco than on developing indigenous capacities. This approach would be more realistic since it would correspond to the needs of each country. In any case, reform of public administration in developing countries is still a work in progress and therefore it is important to share ideas.

Five tenets could lead to further progress: honesty from government to evaluate its need for capacity; sense of responsibility and creativity from the leadership; regional and sub-regional cooperation to save efforts and money; perseverance and time; loyalty, sense of pride and integrity from civil servants.

CHAPTER V

FOSTERING THE AVAILABILITY, QUALITY AND ACCESS TO PUBLIC SERVICES*

1. Background

A core function of the State is to ensure the provision of better services for all, i.e. services that are affordable, efficient and of high quality. A key element in achieving this objective is to develop new and more efficient institutions for the delivery of services, including performance and monitoring systems, client surveys, and effective outsourcing mechanisms. In this respect, one of the greatest challenges is to identify which services can be more effectively provided by the market and which, instead, should be the sole responsibility of the public sector. To improve the quality of public services, governments can establish performance-based agencies, provide incentives for better performance, improve staff skills and motivation, and create a more interactive approach with citizens, so as to bring the State closer to the people.

Reforms in the public utility sector have been undertaken in a number of countries in the last few years. The Italian experience seems to offer many interesting insights and lessons learned in this regard.

2. Waste collection

The Law on waste collection (*Legge Ronchi*), approved by the Italian Parliament in 1997, sheds light on key issues in the formulation and implementation of this type of reform. The objectives of the reform are:

- To decrease the amount of waste collected in order to reduce the impact on the environment;
- To increase differentiated waste collection in order to favor cost reduction and to promote easier recycling;
- To favour the commercial use of any waste, with or without chemical treatment;
- To increase the level of employment and create new firms according to principles of sustainable development;
- To favor the sharing of responsibilities between firms in the waste collection business and waste producers (citizens or other firms).

* This workshop was organized by the School of Public Administration (*Scuola Superiore della Pubblica Amministrazione*) (SSPA), Italy.

A systematic approach of the activities such as collection, recycling and reuse of waste material, that had formerly been regulated separately, are now jointly regulated.

The aim of incentives schemes is to promote the use of productive processes and the development of innovations respectful of the environment; the reuse of waste material by manufacturing industries; and the certification of companies specialized in the issues of compliance certification for industrial waste processes.

3. Water sector

In 1994, the Italian Parliament published a new regulatory framework for the water and water waste sector. Such reform represents a drastic change with respect to the previous regulation. The issues listed below arose from the reform of the water industry.

To attract private financial capital into the sector, so far characterized mainly by public capital; and to improve the efficiency of services is within the scope of the reform. The structure of the water sector may be organized according to several principles which greatly affect the capability of the new regulatory framework to achieve the pre-set objectives. The issues listed below are of particular relevance:

- The regional authority (regional or interregional levels);
- Induced degree of vertical integration (from “abduction” to water distribution);
- Induced degree of horizontal integration (possibility of multi-utility companies);
- Optimal degree of competition vs. a monopolistic market structure.

The water sector governance reform aims at creating incentives for private ownership, with the stipulation of services contracts and programme agreements.

The water sector reform, in seeking the optimal sizing of firms must favor the establishment of water operators capable of:

- Pursuing economies of scale;
- Exercising the right contractual power with the major water providers;
- Favoring international water provision.

Regulatory and political risk reduction is part of the reform. The definition of clear regulatory criteria, together with the possibility to include arbitration procedures and strengthening the role of private operators will allow the reduction of the risk of doing business for water firms, allowing them to access financial markets at lower cost.

Incentive schemes should be defined to attract management skills which induce cost reduction and improve quality.

4. Electricity sector

Major changes occurred in the electricity sector after the Bersani Decree was issued on April 1, 1999. That Decree implemented the corresponding EU directive and started the gradual liberalization of all the segments of the electricity sector, regarding generation and opening of the electricity market to eligible customers whose characteristics are defined by law.

The aim of the reform is to augment the number of operators in the electricity market in order to increase competition and to make electricity companies improve efficiency.

The governance and structure of the sector has changed. Prior to the Bersani Decree, the Italian Government licensed to Ente Nazionale le per l'Energia Elettrica (ENEL) [National Entity for Electrical Energy] and to municipal utilities generation plants, transmission and distribution activities, and power generation was restricted to authorized producers. Under the current regulatory framework, generation, import and export of electricity, have been liberalized. Transmission and distribution are regulated activities. The new regulatory framework aims at enhancing competition by guaranteeing the access to the system on equal terms and conditions by means of a regulated third party access.

The tariff system also changed. Under the old regulatory framework, tariffs were fixed using a “cost plus” system, now replaced by a price cap mechanism to induce companies to improve efficiency in order to pass savings on to end costumers.

5. Gas sector

In May 2000, the Italian Government implemented EU Gas Directive 98/30 (containing common rules for the transportation, distribution, supply and storage of natural gas) under the “Gas Decree”. Competition has slowly started to develop through the emergence of new operators such as consortia of local distribution companies and “eligible” potential customers.

The Gas Decree establishes the framework for the introduction of competition in the gas industry on the basis of principles such as regulated third party access, eligibility criteria to identify customers that can access directly the transportation and distribution networks and unbundling of the transportation, and the supply activities of formerly integrated companies.

The liberalization envisaged by the Gas Decree will gradually modify the structure of the sector, increasing competition in all market segments. Discussion during the workshop revolved around the following issues:

- Access to the market – Freedom of entry applies to all market segments. Gas transportation is considered a public interest activity and is regulated; distribution and sales are considered activities in the public interest and are entrusted to companies through public tenders for no more than 12 years.
- Network access – Regulated TPA grants access to all eligible customers (electricity generators, wholesale traders, distributors, end customers and associations of enterprises) on equal and transparent basis. In order to open the gas market to

competition, the Letta Decree¹ establishes that from January 1, 2002 to December 31, 2010 no company in the transportation network is allowed sales of more than 75 per cent of all the natural gas sold in Italy.

The main issue arising from the new regulatory framework is price regulation, i.e. the criteria to set tariffs. Thus, a new tariff system is being established. Privately negotiated agreements are replaced by a price cap mechanism whose aim is to compel companies to improve efficiency and provide costumers with better services at lower prices.

6. Local transportation sector

Major changes occurring in the local transportation sector, which is undergoing a process of liberalization and privatization. The aim of the reform is to increase transparency and efficiency in public transportation and to reduce the costs through the participation of the private sector.

The public transportation system has to reach operational efficiency with reasonable service quality criteria (average speed, frequency, reliability and overcrowding); subsidies have to be set in order to allow social cohesion, including accessibility and affordability of services to the elderly, those with disabilities, and those on low incomes. Environmental and congestion costs have to be minimal.

The transport planning agency, which is responsible for public transport services, should have a role in achieving integrated networks, tariff integration and an overall coordination of the system's development.

The role that public transport is able to play in the provision of good quality services in a city's transport network will depend on attitudes to the private car, and the way in which car use is controlled, for example by use of parking restrictions and/or charges, and by the way in which private cars are required to yield priority to public transport vehicles.

7. Policy messages/recommendations

- Driving the reform of the water industry are economies of scale, economies of scope and exogenous pressure (e.g. EU legislation, budget constraints).
- In order to attract private capital, governments must commit themselves credibly to applying pre-established rules that allow investment returns and cost coverage.
- Regulation cannot solve the problems caused by an inadequate concession contract and vice versa the risks of regulation and concession contracts can be mitigated by clear and specific conflict resolution procedures.
- Privatization and liberalization of electric energy requires an efficient and independent Authority to carry out all the necessary related actions in the implementation phase.
- Stability of rules and approaches is a prerequisite to create real interest for private financing in the electric sector and in energy services in general.

¹ Ministry of Industry's Legislative Decree 164 of 23 May 2000 (the "Letta Decree") enacting the European Union Directive concerning common rules for the internal market in natural gas.

- Clear conflict resolution procedures are needed to prevent and manage regulation and contract issues.
- A strong legal environment is necessary to encourage private investment in the power sector.

CHAPTER VI

STRENGTHENING CENTRAL/REGIONAL RELATIONSHIPS AND PROCESSES*

1. Background

As part of the democratization process, decentralization has been promoted to varying degrees and with varying outcomes in different countries. Conditions for its success include capable national governments to prompt, initiate, monitor, and guide the process of political and financial decentralization, as well as the creation of an adequate financial resource base for local governments to function properly. The success of decentralization reforms also depends on consistent and coherent national policies, good legislative and regulatory frameworks for decentralization, and effective review mechanisms to solve disputes between central and local government.

After thirty years of reinforcement of the local government system, Italy represents an interesting test exercise concerning additional and stronger delegation of capacities and power. In this chapter, legal and financial aspects are taken into consideration, and experiences of different sectors are presented to illustrate the concrete methodologies through which this process is going to be accomplished in Italy. Also, particular emphasis is placed on both the integration mechanisms within government at different levels (vertical relations) and on cooperation and coordination at horizontal levels. Finally, a picture of what takes place in large regional areas in which strong processes of economic and institutional integration are being carried out, and in which decentralized actions and strengthening of institution-building capacity of supranational institutions exist and support each other.

2. The Italian national experience

2.1 Regulatory aspects

In Italy, there has been strong pressure in recent years to strengthen decentralization – a concept to be taken in the broad sense, as including all the ways of assigning governmental powers to authorities other than the national government.

This “devolution” of powers began through ordinary legislation with the enactment of what are known as the Bassanini laws (from the name of the then Minister of Public Administration). Their thrust was towards a system that could be defined as “administrative federalism,” where the Constitution remained unaltered but responsibility for certain matters was transferred to the regions, provinces and municipalities.

Later on, Parliament enacted an important change in the Constitution (via Constitutional Law No. 3 of October 18, 2001), which revolutionized the traditional distribution of powers between the central government and the periphery. In this reversal of the previous perspective, the national

* This workshop was organized by Formez – Training and Study Centre, Italy.

government's legislative powers are explicitly enumerated, and all residual powers are vested in the regions.

Moreover, the national legislature and the regional legislatures are now placed on the same plane, and their mutual relationships are based on the distribution of their respective powers. In other words, the national legislature is no longer superior to the regional legislatures.

The traditional definition of the list of the sources of law as a “hierarchy of sources” no longer appears to be appropriate. It is thus necessary to use other definitions, such as “polycentric system of the sources of law”, especially considering that alongside the powers of the national government and the regions there also are those of municipalities, provinces and large cities.

As regards the system of administrative responsibilities, a general competence is attributed to the municipalities, which are first-level territorial entities, i.e. those closest to the governed, and bearers of a tradition deeply rooted in the collective consciousness of the Italian people.

This attribution of general administrative competence to the municipalities reflects the principle of subsidiarity, which, after its assertion at the European Union level, has penetrated deeply into Italy's normative fabric and has been codified at the constitutional level. According to this principle, the competence of the largest territorial entity (the one farthest from the governed) comes into play only if and when the first level appears inadequate to handle a particular responsibility. (An example is territorial planning, which can be carried out adequately only if it covers a large enough territory.)

The advanced decentralization system that characterizes Italy's new constitutional arrangement also attributes international competence to territorial entities other than the national government. Because of the reach of the reform and the short amount of time that has elapsed since its enactment, the new arrangement has not yet penetrated Italy's institutional reality. It requires implementing legislation that is still being worked out and will involve a broad transfer of powers by the national government to local and regional governments, including the power to tax, the cornerstone on which the whole system rests. In fact, any institutional arrangement that lacks adequate financial resources is bound to fail.

In the meantime, another constitutional reform is in the offing, whereby each region would have sole legislative competence for health care and the medical system, for the school system, for the management of schools and training institutions, for defining the part of school and training programmes that is of specific interest to the region, and for local police forces.

This further move towards decentralization is now before Parliament, and if approved will lead to a form of regional legislative competence with “variable geometry”. In other words, the legislative competence of one region can differ from that of another region. This may represent the initial core of a federalist model in which the parts of the whole do not reflect a uniform organizational design.

2.2 Equity matters

What is the first question that comes to mind at the prospect of such strong institutional decentralization? One will certainly wonder about the durability of this new arrangement. After centuries of centralization, or in any case, of centralizing processes such as “from pluralism to monism” (the Italian example here is emblematic), the trend has been reversed. This reversal

brings us face to face with a new arrangement that will affect many aspects of people's lives – political, social, cultural, and so on.

In other words, will we be able to govern this new arrangement? Dictionary definitions can help out here. The English word “government” connotes the capacity to run something by giving orders. But this term is clearly ill-suited to describe a heterogeneous and polycentric reality in which multiple levels of government intersect and often overlap, and in which interests backed at the highest territorial level do not always prevail.

Accordingly, another term is coming to the fore: governance, understood as the capacity to manage complex polycentric systems. This process obviously presupposes comparison, inter-institutional collaboration, and a capacity to streamline, and requires strong talents for leadership.

The question posed earlier is thus, whether we will be able to exercise governance in this sense. Will we have the strength and the capacity to depart from the old paths of government and embrace the new formulas – not yet fully delineated – of governance?

This question immediately brings up another one. In a complex system made up of multiple and intersecting levels of government, will citizens be able to identify clearly the level of responsibility vested in each public official? In other words, will the choices given to each of us through the electoral system be indeed more informed in a situation where each of the multiple levels of government would tend to blame the others for failure to achieve promised goals?

2.3 Devolution process

Another question that must be asked about Italy's new institutional model is whether the inevitable differences among a country's regions will lead to inequalities in the delivery of social services and in the protection of citizens' rights.

While the Italian Constitution does provide that the national government can take over the functions of local government bodies if such action is needed to “protect the essential levels of services involving civil or social rights”, it will not be easy to identify such minimum levels and the cases in which the intervention of the national government is truly necessary.

The question that must be asked, then, is will centralization based on the subsidiarity principle, hence on the nearness of administrative functions to the governed, raise the level of citizens' social and civil protection, or – since there is no power of *reduction ad unitatem* except in unusual circumstances – will it create a greater risk of inequality between citizens who live in wealthier areas and those who live in poorer areas? And how will situations of imbalance be managed?

These are the first questions that come to mind regarding the decentralization process under way in Italy, but there are many more. If one wants to give real meaning to the process of devolution, and not use it as a mere symbol of political conflict, one will not be able to avoid them.

3. The European Union experience

3.1 The European regional reality

When one looks at the European Union Treaties, the different Member States are mentioned explicitly, not the sub-national entities. The European institutions deal with the Member States,

which are the official partners of the Commission. There is, however, a European regional policy that grew step by step through the Cohesion Funds, especially since the accession of Greece, Spain and Portugal.

Since the Maastricht Treaty, a Committee of Regions (COR) has been set up. Its powers are only advisory. It is not regarded as an institution and cannot enjoy the rights which result from that. Its members are designated by the national authorities and appointed by the Council. Some members of the COR represent elected regional governments, some administrative territories. Some regions have legislative powers, others do not. Thus the regional representation remains heterogeneous, due to the diversity of constitutions in the EU. Nevertheless the Committee has to give its opinion on a number of legislative projects; this number increased after the Treaties of Amsterdam and Nice. The Committee of the Regions is dynamic and there is pressure for it to become an effective and respected European institution in a future Treaty.

The Maastricht Treaty also provided the regions with the possibility of sitting at the Council of Ministers, an option which is only used by the three federal States of the Union. Representation of the regions within the Council therefore remains unequal.

At the present stage, there is no reference to the principle of “proximity” in the Treaties. The principle of “subsidiarity” is limited to relations between the Community and the Member States.

The practical reality shows that:

- There is a stronger engagement of people and grassroots organizations in local democracy.
- A number of regional authorities now have their own Office in Brussels. Of course, these offices are not considered diplomatic representations, but their day-to-day involvement in the European sphere is growing.
- Communes, local authorities and regions have set up transnational associations to represent them.
- Cross-border economic cooperation between some local or regional executives is increasing.

In other words, the trend in European associative life is not towards a monopoly of selected actors (social partners or the “civil society”). It also involves sub-national public authorities. A sort of “Europe of the Regions” is emerging. It is probably more effective “de facto” rather than “de jure”.

3.2 The Governance White Paper and the regions

In recent years, the word “governance” has been cropping up in various contexts. An important report of the United Nations on “global governance” signalled the need for rules that gather consent and are applied worldwide, even in the absence of a global government. In the context of development policy, “good governance” emphasizes transparency, accountability and effectiveness as necessary conditions for successful public policy. “Multi-level governance” identifies the challenge of articulating the action of independent public actors at different geographic levels towards shared objectives. Good governance also concerns the private sector,

as in the case of “corporate governance”, which aims to ensure the accountability of management to the various stakeholders of a company.

There is a very rich academic literature on governance in its various senses. Not surprisingly, by the end of the 1990s, the concept of governance came into the European domain. That concept is well suited to bring out the wealth and uniqueness of the European Union as a political system.

The essence of the EU is the construction of a Community that is founded on law and that also respects the identity of each of its Member States. This requires a delicate balance between the institutions that establish this law, characterized by a unique sharing of legislative and executive powers as well as an obligation towards cooperation. In that sense, the EU is “a governance” without “a government”. The Commission is not the “government” of the Union as a government is at the national level, but the Union is “governed” in its daily life through a rather complex system, in which the core is called the “Community method”.

As governance is grounded in ideas of interdependence and interaction between various powers at multiple levels, improving European governance will help to improve the conditions under which this equilibrium functions and cooperation occurs. The idea of governance also highlights the involvement of regional, local and non-governmental actors in the policy-making process. It is becoming increasingly clear that the very success of the Community decision-making process and the acceptability of European rules actually depend on such actors being involved.

The regional and local actors are indisputably those who have proved to be the most numerous, with the most insistent messages: more recognition of their crucial roles, decentralization of responsibilities, and better division of competencies within the Union. As regards transnational networks, in particular those of cities and other local or regional entities, the importance of their expertise has been stressed in their demand for involvement in some political processes.

The official definition of governance mentioned in the White Paper, adopted in July 2001, is the following one: “Governance means rules, processes and behavior that affect the way in which powers are exercised at the European level, particularly as regards openness, participation, accountability, effectiveness and coherence”.

The spirit of the Governance White Paper is, as far as possible, to break from a “top-down” model of governance, and to stimulate the interest and the confidence of the citizens through an active information and communication policy and through the involvement of the “civil society” as well as the local and regional actors.

The Commission does not pretend to intervene in the internal constitutional affairs of the Member States. However, it must have regard for the will to participate of sub-national authorities, which are already largely involved in the implementation of Community regulations and programmes. They ask for involvement in European policy-making through consultation and cooperation. They want, as far as possible, to see some flexibility in rules, motivated by the different regional and local realities, and to promote a model in which the three levels of power are partners in policy-making in the relevant areas.

Therefore, the White Paper proposed greater flexibility in implementing legislation and programmes with a strong territorial impact. In this context, three-level contracts (or “tripartite” contracts) could be tested between Member States, regions and the Commission. The environment policy is a good framework for such a pilot approach.

One of the main principles of good governance is “coherence”. The territorial impact of EU policies in areas such as transport, energy or the environment should be addressed. There is a need to avoid a logic which is too sector-specific. In the same way, decisions taken at the regional and local levels should be coherent, with a broad set of principles that would underpin more sustainable and balanced territorial development within the Union. The Commission intends to use the enhanced dialogue with the Member States and their regions and cities to develop indicators to identify where coherence is needed.

Also, the White Paper pleads for a stronger responsibility of the Committee of the Regions, which should play a more proactive role in examining policies, give explanatory reports in advance of Commission proposals, organize the exchange of best practices and review the local and regional impact of certain European directives.

Finally, the Commission promised to establish a more systematic dialogue with European and national associations of regional and local government at an early stage of policy-making.

Many other proposals for changes are mentioned in the White Paper. They concern civil society, experts, regulatory processes, European agencies, global governance, etc.

3.3 Implementation and perspectives

A public consultation on the White Paper has been proceeding until now. In June, the Commission adopted a first set of administrative documents in respect of some proposals which could be applied rapidly. An action plan “simplifying and improving the regulatory environment” and an integrated method for assessing the impact of the Commission’s policy or legislative proposals have been launched.

There are now new provisions adopted by the Commission, which include a framework for the creation of European regulatory agencies, guidelines on experts advice, new approach in vetting the application of Community law, minimum standards for consultations launched by the Commission services, reform of some committees, and the experimental “tripartite contracts” involving European, national and regional or local bodies.

The framework document describes the aims and scope of target-based tripartite contracts and agreements. The word “contracts” shall be used in case of direct application of binding secondary Community law; the concept of “agreements” is relevant for agreements concluded outside a binding Community framework. Key elements of models for tripartite contracts or agreements are provided in the paper, as well as an enabling clause to be inserted into future draft regulations, directives or decisions. This clause will authorize the Commission to conclude a contract with the specific Member State and the local authorities involved in the achievement of the objectives defined in the legislation. Of course, the contracts or agreements may only be envisaged where they do not conflict with the constitutional systems of the Member States.

Formally, the Commission only decided to launch “pilot projects” and these will be evaluated before it proposes to apply tripartite contracts in EC law. The services of the Commission are now seeking good candidates among sub-national authorities.

Finally the Commission adopted a progress report on consultation and the follow up of the White Paper, also available on the *web*. At the present stage, the balance is largely positive for all actions in which the responsibility belongs solely to the Commission; other actions indicated in

the White Paper require initiatives from the other institutions or the Member States and in some cases inter-institutional agreements at the European level.

The governance exercise is clearly limited to measures that can be achieved under the existing legal framework of the Union. Shaping the future Treaty is the challenging task of the European Convention chaired by President Giscard d'Estaing and later a new intergovernmental Conference. As regards regions, it is clear that the extreme diversity of the incorporation of the regional level in the various national systems presents a difficulty. In the Union, there are four main types of States: unitary States, decentralized unitary States, regionalized unitary States, and federal States. The forms of partnership still remain radically different from one region to another and from one State to another. If ever the Convention could propose a rather harmonized concept of what a "region" means in the EU, adaptations in some constitutional systems might follow and probably help in the future multi-level governance. Nevertheless, conceiving new schemes for sub-State organizations is definitely not the role nor the competence of the Commission.

4. Emerging questions

Many questions have arisen, mainly from the experiences of countries that have initiated a process of decentralization. This is because, on the one hand they start to appreciate the political results in terms of citizens' participation while, on the other, they fear the possible weakening of coherence and effectiveness of national policies.

A positive contribution to the problem has resulted from the close examination of two other case studies of national experiences in which the distribution of competences and powers have found points of stability. These are the case of Spain, where a model that foresees different levels of self-government bound to the diversified characteristics of each region has been consolidated, and the United Kingdom case, where the most recent process of devolution, involving Scotland and Wales, has been introduced.

Well-known tendencies have been confirmed:

- Growing delegation of legislative competences to local governments is increasing in many parts of the world, not only in countries with a federal system, but also in many countries with a unitary model.
- Growing assignation at local levels of allocation and regulation of services is taking place.
- With the emergence of strong linguistic, ethnic, and cultural identities, pragmatic models are being created for the distribution of competencies between levels of government, and the outset of vertical subsidiarity is being established.

Some new tendencies have been revealed:

- Increased cooperation between local governments of different countries has enhanced the internationalization of local governments to the point that some regions have their own foreign policy.
- Local governments present themselves on the national and international scenario as representatives of local communities which comprise other stakeholders such as

enterprises, sectoral associations, the non-profit sector and representatives of civil society. This shows the emergence of the so-called horizontal subsidiarity.

These aspects have been confirmed by other relevant experiences related to two different areas. The experience of the countries of Latin America which adhere to Mercosur and the experience of those of East Europe in the process of integration into the EU. In both cases the strengthening of a supranational authority has not only not weakened, but on the contrary has strengthened local governments and has increased their autonomy.

5. Policy messages/recommendations

- Federalism and decentralization can contribute significantly to political legitimacy;
- Effective decentralization requires adequate fiscal decentralization;
- Local communities should see globalization and federalism as an opportunity to increase their access to resources and development opportunities.

CHAPTER VII

GLOBALIZATION, THE ROLE OF THE STATE AND THE ENABLING ENVIRONMENT*

1. Background

According to the World Bank report on Globalization, Growth and Poverty, globalization has helped reduce poverty in a large number of developing countries, but it must be harnessed better to help the world's poorest, most marginalized countries improve the lives of their citizens.¹ This is especially important in the wake of September 11 and the worldwide economic slowdown, which is expected to hit poor people particularly hard.

There is evidence that the most recent wave of globalization – starting around 1980 and continuing today – has been spurred by technological advance in transport and communications technologies and by the choice of large developing countries to improve their investment climates and to open up to foreign trade and investment. Some 24 developing countries – with 3 billion people – had doubled their ratio of trade to income over the past two decades. Countries that strongly increased their participation in global trade and investment include Brazil, China, Hungary, India, and Mexico. The rest of the developing world actually traded less today than it did 20 years ago. The more globalized developing countries had increased their per capita growth rate from 1 per cent in the 1960s, to 3 per cent in the 1970s, 4 per cent in the 1980s, and 5 per cent in the 1990s. Their growth rates now substantially exceed those of the rich countries. Many research studies have found that reliable property rights, strong rule of law, and macroeconomic stability are all associated with more trade and foreign direct investment (FDI).

It is acknowledged that widespread anxiety caused by the growing global integration is leading to heightened inequalities within countries. While the new globalizers are beginning to catch up, much of the rest of countries in the developing world – with about 2 billion people – are becoming marginalized. Their aggregate growth rate was actually negative in the 1990s. About 2 billion people live in countries that are not participating strongly in globalization, many of them in Africa and the former Soviet Union.

In conclusion, globalization can lead to poverty reduction and sustainable development with the right policies to permit integration into the global economy. These policies focus on:

- Trade openness;
- Capital flows (foreign direct investment, aid and debt relief);
- Migration; and
- Global collective action (especially on environment).

* This workshop was jointly organized by The World Bank and by UNDESA.

¹ World Bank, 2001, D. Dollar and P. Collier, *Globalization, Growth and Poverty: Building an Inclusive World Economy*.

These policies should be accompanied by domestic policies and institutions aimed at:

- Improving the investment climate; and
- Investing in people (health and education, empowerment, and social protection).

2. Globalization, foreign direct investment and economic growth: A regional perspective

Globalization is often defined as a combination of four major trends, including the expansion of international trade, financial flows (with FDI as the most important component of these flows), global communications (including transport) and movements of people (immigration). However, globalization of trade, finance and technology has had differing – and unequal – impact on different countries affected by it. Countries that were fast globalizers, adopted domestic policies and institutions which enabled people to take advantage of global markets, increased their integration into the world economy in the last three decades, and achieved higher income growth compared to those who lagged behind. Many countries, especially in Sub-Saharan Africa, the Middle East, the former Soviet Union, and South Asia have not been able to benefit from globalization of the world economy. In several countries which did not globalize fast enough poverty has risen, and education levels have risen less rapidly than in the more globalized countries.

Whereas the causes and determinants of the “globalization waves”, their impact on both the countries affected by them and those left in the margins of the process had been studied from different perspectives, the interactions among the different components were often neglected. For example, in the greatly increasing literature about the ongoing trends of the economic aspects of globalization, most of the attention has been devoted to the international trade part of the process, and to the links between increased trade and growth, with countries being defined as “globalizers” depending on their share of world trade.²

With respect to attracting FDI, the globalization process showed a different regional and country pattern from that of international trade: some “globalizing” countries had increased their share of trade with little FDI (e.g. India) while others received much higher FDI (e.g. China). Also, some countries had received high levels of FDI in the 1990s as a share of GDP and shown little or no economic growth (e.g. Angola, Ecuador).

Furthermore, FDI increased enormously during the 1990s in all regions except for the Middle East and North of Africa. The growth of FDI stopped and, in some cases, declined after 1997. Latin America, East Asia and Eastern Europe received most of the FDI going to developing countries. Even within these regions, concentration was high among a few countries. On the other hand, South Asia, Sub-Saharan Africa and the Middle East and North Africa received low levels of FDI, both in absolute terms and as a share of GDP.

Contrary to popular belief, the regions with high levels of FDI were not always the ones experiencing faster growth of GDP. In this respect, only East Asia showed the expected positive association between high FDI and high growth while Africa and to some extent the Middle East show the mirror image of low growth and low FDI. Latin America and Eastern Europe had high FDI but had experienced low (or negative) growth. Whereas South Asia achieved high GDP

² Ibid.

growth and increasing levels of FDI; these were very low level in absolute terms and as a share of GDP.

In comparison to other elements of globalization, particularly trade openness, FDI cannot be considered a panacea for growth; as indicated above there were instances of fast growth with little FDI and many more instances of substantial FDI with little or no growth. The impact of FDI, through increased productivity, was highly dependent on the country's "absorption capacity" (including human capital, infrastructure, business climate and political stability), while other factors such as trade openness, industrial deregulation and high domestic savings were important contributory factors.

Nonetheless, in the majority of the cases FDI played a useful complementary role to other factors such as industrial deregulation, trade policy liberalization and financial deregulation, to generate faster and sustained growth. In addition "enabling environment" conditions (policy and institutional environment, investment climate, governance, etc.) played a major role in determining the size and direction of the flows, as well as the benefits that developing countries derive from such flows.

3. Attracting FDI: What do States need to do?

While the contribution of FDI to economic development is not a panacea, it is, however, critical for long-term sustainable growth. For developing countries, it presents the most effective way to enhance productivity and to develop an internationally competitive private sector, and to create employment and income opportunities.

There is ample evidence that FDI remains a key ingredient for sustainable economic growth. Yet, in order to attract FDI States need to build the right "enabling environment". Lessons of experience indicate that an enabling environment for FDI has several components. First, a stable political and macroeconomic regime is essential for any kind of private investment, including FDI. The various discussions in the workshop amply demonstrated that political and economic stabilities, along with the prospect of growth, are the most important determinants for FDI. Only in extreme cases, such as the existence of crucial natural resources, would a foreign investor go to a war zone or where there is rampant inflation. Second, a sound policy and regulatory framework and efficient supporting institutions to enforce the relevant laws and regulations are imperative for FDI to enter and thrive. Especially in a globalized competitive market, the difference between countries in terms of investment climate – including how an investor is received, how many administrative and regulatory obstacles an investor has to overcome to enter and operate, and how commercial disputes are handled through the judicial system – has a huge impact on where the investor will go and how much contribution the investment will make to the host economy. Finally, an adequate physical and social infrastructure complements a good policy and regulatory framework to create the necessary environment for attracting FDI. These include the quantity and quality of roads and communication systems, skilled labor, as well as the efficiency with which public services are delivered. They are also important if the full potential benefits of FDI presence are to be realized.

Lessons of experience worldwide indicate that FDI has come to play a growing role in most developing countries' total investment. Yet, striking as the rise in the importance of FDI may seem in host countries' resource flows, FDI is only part of the total financing by foreign investors in host countries. At the same time that foreign companies mobilize resources within their own corporate systems, their affiliates can also raise funds through bonds, loans, and equity issuances. To the extent that these sources are in the international capital markets, they increase the total

inflows of foreign financial resources for development. Indeed, as data for United States transnational corporations suggest, the flows of external resources to host countries due to the presence of foreign enterprises often double FDI flows alone.

Another important benefit of FDI is that it provides, along with financial resources, access to the whole range of technological, organizational and skill assets, as well as the markets of the parent company. FDI transmits best practice in two ways: internal transfers of technology and skills to the foreign affiliates in the host country, and technological dissemination to a broad section of companies and institutions within the host country. For many developing countries, being incorporated into a global company's international production network was the easiest way to gain access to regional or global markets.

Some may argue that in a number of cases foreign investments may have taken away the investment opportunities of domestic firms, thereby driving them out of business. If FDI enters the economy in activities in which competing domestic firms already exist, FDI may well reduce domestic investments that would have been undertaken by domestic producers. Even in new activities beyond the current reach of domestic investors, FDI may pre-empt investments by domestic firms which, with proper nurturing, could have entered the market successfully. The problem becomes all the more grave if the foreign investment deliberately uses predatory practices to force competitors out of business, or to retard their establishment. Especially in places where the host governments lack efficient competition policy tools and skills to keep such behavior in check, a strong FDI presence may inhibit the development of local capacities. But in most cases, crowding out by FDI does not necessarily mean an absolute reduction in total investment, but rather that the increase is not proportionate to FDI inflows.

While the crowding in or neutral effects of FDI prevail in real life, crowding out is not uncommon either. Much depends on the domestic market situation. In an econometric exercise carried out to investigate this issue, it was found that neutral effects dominated in half of the countries, while crowding in and crowding out occurred with equal frequency, taking place in 25 per cent of each country. A general conclusion in the workshop was that whereas the existence of crowding out cannot be dismissed, it does not appear to be the general case. Equally inconclusive are the policy actions to mend the problem. Korea was cited as an example where the policy to restrict foreign investments in certain industries indeed led to the emergence of successful domestic producers. In Brazil, however, the same policy intervention in the 1980s proved not only costly but also of uncertain results. The message is thus that instead of trying to avoid the problem through "restriction", i.e. prohibiting FDI from entering certain sectors, efforts should concentrate on enforcing appropriate competition policies and the related regulations so as to prevent abusive practices in the domestic markets.

The role of FDI in economic development is widely recognized as a critical ingredient for long-term sustainable growth. For developing countries FDI it presented the most effective way to enhance productivity and to develop an internationally competitive private sector; it created employment and income opportunities and provided an important vehicle to raise environmental and social standards.

It is acknowledged, however, that neither FDI nor all its benefits flow automatically. Foreign investors could be fallible people whose first and foremost objective for investing anywhere could be to maximize their global profits, with or without benefits to host countries. Recognizing this simple business principle, it was possible to bring out the good aspects of FDI and avoid its negative aspects.

As lessons in best practice, the most fundamental prerequisites for FDI are deemed to be for governments to provide:

- Basic political and macroeconomic stability that offers reasonable predictability so that investors can make normal business decisions;
- A rules-based legal and regulatory environment that facilitates doing business rather than harassing it;
- An adequate physical and social infrastructure that assist the smooth functioning of the market and transferring of knowledge; and
- Appropriate investment promotion efforts that disseminate information about the existing investment site and services, and potential investors.

Beyond these basic conditions, governments also need to address several specific issues in order to ensure the realization of the benefits of FDI. They include:

- *An even and competitive playing field.* The benefits of FDI tend to be maximized when foreign investors operate on an even and competitive playing field. To this end, governments need to provide a business environment where competition, free entry, consumer choice and free exit determine who gains and who loses. Foreign and domestic investors need to be treated equally as much as possible. Exposure to effective competition on an even playing field is the most important incentive for foreign and domestic companies to upgrade technology and management practices, while free entry is the key to establishing effective linkages between foreign investors and domestic suppliers and distributors that help disseminate best practice in the host economy.
- *Domestic capacity to exploit FDI benefits.* A liberal and competitive investment climate creates the basis for FDI to enter and raise the potential for productivity growth in the host economy, but improvements will only occur if the domestic actors are capable of responding to the new incentives. As discussed, the most serious deterrent to wider dissemination of best practice is a lack of indigenous capabilities to take advantage of the opportunities. The key policy measures are thus to improve the education and infrastructure so as to increase the domestic absorptive capacity of the fruits of FDI.
- *Building up environmental and social standards.* As globalization gradually leads to higher environmental and social standards of FDI, governments need to adjust their own policies to fit into the evolving world norm. In places where there remains a wide gap between the world standards and those of a host country, reputable foreign investors may be forced to stay away out of concerns for their reputation or they may face too much competition from domestic firms not subject to equally stringent norms. To be sure, tougher standards have costs, which may affect both domestic firms and certain low-cost-seeking FDI. Governments have to decide how to position themselves with respect to the development of the private sector as the engine for long-term sustainable growth and development.

Corporate social responsibility (CSR) may be defined as operating a business in a manner that meets or exceeds the ethical, legal, commercial and public expectations that society has of business. Leading companies see CSR as more than a collection of discrete practices or occasional gestures, or initiatives motivated by marketing, public relations or other business benefits. Rather, it is viewed as a comprehensive set of policies, practices and programmes that are integrated throughout business operations, and decision-making processes that are supported and rewarded by top management.³ According to the working definition adopted by the World Bank, corporate social responsibility is the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life in ways that are both good for business and good for development. CSR is generally referred to as a collection of policies and practices linked to relationship with key stakeholders, values, compliance with legal requirements, and respect for people, communities and the environment, as well as the commitment of business to contribute to sustainable development – commonly understood as sustainable development is the ability of the current generation to meet its needs without compromising the ability of future generations to meet theirs. One possible model for a more efficient public sector role in furthering corporate social responsibility is to, among other things, mandating command and control legislation through greater regulation and inspection; facilitating enabling legislation by creating incentives; contributing resources and endorsing such behavior with enhanced political support (see table below).

Public sector support for greater corporate social responsibility

Mandating	Command and control legislation	Regulators and inspectorates	Legal and fiscal penalties and rewards
Facilitating	Enabling legislation	Creating incentives	Building capacity
	Funding support	Raising awareness	Stimulating markets
Partnering	Combining resources	Stakeholder engagement	Dialogue
Endorsing	Political support	Publicity and praise	

4. The enabling environment: Building an effective institutional and regulatory framework for attracting FDI

There is consensus on the importance and need to build an enabling environment for better management of the processes of globalization. There is also recognition that the new role of the State in the global economy is one of providing an environment conducive to a competitive private sector, attracting foreign direct investment and promoting sustainable economic and social development. The partnership between the State, the private sector and the civil society had

³ See Business Social Responsibility at <http://www.bsr.org/>.

become essential to ensure the optimal mix of policies and regulation which would minimize the negative fallout while allowing for greater integration into the global economy.

It should be noted that, despite the growing consensus among policy-makers, appropriate regulatory policy regimes are important factors in the proper functioning of markets. There is less convergence on what constitutes an effective regulatory framework. Although the issue had generated considerable interest among policy analysts in recent years, there remained an empirical lacuna to link the suitable regulatory policy framework to a country's socio-economic reality.

A sound policy, regulatory and institutional environment for FDI is one part of the larger investment climate that affects all private investors, both foreign and domestic. As a decisive factor in creating an overall enabling business environment supportive of private sector endeavors, the key elements of an effective regulatory framework for FDI include a body of clear laws and regulations and efficient administrative bodies.

A country's regulatory framework is a tool to support its policy choices towards FDI. Consisting of a set of commercial laws and regulations, as well as the institutions established for their enforcement, it provides the overall framework to govern its market transactions and a process to settle disputes, and contributes to increased confidence on the part of the foreign investors to enter into business transactions in the country. It seeks to assure private investors that a particular business transaction is permitted, and that once entered into, the transaction will be protected and the supporting agreements enforced. Especially in situations where a government is introducing a major departure from the previous treatment of foreign investors, such a framework serves to promote the government's objectives and policies for attracting, facilitating, and safeguarding foreign investment.

Lessons of experience suggest that, to encourage investment, policies and practices should aim to reduce investor costs and the perceived risks associated with the investment, as well as creating an investment climate conducive for the domestic economy to benefit from such investments. Over the last decade or two, more and more developing countries have liberalized their economic policies. Lower tariffs, fewer quantitative restrictions, and currency convertibility have helped to encourage trade flows, and the importance of FDI in GDP has risen almost everywhere, with fewer sectoral restrictions on foreign investors or the percentage of foreign ownership allowed, and a more favorable outlook towards FDI in general. Best practices around the world indicate that regulations need to be designed in incentive-compatible ways to serve public interests; they should aim to avoid adverse selection and moral hazard, and should be implemented expeditiously without harassment and corruption.

Whereas most developing countries have liberalized their economies over the last decades and amended the relevant foreign investment laws with the objective of improving the legal and regulatory environment that governs FDI, many of the sound policies and legal reforms "on paper" fail to translate into practical improvements "on the ground". As a result, the inflows of FDI remain low or decreasing in a large number of countries. It is becoming clear that implementation of effective regulations is just as important as the policies and regulations themselves, and that the capacity and efficiency of the supporting institutions are an integral part of an effective regulatory framework for attracting beneficial FDI. These supporting conditions include a free political environment, a competitive market mechanism, a functioning financial system, adequate transportation and communication channels, and efficient public services.

The efficiency of the administrative agencies enforcing foreign investment laws and regulations is directly affected by the clarity and rationality of the underlying rules and regulations. It was mentioned that in countries going through substantial legal reforms, poor coordination within the reform process may lead to several new laws with clauses that contradict with each other. As policies and laws are reformed, the related implementing regulations or normative instructions proliferate, often with a time lag and usually without much consideration about how the implementing regulations associated with one law might interact with the implementing regulations associated with other laws. Such a situation can easily lead to overly complex and redundant procedures that create bottlenecks. For example, it is not uncommon for investors to discover that in order to receive permit A, they need to have authorization B; but to get authorization B, they need to show registration C; however in order to complete registration C, they are officially required to submit a copy of permit A. Such confusing and contradictory regulations may seriously impair the public officials' ability to implement the relevant policies and laws efficiently.

The predictability in the application of the laws and regulations – another important component of a good regulatory framework for investment – depends on the capacity of the administrative personnel. As vague regulations often leave considerable discretion to government bureaucrats, how they interpret, implement, and enforce the laws and regulations makes all the difference. Lack of qualified and competent civil servants is a common problem in many developing countries which can only be resolved with the overall improvement of the human capital in the country. Meanwhile, better training in legal concepts and administrative skills, coupled with clearer policies and regulations, may help improve the efficiency with which the administrative agencies deliver public services.

Technology can also be a useful tool by linking together agencies via virtual networks, thus facilitating not only the relations between investors and government's officials but also the coordination within the public administration. There has been a strong push towards institutional reforms – most notably in favor of the “one-stop-shop”. Unfortunately, these technological and institutional remedies have generally proved useful to support or complement administrative reforms, but not to lead them. That is, unless the underlying laws and regulations and institutions are in place, setting up one-stop-shops do not automatically produce better outcomes.

Finally, streamlining administrative procedures often involves changing mentalities and behaviors – which takes time, strong political commitment, and determined actions. Once specific bottlenecks are identified, it is not always easy to remove them. Vested interests in the administration tend to resist change, especially if it means removing their own power and discretion. Even if their jobs are not jeopardized, as they often are, when reforms remove unnecessary administrative procedures altogether, for many under-paid civil servants, gifts, and the like may be too attractive to resist. Corruption in its various forms has been shown to be a major deterrence to FDI inflows. Therefore, while many regulatory procedures are both necessary and beneficial to the overall business environment, how they are administered may make all the difference. Removing redundant administrative barriers to investment does not imply abandoning governmental responsibilities to uphold welfare. However, inefficient, antagonistic, and arbitrary enforcement of business regulations usually leads to substantial delays and costs to the investors, which may drive them to locate elsewhere.

5. Policy messages/recommendations

- The ongoing slowdown of the world economy has exposed aspects of integration into the global economy that need strengthening to meet the demands and reap the benefits of the current wave of globalization.
- While economic growth is vital for sustainable development, it must be accompanied by trade openness and other reforms.
- While a strengthened regulatory framework across a broad spectrum of policy, administrative and institutional issues is now widely accepted as a key factor in rebuilding domestic and international confidence, much needs to be done.
- It is of vital importance that States aim at improving the mechanisms and processes governing the market place.
- The basis of an effective economic policy framework in developing countries is building and supporting the development and maintenance of an effective and efficient economic and regulatory environment conducive to attracting FDI and building efficient private sector activities in order to maximize the benefits of globalization.

CHAPTER VIII

TRADE AND INVESTMENT IN THE GLOBALIZED ECONOMY*

1. Background

The UNCTAD-UNDP Global Programme on Globalization, Liberalization and Sustainable Human Development is aimed at analyzing the effects of dismantling barriers to goods, capital and knowledge at the country, regional and international levels and at working with countries to devise appropriate policy recommendations for all levels.

2. A conceptual and analytical framework

Globalization goes beyond financial and commercial matters to include culture, technology, language, people and forms of governance. It has been backed by new actors, which include transnational corporations, the far-reaching policy areas of the World Trade Organization (WTO) and industrial processes. Although not an end in itself, globalization can bring choices to peoples and spur human development. Opening to the global market has not necessarily brought the promised “manna” to developing countries, and governments need to maintain a balance between policies that encourage fast growth, develop human and social capital, and promote liberalization. These policies need to be tailored to their particular institutional framework, but if balanced well could lead to a virtuous development spiral. It was this approach that formed the basis of the Global Programme’s work and required that a selection of services be offered to countries and regional groupings that included competitiveness advice, capacity building in negotiations, supporting economic governance, analyzing ex-ante and ex-post effects of liberalization and advising in strategic sectors such as energy, water and agriculture. These initiatives emerged from the need for better policy coordination in government, more active policies to increase firms’ competitiveness, and better ways of measuring the benefits or drawbacks of globalization.

2.1 Linking international negotiations to the domestic policy space

The importance for developing countries of engaging in international negotiations at the WTO and in other international and regional forums has been extensively emphasized. Negotiations in Geneva have had a significant impact on sectors that are of strategic importance to developing countries, including energy, agriculture and water. Because of the penetration into traditionally domestic domains, the national policy space has to be firmly connected with international and regional negotiations. This requires negotiators to be strongly aware of the productive sectors that might be affected, and governments to ensure that they commit themselves to policies that are socially viable in their countries. However, governments should embrace the concept of social efficiency in their activities. The example of a new pipeline being constructed in Bolivia is emblematic in that bringing the pipeline closer to existing human settlements can create economic spin-offs along its route. The need for economies to reach out to the informal sector in order for the skills and productive capacity within to be brought into the mainstream is also very important. The main point is that domestic policy space should be linked to international negotiations in a manner that is socially cohesive.

* This workshop was organized by the UNCTAD -UNDP Global Programme.

2.2 Linking foreign direct investment and technology

Regarding international flows of foreign direct investment (FDI), it should be noted that the lion's share of FDI remains among developed countries, with Asia and Latin America leading the developing countries. The first of the top three recipients of FDI from the latter group is China, which has been able to exploit huge economies of scale, a large market and a strong primary and secondary education system conducive to investments. Next is Mexico, which has seen large benefits from its proximity to the United States and Canada through the North American Free Trade Agreement (NAFTA). Third is Hong Kong (SAR), which is the main financial channel for access to the Chinese mainland. It is also important to underscore that transnational corporations (TNCs), which are important actors in globalization, account for two-thirds of world trade, of which 40 per cent is among themselves since they divide their production processes around the world. However, it is not only companies that compete in the global marketplace. Countries are competing to attract investments and retain their technology, hoping it would spill over into the rest of their economies. In order to do so, they need to build new capabilities based on strong technical skills, a significant research and development (R&D) policy, and strong markets. Strategies for retaining technology and encouraging its spillover roughly boil down to two opposite approaches. One is to buy in technology, independently of TNCs, take it apart, understand it and build something better; the other is to rely on TNCs to bring technology in as part of their investment.

The modalities of these approaches are described below, under the theme of policy action. In sum, there is no single model for attracting FDI and linking it to technology. Nevertheless, R&D, appropriate skills, relevant education, and an enabling environment have shown to have been very important.

2.4 Competitiveness, clusters and SME development

As far as competitiveness is concerned, two topics are of great interest: first, how international agreements could enhance a country's competitiveness; second, how the Venezuelan oil industry has applied a competitiveness philosophy to its benefit. WTO agreements that would have an impact on competitiveness were highlighted. These included preferential conditions for market access for LDCs, the debate on subsidies in agriculture, declining terms of trade in commodities, tariff structures and anti-dumping cases in manufacturing, and the need for a more balanced liberalization of services. Attention is now being increasingly focused on special and differential treatment and its modalities. The Venezuelan Government has used market-friendly and active policies since 1982 to spur the oil sector, which included the related engineering services. The catalyst for bringing in these policies was the realization that the economy was over-reliant on transnationals with only 15 per cent of all procurement in the sector coming from national sources. The R&D base was small and the capability of engineering firms to oversee large projects, almost non-existent. Doubts had also been arising over the nationalization of the industry. The Government established INTEVEP, an agency dedicated to promoting technology transfer, exports, a massive R&D programme, quality assurance, supply chain development, quality control of engineering firms and incentives for SMEs in the sector. The result had been better than expected, with local firms increasing their share of large engineering projects and a rapid improvement in technological capabilities, leading to high-skilled jobs, greater value-added and "backward" linkages to the rest of the economy.

3. Emerging issues

3.1 Does size matter?

It appears that size need not matter. China, with a large labor force, market and economies of scale has posed a significant threat to other producers, upon its accession to WTO. At the same time, many small countries have been able to locate niches and specialize in them. Several examples may be given: Intel's significant investment in Costa Rica, which has an appreciable effect on its investment and export statistics; Kenya's specialization in cut flowers exported directly to European markets; and the Mauritian garment industry that is gradually climbing through the value chain. Where big countries gain in markets and scales, small ones have benefited in terms of governance, easier diffusion of knowledge and technology and access to infrastructure.

At the regional level, small regional groupings have not lost out either. The example of the Arab Free Trade Zone, which brought similar-sized countries together without single domination also deserves to be mentioned in this connection.

It should be underscored that small companies can also benefit from globalization. Although they are not positioned at the front line for receiving FDI, they have been playing an important role in the economic success of many countries, since they have been able to receive significant subcontracts from transnationals and their affiliates. With the right policies in place – namely promotion of R&D, linking industry with academia and tailored education practices – the technology and knowledge that FDI brings with it could be diffused to these smaller companies. Another example is that of Sony Malaysia, which enjoys a larger R&D operation than Sony Japan due to the insistence of the Malaysian Government that “inward” investment should include a degree of research expenditure.

Even some of the smallest companies and cooperatives have the potential to benefit. Regarding work with women who prepared hand-made couscous in villages and who were fearful that globalization would spell their end, the training programmes available for entrepreneurs were highlighted. UNCTAD had up to now trained 50,000 individuals in the skills of running a viable business.

3.2 The need for ownership

This was one of the most frequently recurring themes during the workshop. From the start, it was mentioned that any liberalization needed to be accompanied by a good dose of human and social capital development. However, the institutions in charge of this task must reflect the values of the particular country, or they will have little chance of success.

This point was also brought up clearly during the presentation on linking international negotiations with national circumstances. Furthermore, for countries to gain a share of ownership in international negotiations, trade negotiators required a deeper understanding of the needs of the industrial and informal sectors, thereby dovetailing trade policy with social efficiency – essential for the kind of national cohesiveness that benefits most from globalization.

It was also stressed that as a form of policy ownership, the State had a greater role to play than simply supplying a vision to the private sector. With the reach of trade negotiations into vital and strategic areas as energy, water, agriculture, health and education, the State was also there to ensure a basic access to these resources by the poor. Using the example of Bolivia, it was noted

that the contracting out of water provision had led to a 300 per cent rise in prices which, as recent events are showing, is contributing to social instability. Some experiences have shown that removing basic resources from the confines of public ownership had presented problems.

The ownership dimension applies equally to FDI and technology transfer. In this regard, the importance of tailoring investment policy to the industrial and technological strengths and weaknesses of each country was mentioned. He pointed to UNCTAD's country-specific investment policy review series were enjoying great success among governments.

3.3 Acting at the policy level

The policy level remains an important leverage point for societies seeking to enhance their integration into the global economy. In this respect, policies should aim to spread widely the benefits of globalization, while minimizing any negative impact. Yet, governments should not restrict themselves to initiating policies within their domestic spheres. The returns from acting in regional and sub-regional groupings are often underestimated. The Arab Free Trade Area and the Andean Community are both examples of developing countries being able to coordinate policy for mutual benefit. In the first case, the example was given of countries being able to design a common framework of currency rules that suited their economic needs at the time.

Perhaps, the most important case for policy action is related to harnessing foreign investment for the common good. A perennial problem is the suspicion that FDI tends to restrict itself to a single financial channel between a transnational corporation and its developing country affiliate. At the same time, R&D is being centralized in developed countries, restricting the abilities of FDI recipients to expand their knowledge and technological capacities. This requires a discussion on appropriate policy alternatives to the common practice of countries opening the gates to investment and hoping for the best. South East Asian countries may be good examples to follow. Korea had developed a policy of buying in the technology itself through the untied purchase of equipment. By promoting a R&D base that is independent of foreign companies, it was able to take the technology apart, understand it and build something better. This independent route, though undertaken at immense cost, gave Korea the freedom to develop its knowledge without restrictions from the "head office". Malaysia, as mentioned earlier, took a different route, of using the size of its market to force transnationals to establish an R&D centre along with their production operations. Although this occurred at a lower cost to the Government, it is not a policy that can be replicated in many other markets. Singapore was able to exploit a policy cohesiveness within the Government and strong links with industry to build an appropriate R&D base and gear the educational system to produce the skills required by multinationals.

At the regional level, free trade policies, coupled with astute interventions by government and business was seeing financial and technological diffusion across borders. NAFTA had, it seemed, brought appreciable benefits to Mexico as its economy was given an opportunity to "catch up" with that of the United States. Across the Pacific, East Asia is seeing clear technological and financial benefits from its proximity to Japan.

3.4 A role for the international community

The international community was shown that it still has an important role to play, despite the growing preponderance of non-state actors. Development aid, though smaller in quantity than FDI for many developing countries, was still seen as an important factor for development. This case was raised repeatedly by participants. Aid was still essential for developing infrastructure, which in turn was a vital pre-requisite for successful trade and investment liberalization.

At the same time technical assistance has remained in popular demand; requests for it by developing countries increased the more they integrated. During the workshop, participants were apprised of the programmes offered by UNCTAD in training entrepreneurs, promoting technology transfer and FDI, and encouraging small enterprises out of the informal sector. The Organization of Petroleum Exporting Countries had also been undertaking important technical assistance in the strategic energy sector.

The consensus regarding WTO was that it was necessary to take a step back from the current negotiations and take in a broader picture. Countries needed to look more closely at policies on Trade related aspects of intellectual property rights (TRIPS) and examine their effects on development and technology transfer.

4. Policy messages/recommendations

- Governments should strive for policies that enable all citizens to benefit from globalization.
- Policies should enjoy a strong degree of local ownership.
- Size - small or large - need not be a handicap in the global marketplace.
- The international community still has an important role to play in the globalized economy.

CHAPTER IX

IMPROVING RESOURCE MOBILIZATION AND TAX ADMINISTRATION SYSTEMS*

1. Background

One of the main questions facing different governments at present is how to finance the functions of the State as efficiently as possible. Ministers of Finance need to build consensus within their own governments in order to have a viable balanced budget. Once there is consensus, the budget also needs to be backed by the population in general. The support of the population will later be a key ingredient in the process of tax collection and tax compliance.

When the government sets up policies for tax purposes, it is always important to ask the following question: Can the private sector provide the same service? And what would the cost be? In fact, there are some types of services that can be provided more efficiently by the private sector, but use of the private sector for some services traditionally offered by the government is justified only if the private sector can render the same service at a lower cost and/or higher quality.

Moreover, government interventions or government programmes should be aimed at promoting equity and equal opportunity, reducing social and economic inequalities, as well as economic insecurity. In the process of budget elaboration, particular emphasis should be placed on accurate estimates for new programmes and on sensitizing citizens. When the actual expenditures go well beyond the estimates, it becomes very hard to go back and raise new taxes. In many cases, the government concerned may even pay a very high political price. One of the lessons to learn is that the benefits of sound long-term government finances outdo the gain of short-term public expenditures that overburden taxpayers.

2. Political aspects of taxation: “No taxation without representation”

A good tax system should address, among others, the following objectives: (a) it should not impede economic growth; (b) it should provide a more fair income distribution, and it should insure stable government revenue, which should increase as the economy grows.

Tax evasion, a worldwide phenomenon, is particularly present in developing countries. In fact, in those countries, the informal sector accounts for a big share of the active population and is very hard to reach for tax collection purposes. Many ills are associated with tax evasion. It is a source of social inequalities and of inefficiencies in the market. When governments face increases in programme expenditures, the first reaction is to increase tax rates, but this is not a viable solution since it tends to exacerbate inequalities between taxpayers and tax avoiders and pushes more people to evade taxes.

People who choose to evade tax payment make a choice based on the cost they would incur if caught and the probability of being caught. If being caught is more about bad luck than a good tax administration system, and if once caught, there are other alternatives to punishment – corruption

* This workshop was organized by *Association de Planification Fiscale et Financiere* (APFF), Montreal, Canada, and by UNDESA.

for instance – then more and more people will choose not to comply, especially when rates are too high.

It is therefore important to have a clear and simple tax system with well-defined regulations and with few derogations and exemptions. This usually reduces the cost of administration as well as the cost of compliance, and increases the credibility of the government.

Developing countries need effective strategies for domestic and external financial resource mobilization through tax and non-tax instruments that are fair, equitable and create minimal disincentives for economic efficiency, and they need to initiate tax reforms to simplify and rationalize the tax structure.

The degree of tax compliance also helps policy-makers in designing tax policy. In many countries, tax administration concerns strongly influence tax policy. The structure of the economy of developing countries makes it difficult to collect certain taxes.

3. Tax administration and tax policy

It is commonly held that tax policy and tax administration are intrinsically linked. In this interrelationship, however, the formulation of tax policy is generally seen to precede tax administration.

In many developing countries, tax laws themselves may be extremely well designed and detailed. Yet, unless the accompanying tax administration is able to handle those laws, in terms of having the appropriate staff to interpret and implement them, the actual compliance incidence of the tax system may be quite different from the original objectives.

Decentralization may be appropriate in some cases to promote an efficient resource mobilization programme. In fact, it allows public officials to have more information on citizens' preferences regarding goods and service delivery, since local authorities have a greater knowledge and understanding of local conditions.

Decentralization, however, also presents disadvantages (issues of equity at the national level, fiscal inefficiency and others). Solutions to these problems include setting up national standards, intergovernmental transfers, policy coordination, fiscal harmonization, and tax collection agreements between different geographical entities and different levels of government.

It is always inevitable to make expenditure choices in government. A sound government expenditure programme should give priority to productive expenditures by focusing on “smart taxes”, i.e., those that have a positive impact on economic growth. Consumption tax and employment income tax are more conducive to economic growth than capital income tax. Expenditures/investments that take advantage of economies of scale, such as basic infrastructures (roads, bridge, etc.), are also considered productive investments.

The issue of resource mobilization is not only related to how much resources the government can collect, but also to the structure or composition of the tax basket, i.e., the relative weight of each type of tax. Not all tax systems have the same distortionary effect. For a given amount of tax revenue, the final burden of taxation depends on a number of features of the tax system, namely, the composition of tax revenues (income versus consumption), the size of the tax base (affected by tax evasion and tax fraud), the tax rates and other factors of an administrative nature. Available evidence for developing countries indicates that corporate and personal income taxes

have a negative impact on economic activity, whereas taxes on imports and exports do have a significant, negative effect on investment. At the same time, non-neutralities in the taxation of savings and investment severely distort capital markets.

Given the disincentive effects of taxes, as showed by empirical evidence, efficiency-oriented tax reforms should be featured by:

- Reliance on a dominantly consumption-oriented set of broadly-based taxes;
- Moderate tax rates on labor and capital incomes; and
- Simple taxation of profits and returns to financial capital, with little incentive schemes, and as neutral as possible.

It is useful to have estimates of revenue potential for each tax instrument. It is also necessary to have estimates of compliance and enforcement costs for each tax instrument based on different scenarios (related to rates, base, and coverage). Substantial variations in these costs may influence the roles a particular tax instrument plays in the tax system. It is important to estimate the level of tax evasion for different tax instruments and the cost and probability of reducing the evasion rate to acceptable levels.

The cost of tax collection is a key element to be taken into account when formulating a tax policy. One way to look at the loss of efficiency is to measure the distortion created by a new tax in the economy. In some cases, incentives created by the system could hinder the optimal allocation of resources. Economists have argued for taxation of less elastic goods or services as a way to go around this problem. Yet experience has shown that the taxation of goods that would appear to be inelastic induces the emergence of substitutes and therefore puts into question the inelasticity of the taxed goods/services. In order to avoid such a situation and to limit tax evasion, it would be preferable to have tax rates that are as low as possible but that affect a broader base. In this respect, the most appropriate tax is the tax of consumption, in particular the value added tax (VAT). This type of tax requires, however, well-trained personnel and is particularly difficult to administer for the informal sector. Therefore, for most of the developing countries that have an informal sector which covers a substantial share of the economy, the challenge is to find the most efficient and most practical tax system.

There should be greater emphasis on improving the efficiency and effectiveness of revenue administration, strengthening the institutional framework, selecting taxes and duties which are administratively feasible and tend to realistic collections, widening the tax base and progressively integrating the “informal” sector into the mainstream of the national economy.

Developing countries have a tax structure dominated by indirect taxes, with a limited number of capital and wealth taxes. There is widespread informality and large taxpayers do not normally comply with their income tax, and payroll taxes become a “tax on honesty” paid mainly by the low and middle-income classes. Broadly-based tax systems, with fewer deductions and exemptions, relatively low tax rates (albeit moderately progressive in the case of the personal income tax), and compatible with administrative capabilities, are likely to provide a stable, reasonably efficient and more “pro-poor” alternative of financing public expenditures.

It should be noted, however, that the capacity of a country to raise tax revenue depends not only on tangible economic factors but also on a variety of non-economic factors, such as, political will, administrative efficiency, and a culture of tax compliance. As such it is almost impossible to

prescribe a priori what proportion of GDP should be raised as taxes in any particular country. There are several different techniques and measures to evaluate a country's tax system. One can estimate a "hypothetical tax to GDP ratio" by isolating several independent variables (such as per capita income, share of agricultural output, openness of the economy, and ratio of money supply to GDP) and comparing tax performance to that of similar countries.

Past experience also points to the need of strengthening or putting in place a tax system that is fair and equitable; minimizes disincentives for economic efficiency; is simple (easy to understand and administer); eliminates evasion and avoidance; is flexible enough to secure equitable tax revenue from income attributable to new and innovative financial instruments; and allows for gradually widening the tax base and integration of the informal sector in the mainstream of the economy.

4. External resources and globalization issues

Some suggest that globalization has had a big impact on the structure of government revenue. International capital, in the form of Foreign Direct Investment (FDI) and portfolio investment, has become more mobile and volatile. In order to attract foreign investment countries have substantially decreased tax rates, especially on capital revenue tax. This change in tax structure has resulted in many cases in loss of revenue for governments at a time when emerging issues related to globalization call for a bigger role of the State. According to this line of thought, the phenomenon of tax competition among countries has a negative impact on the government budget and a more concerted approach among countries is appropriate. The increased mobility of capital and labor requires policy-makers to consider the tax systems of other countries. Globalization and reduced trade barriers threaten two major sources of tax revenue for developing countries: trade taxes and corporate income taxes. The challenge many countries face is replacing those lost revenue sources with taxes that do not disproportionately burden the poor.

Others suggest that there is no evidence that the size of government is reduced by globalization. To the contrary, "globalized economies have larger, not smaller government expenditure." Therefore, there is no evidence that globalization weakens the State.¹

In the face of globalization, many countries have tried to rely more on personal income tax than on capital income tax, but the difficulty for developing countries is that a good proportion of the population does not have a stable and verifiable income, as most people work in the informal sector. In this case, a tax on consumption that could spread to the majority of goods and services would be a viable alternative since it affects equally almost all sectors. The criticism advanced on this type of tax is that it is more regressive than an income tax.

In general, the degree of economic security in a country is crucial to its success in raising resources to finance its development. The political and economic environment variables affecting savings and investment decisions include government leadership, the risk of internal conflict; corruption; the rule of law; racial and ethnic tension; political terrorism; civil war; the quality of the bureaucracy; the risk of repudiation of contracts; and the risk of expropriation by government, as well as political rights and civil liberties.

While the evidence of the quantitative impact of globalization on public revenues is still limited, there are indications that it may reduce tax revenues due to increased tax competition among jurisdictions to attract foreign direct investment, exponential growth in e-commerce, increased mobility of factors of production, and growing importance of off-shore and non-cooperative tax

¹ *World Public Sector Report, Globalization and the State*, 2001, United Nations, Sales No. E.01.II.H.2.

jurisdictions. If the objective is an efficient and feasible tax administration, the structure of all taxes should comprise common elements: low rates, few nominal rates, a broad base, few exemptions, few incentives, few surcharges, few temporary measures; and where there are exceptions, clear guidelines. This is because a simple tax structure induces better tax administration.

Greater coherence between aid and trade policies is essential. In particular, reducing or eliminating biases against products from developing countries in industrial countries' import and agricultural regimes would make both aid – including debt relief – and trade more effective in promoting development. This requires inter alia establishing appropriate systems to manage aid funds with a view to avoiding corruption and mismanagement. The positive impact of aid has been undermined in some cases by the volatility and unpredictability of aid itself.

Part of the budget, especially capital expenditure, is usually financed by long-term borrowing from various sources. Such investments, however, should be carefully chosen and realized keeping in mind the future effect of loan servicing on current expenditure. If inefficiently allocated, the cost of borrowed external resources can contribute to macroeconomic management problems in the form of high and unsustainable levels of external debt servicing obligations.

5. Policy messages/recommendations

- “Smart” taxation – through careful design and targeting – produces greater fiscal income without increasing the overall tax burden.
- Decentralization of public expenditures and taxes should be given careful attention.
- Capacity building of fiscal administrations should be a priority.
- Broadly-based tax systems, with fewer deductions and exemptions, relatively low tax rates and compatible with administrative capabilities, are likely to provide a stable, reasonably efficient and more “pro-poor” alternative of financing public expenditure.
- A good tax system should provide a more fair income distribution; ensure stable government revenue, and not impede economic growth.

CHAPTER X

ENHANCING ACCOUNTABILITY AND TRANSPARENCY*

1. Background

It is generally accepted today that accountability and transparency are basic norms of good governance. Accountability may be defined as a norm in the relationship between decision-makers and stakeholders. Decision-makers must be subjected to the consequences of their decisions in any sector and at all levels. Vertical and horizontal, external and internal accountability mechanisms (checks and balances) are fundamental parts of good governance.

Yet, without transparency – the easy availability of relevant information about institutions – accountability is not possible. Transparency of decision-makers' actions enables stakeholders to hold decision-makers accountable. As opposed to secrecy, transparency of institutions and decision-making processes helps to understand the rationale, the objectives, motives, “tradeoffs”, risks of particular decisions or the operation of a particular institution. Transparency helps to establish trust because it prevents misuse of power, and consequently it protects against potential abuses. Without some level of trust in its institutions, no society can function.

2. The pillars of the integrity system

Trust can be established through accountability mechanisms that may be called an integrity system. As Jeremy Pope¹ describes it, if we want a “national integrity system” to be like a Greek temple, we should see it as a temple with a flat “roof” (the nation's integrity), which is supported at either end by a series of “pillars” (each being an individual element of the national integrity system).

At one end of the “temple” are the institutional “pillars” – i.e. the judiciary, the parliament, the auditor-general's office, the Ombudsman, free media, civil society and other actors. At the other end of the “temple”, the “pillars” represent the core “tools” which the institutions must have at their disposal for them to be effective. Thus, the media must have a right to freedom of speech; civil society must have legal space to organize itself and conduct its business; and the judiciary must have its independence, the parliament its democratic origins, and the civil service its ethics management, among other things.

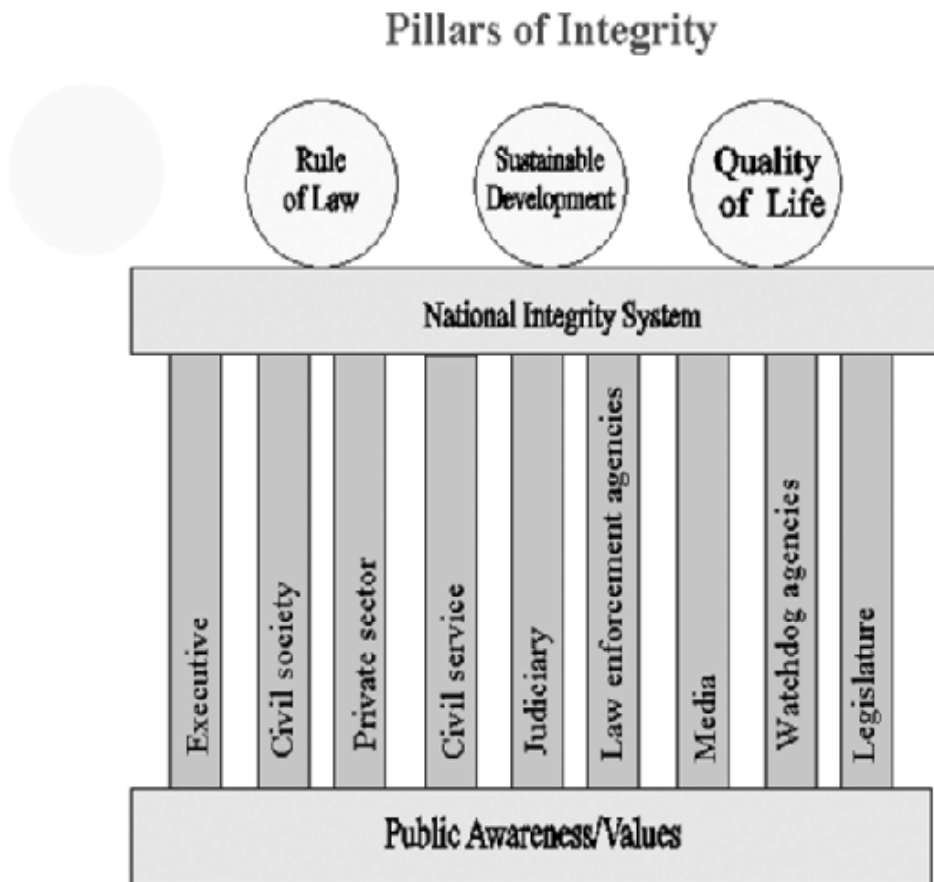
Resting on the flat roof are three round “balls”: “quality of life”, “rule of law” and “sustainable development”. They are round in order to emphasize that the roof will be kept level if the values they encompass are not to roll off. The “pillars” are interdependent, but may be of differing strengths. If one pillar weakens, an increased load is thrown on to one or more of the others. If several pillars weaken and the horizontal accountability “bracing” fails, their load will ultimately tilt, so that the “round balls” of “sustainable development”, “rule of law” and “quality of life” roll off, and the edifice collapses into chaos.

* This workshop was organized by Transparency International (TI).

¹ Jeremy Pope, *TI Source Book 2000*. Confronting Corruption; the Elements of a National Integrity System. Transparency International, Berlin, Germany.

While there are variations around the world, the most usual “integrity pillars” of a society which is seeking to govern itself in an accountable fashion include the executive, civil society, the private sector, the civil service, the judiciary, law enforcement, the media, watchdogs and the legislature.

The following graph portrays the pillars.



3. Integrity pacts

Over the years, Transparency International (TI) has developed its “integrity pacts” methodology to prevent corruption in public procurement. Two crucial components of the integrity system – procurement and party funding – are of particular interest.

3.1 The concept of the integrity pact

The integrity pact (IP) is a binding agreement (this is why it adopts the form of a legal agreement) signed by both the government agency (also public enterprise or local authority) wishing to initiate a contracting process and the potential bidders (public or private) that will participate in it.

The parties agree to certain rights and obligations. Bidders commit, among other things, not to bribe, not to collude, and to disclose information regarding payments related to the contracting process (middlemen). The agency commits, among other things, not to demand or accept bribes, to disclose relevant information and to guarantee protection of restricted information. The pact is applicable to all types of public contracts (licensing, privatization, concession, procurement, etc.) and throughout the whole contracting process: from the planning and feasibility stage to the contract execution stage.

3.2 The goals of the IP

- Prevent corruption by helping government, business and civil society avoid corrupt activities in public contracting and therefore improving those processes;
- Enhance public trust in government contracting (credibility and governance);
- Enable participants to avoid corrupt practices and their distortionary effects.

3.3 The objectives of the IP

- Establish/level the playing field (common, shared, known rules of the game);
- Enable companies to abstain from bribing (and other corrupt practices) by assuring that competitors will also do so, and that government officials will not demand it or expect it;
- Enable government officials to abstain from corrupt practices;
- Reduce costs of contracting.

3.4 Characteristics and structure

The IP is a flexible but consistent tool. It allows adaptation to local rules/culture while maintaining essential characteristics. According to Transparency International, the IP will be de-naturalized if the following are criteria not met:

- It is a formal pact that is only valid if signed by all bidders and the government agency;
- It should not adopt the form of unilateral declarations or agreements;
- It requires a contracting process with open and transparent competition;
- It includes the undertaking of bidders (rights and obligations);
- It includes the undertaking of the public authority (rights and obligations);
- It includes sanctions for all parties in case of violation of the IP (ranging from bonds, and pre-liquidated damages to blacklisting and forfeiture of awarded contract);
- Arbitration is used as a conflict resolution mechanism;

- A monitoring process is assured through the involvement of a TI-National Chapter or NGO;
- It requires the publication of the award decision and grounds for selection.

Far from being “just a contract”, the IP is a process. Therefore, there are other elements whose presence is desirable, like a company’s code of conduct, the use of the Internet and public hearings to enhance the transparency of the process, asset disclosure from public officials, monitoring of the contract’s execution and even stricter disclosure of information on payments to middlemen.

3.5 Applications

Some of the most salient applications of the IP around the world occur in Argentina (public hearings), Colombia (voluntary agreement), Italy (local governments), Korea (public/private partnership system), Mexico (different types of contracts), Nepal (introduction of the concept) and Pakistan (services).

3.6 Results

Positive results have emerged from many of these experiences. For example, in Pakistan the IP together with a least-cost system for awarding contracts reduced the initial estimated awarded value in approximately 70 per cent in the contracting process for consulting services for the Karachi Water & Sewage Board Water Supply service. Colombia has registered savings ranging from 6 per cent to 60 per cent of the estimated price in various processes. It is also possible to identify trust-generation processes. On a case study exercise done by TI-LAC, some bidders interviewed said that they might have been unhappy that they lost, but knew they lost fairly.

Finally, how the IP is built and how it is used is more important than the pact itself, but to be able to do that, the pact must be in itself a good one. The application of the IP is thus not simplistic, and requires skills. Experience has also shown that in order to be successful the IP requires political will/commitment on the side of the government agency concerned.

4. Monitoring political party funding

Improving political party financing systems is part of the endeavor to improve the quality of democracy. By quality of democracy we mean usage of democratic instruments for increasing the well-being of the majority of the population, not just of narrow groups. By bringing in more transparency and accountability in the political party financing system, it is possible to open-up closed elite circles, lessen the influence of money on politics, and bring politicians closer to the public. In sum, improvements in political party financing systems have the potential to diminish political corruption.

Transparency International has created a method that allows activists from civil society to advocate improvement in political party financing systems. This method was first developed in Argentina and subsequently used and complemented in Central and Eastern Europe – Latvia, Slovakia and Ukraine. This method aims at bringing more transparency to political party accounts, and provides a system of checks and balances for party declarations. There have been other valuable add-ons developed by TI chapters, e.g. monitoring of hidden advertising.

This method can be most successfully used in countries which have the basic ingredients of democracy – free and fair elections, a multi-party system and political competition. It will be especially interesting for countries which face problems of shadow economies, non-compliance with legislation and weak controlling institutions. However, to be able to implement the method, either voluntarily or mandatory disclosure of political party finances is necessary, since this provides baseline numbers for the monitoring. A prerequisite for being able to use this method is that a consensus exists or is formed either in society or among politicians, or both, that improvements in the political party financing system are necessary. Countries which face problems of direct vote-buying, benefits in-kind to the voters, major electoral fraud, etc., might want to choose on focusing on a different method. Educating a voter to lead him/her to realize that in a democratic system long-term benefits (improved political climate) should outweigh short-term costs (refusal of payment for particular voting) might be a preferred strategy that these countries may wish to implement.

5. Key policy messages/recommendations

- Coherence of various reform strategies and policies is essential. Donors and governments should do more to coordinate various reform projects/agendas and initiatives.
- Governments should design and implement comprehensive anti-corruption strategies and policies. Anti-corruption strategies should be part of the overall reform agendas of the respective governments. One entity with a strong mandate within the government should be responsible for implementation.
- International minimum standards of transparency in the business sector, especially in the banking sector, would contribute to the fight against money laundering, organized crime and corruption. “Know- your customer” rules in the banking sector would help recover assets stolen from poor countries.
- Asset declarations of elected and non-elected officials work only if there is an independent agency that regularly scrutinizes the accuracy and truthfulness of the statements. False or inaccurate statements should lead to perjury.
- The forthcoming United Nations Anti-corruption Convention should be given high priority, and independent monitoring by civil society organizations should be part of the enforcement mechanisms.

CHAPTER XI

PROMOTING GENDER PARTICIPATION IN GOVERNANCE*

1. Background

It is recognized that acceding to power is not an end in itself. New needs emerge after women enter the political arena: it is all about ensuring the effectiveness and efficiency of women's leadership. The qualitative aspect of women's political participation, namely, its impact a very important element for good governance. Experience has shown that quota systems vary when it comes to aims, target groups, percentages, as well as results. In some countries the quota system has had a positive effect; in others the impact has been minimal.

2. Women's participation in governance

Women's quantitative and qualitative participation in governance and integration of gender issues in governance is not only a democratic goal in itself, but also a precondition for reaching other goals, for example, the Millennium Development Goals (MDGs) and those outlined in the Beijing Platform for Action. In order to effectively combat poverty, support should be provided for women's social and economic development and women's full and equal participation in decision-making, at both the national and local levels.

There is growing confidence that an increased number of women in politics will benefit global development since discrimination against women hampers the growth of the prosperity of society and the family. By including women in political decision-making processes, the decisions that are made and the policies that are implemented will benefit a larger group of people, and not only women themselves, but also their families and the community at large.

There are several limitations to women's participation in governance, including poverty, social responsibilities of women, growing criminalization and communalization of the political process, and inadequate policy and legal environment. In India, agricultural and credit societies, as well as traditional caste panchayats routinely exclude women. The all-male caste panchayats enjoy more influence than administrative panchayats. Often, panchayats work as agents of government agencies implementing development programmes.

When in positions of power, women are expected to behave like women and think like men. This sums up the women's dilemma as they take on a triple burden - home, work, and political participation. A critical factor in women's advancement is that they link with the women's movement. In fact, the ability of women to participate in democratic processes and institution building is greatly influenced by pressures from women's grassroots initiatives and movements. There is incontestable evidence of the role of grassroots organizations in supporting and influencing development agendas; in fighting social and cultural barriers, as well as male resistance, and in strengthening women's participation.

* This workshop was organized by the United Nations Development Fund for Women (UNIFEM) and the Norwegian Agency for Development Cooperation (NORAD).

3. Women and gender issues in the Millennium Development Goals (MDGs)

The strong focus on women and gender issues in the MDGs should be equally translated into national action plans, budgetary allocations and monitoring mechanisms, including international solidarity funding mechanisms.

In many cases, gender issues are included in the MDGs, but not in the action plans. Gender budgeting – analyzing the implications of budgets for men and women – has proved to be a useful tool for analyzing budgets from a gender perspective. In reality, the bulk of the budget goes to activities that benefit men, and women are left with a tiny portion, in some cases in the form of micro credits. These loans are no doubt vital for the women who receive them, but are not likely to have a long-term effect on the socio-economic situation of women.

Sweden has developed a tool for resource allocation analysis composed of three steps: representation, resources and reality. The first step, i.e. representation, implies a quantitative mapping of women and men in target groups and in the relevant decision-making and administrative bodies. Applied to the MDGs in connection with primary education, it would imply monitoring the percentages of boys and girls at the different school levels, the percentages of men and women officials and politicians in education at different levels, the percentage of women and men teachers and headmasters, etc. The second step, i.e. resources, is also quantitative, and involves analyzing where the money goes and where the influence lies in relation to women and men. Reality, the third and final step, is qualitative. It probes reasons behind the differences found in steps 1 and 2, and proposes possible solutions to address the disparities.

Generally, women's activities are largely confined to social events, campaign work and mobilization of women to support and defend the agenda of political parties. Without logistic, financial and strategic support from the parties, women cannot succeed as candidates in a multi-party democratic system. It is therefore important that governments translate women and gender issues into budgets both at the national and international levels.

4. Increased women's representation in decision-making bodies

Increased women's representation at the local and national levels of decision-making bodies should be facilitated utilizing affirmative action tools such as the use of quotas to secure a minimal critical mass of 30 per cent with the objective of achieving parity. Strategies for women's greater political participation require a stronger focus on activities that increase power-sharing between men and women.

There is universal recognition of women's voting rights but that does not guarantee women's representation in elective and decision-making bodies. Under-representation of women in politics is an empirical reality. The demand for "political presence" is now reformulated in terms of fairness and social justice. Two sets of issues affect women's participation: the nature of representative democracy, and the status of political equality and citizenship rights and entitlements. Women will have to grapple with both the issues of representation and governance as well as the nature of politics and political institutions in a multi-party democratic system.

A higher representation of women in politics is simply fair. Women constitute half of the world's population and are entitled to a comparable number of representatives in political bodies. As long as women, and women's experiences, are not taken into account in political decision-making, society loses valuable inputs in the decision-making process. If we are to improve the living

conditions for present and future generations, we can no longer afford to ignore the abundant resources that women have to offer.

Women need to participate in municipal life as elected representatives and as community representatives through a range of civic organizations, as consumers of municipal services, as employees of the municipality, and as service providers to the municipality.

Women's interests will be better protected if they are represented by those who share their concerns, interests and perspectives. The theory of "critical mass" or a "threshold level" when women start influencing the political process, public policies and institutions, anticipates the introduction of new concerns and interests by women.

The decision of the Heads of State and Government of the Southern African Development Community (SADC) to ensure equal representation of women and men in decision-making structures at all levels, and the achievement of at least a 30 per cent target of female representation by 2005 is a demonstration of the high level political commitment and accountability for gender mainstreaming. This has resulted in a few countries in the region recording significant increases in the number of women in decision-making at various levels. The success of SADC could serve as a model for the rest of Africa and beyond. In Morocco, advocacy and lobbying from NGOs has resulted in the democratization of the electoral process, with the introduction of a 10 per cent quota for women. As a result, 35 women were elected members of Parliament in the 2002 elections as opposed to 2 women in the previous Parliament. In India, affirmative action for women has legal and constitutional support despite dissenting voices.

Dealing with frozen inequalities or past injustices requires a policy of "preferential treatment" or "affirmative action". Thus, affirmative action is not an undemocratic process and it does not imply that women are less capable than men.

5. Women's political participation

The gains made to date in increasing women's political participation worldwide need to be maintained, and support strategies are required to ensure long-term sustainability and prevent backslide. Cooperation between women from different political parties – and between women in different sectors of society – women in politics, women administrators, women in civil society – is crucial to change. Fostering synergy among groups of women who have different roles in the process of change is a prerequisite for the attainment of lasting change. In other words, while women in civil society, community-based organizations and NGOs lobby for and advocate change, politicians adopt the necessary laws, and the administration implements the measures. This cooperation is vital prior to elections in order to achieve a high representation of women, but it is equally important after the elections. Female elected politicians need support from other women in NGOs and community-based organizations as well as from their constituencies in order to cope with the massive male criticism they often receive.

Gender biases and stereotypes that do not encourage women to enter politics remain pervasive in many countries at all levels of society. Governments and political parties need to play a leading role in changing attitudes. It is the responsibility of all stakeholders in civil society, researchers, electoral commissions and academics to consistently raise the issue of gender equality in governance as part of their discourse on good governance and human rights. To be sure, increased participation of women in power requires interventions at different levels and use of multiple strategies. Over and above that, it requires political will and commitment.

It should be mentioned that mandatory rotation of seats also has a disempowering and demotivating effect in addition to discouraging women to try for continuity of their work and seek re-election. If seats are rotated, there is little chance for sitting members to contest next time since quotas are treated as a ceiling and not a threshold.

6. Preserving influence and avoiding increased poverty for women

Care must be taken to ensure that new partnerships between public and private sectors and privatization processes are not implemented in such a way that they result in reduced influence and increased poverty for women.

Women are explicit or implicit target groups in 7 of the 8 Millennium Development Goals, which make provision for halving extreme poverty and hunger by 2015. The MDGs have to be met at the local level where there is a need for basic health services, education, clean water and sanitation. Given that approximately 70 per cent of the extreme poor are women, it is highly unlikely for any country to reach the MDGs without systematically targeting women as beneficiaries and including them as active participants in the process.

Women, especially the poor among them, need to be a part of the decision-making process at the local level. They need to participate in decision-making, since the greater part of the work within health and social services is done by them. They are responsible for many of the functions which ensure the smooth running of daily life. As the most homebound part of a population, they also take care of the social networks. Women often become the sole providers for the family, with the responsibility for the household – children, the sick and the elderly. The number of households headed by poor women is increasing all over the world.

It is imperative that women – especially poor women – work in local councils, administrations and more civil society organizations in order to get the priorities of poor women into the local process. If the poor, whether women or men, are excluded, the MDGs will not be reached.

In an effort to promote efficiency, public services and basic needs, such as water, may become targets of new partnerships between the public and private sectors as well as of privatization, often at the expense of the poor. Such partnerships may also result in reducing the power of the few women who are in decision-making positions. In entering into such partnerships, there is thus a need to ensure that women at all levels are not negatively affected.

7. Focus on strategies and activities that increase women's power and impact

Factors affecting women's experiences and performance have to take into account the historical context, the social base of different women, and the support systems available – both within and outside the home. The most frequent strategy used to increase women's power and impact regarding gender and governance is capacity-building workshops: capacity-building for women candidates and politicians, and gender sensitization for men. However, if the main problem is power, it is unlikely that power structures are influenced through capacity-building. In South Africa, women newly elected to local government have felt that they needed mentoring in how to tackle the "power-play", both in relation to the "white" administrators and to their male colleagues. It is well known that there are universal domination techniques, and women in Norway have been trained on how to recognize such techniques. It is also necessary to try to

break down the “old men networks” within political parties. One way to do that is to work for transparency in decision-making.

8. Policy messages/recommendations

- Full integration of women’s issues in governance is essential to the attainment of the MDGs.
- Concern for women’s issues and involvement should be reflected in national budgets and action plans.
- Affirmative action programmes should be used to increase women’s representation in decision-making bodies at the local and national levels.
- The empowerment of women (education and health) is crucial to their greater involvement.
- Gains in women’s political participation need to be institutionalized to ensure sustainability.

Annex I

OVERVIEW OF THE CAPACITY DEVELOPMENT WORKSHOPS

1. Sponsorship and Purpose

The Fourth Global Forum on Reinventing Government was held in Marrakech on 24 and 25 October 2002, hosted by the Kingdom of Morocco, and organized with the support of the United Nations Department of Economic and Social Affairs (UNDESA). It focused on "The State, the Private Sector and Civil Society: Partnerships for Development and Democracy". The overall goal of the Fourth Global Forum was to devise means of promoting democracy, as well as economic and social development through cooperation and partnerships between various components of society and the international community.

Within this context, the Government of Italy and UNDESA organized a two-day preparatory capacity development workshop, which were hosted by the Government of Morocco and held in Marrakech on 22 and 23 October 2002. The objective of the Workshop was to provide a platform for high-level officials, regional/municipal leaders, representatives of civil society organizations (NGOs) and key stakeholders, from developing countries and countries with economies in transition, to exchange views and practical experiences on the interaction between government and citizens. More than 200 participants from around the world took part in this event and which featured 11 Workshops of three sessions each aimed at training and knowledge-sharing.

2. Background

In recent years, there has been a growing consensus over the need to foster democracy and development through more dynamic and participatory approaches to governance. These ideas have been discussed over the past decade at several United Nations conferences and other major international meetings. Among the latter, the Global Forums on Reinventing Government have been quite successful in galvanising the attention of government leaders and international actors on crucial issues related to partnerships for democracy and development.

In January 1999, the First Global Forum, organized by the Government of the United States, was launched in Washington D.C. This event provided a platform for discussion among high-level representatives on the role of Governments at the outset of the new millennium. The Second Global Forum, which was hosted by the Government of Brazil and took place in Brasilia in May 2000, focused on the theme "Democratic State and Governance in the 21st Century". In March 2001, the Government of Italy organized in Naples the Third Global Forum on "Fostering Democracy and Development through e-Government". More than 1,000 participants representing 122 countries attended the plenary sessions and the different panels.

The Third Global Forum was preceded by a capacity building workshop organized and financed by the Government of Italy through the Presidency of the Council of Ministers - Department of Public Administration-, under the auspices of the Ministry of Foreign Affairs, and UNDESA. Major training schools, research institutes, as well as public and private institutions took part in the organization of the workshop. Participants from 74 developing countries attended the three days workshop, and later had the opportunity to participate in the Third Global Forum.

During the closing ceremony of the Third Forum, the Government of Morocco announced its intention to host the Fourth Global Forum. At the same time, the Government of Italy announced that it would support, in collaboration with UNDESA, a high-level capacity development workshop for participants from developing countries as a preparatory activity for the Fourth Global Forum.

3. Context

Two of the major inter-related challenges of our times are to deepen democracy and promote development, as well as to strengthen the capacity of developing countries to benefit from the rapid pace of globalization. Despite the progress made by many countries in building democratic institutions and protecting human rights, democracies in some regions of the world are still fragile and institutions too weak to ensure effective governance. Strengthening democratic institutions and fostering a participatory approach to governance are seen by many development practitioners as important tools to promote social and economic development and to enable a country to manage emerging global, national and local issues. In this context, the importance of promoting dialogue and partnerships between government, the private sector and civil society is gaining growing consensus. Promoting partnerships is increasingly relevant in a globalizing world in which citizens, who now have easier access to multiple sources of information and greater knowledge of national and international trends, are demanding enhanced participation and control over decision making processes.

In fact, globalization is increasing the interaction and interdependence among people and economies through liberalization of trade, foreign direct investment, technological change and increased information flows. It is also posing new opportunities and challenges to many countries around the world. There is an increased awareness that globalization and greater openness to the world economy can benefit fully a country and its people only in the presence of solid democratic institutions and policies, which help redistribute the gains from open trade and from greater exchange. Reinforcing the capacity of the State to provide an enabling environment for development, in order to ensure the participation of the private sector and civil society, as well as to protect public goods, including the environment, thus becomes a vital element for any country that wishes to seize the opportunities of globalization.

4. Objectives

The Capacity Development Workshop provided an opportunity for participants to:

- Discuss key issues regarding the changing role of the public sector, the capacity of governance institutions to promote development in a globalizing world and to foster partnerships for social development;
- Share experiences and best practices in promoting dialogue and partnerships between government and citizens;
- Identify strategies and approaches to formulate and implement policies, programmes and initiatives fostering synergies between the State and its citizens;
- Promote cooperation among government, the private sector, and non-governmental organizations; and
- Identify existing or potential areas of North/South and South/South cooperation in promoting good governance and enhanced capacity of countries to cope with globalization.

Annex II

LIST OF PARTNER INSTITUTIONS

Association de Planification Fiscale et Financiere, Montreal, Canada

Centre of Public and Health Management (IPAS), Bocconi University, Italy

Formez, Training and Study Centre, Italy

International Institute for Democracy and Electoral Assistance - International IDEA

Norwegian Agency for Development Cooperation (NORAD)

School of Public Administration, (*Scuola Superiore della Pubblica Amministrazione*) (SSPA), Italy

Transparency International (TI)

United Nations, Department of Economic and Social Affairs (UNDESA), Division for Public Administration and Development Management (DPADM)

United Nations Conference on Trade and Development (UNCTAD)

United Nations Development Fund for Women (UNIFEM)

United Nations Development Programme (UNDP) and its Human Development Report Office

World Bank

Annex III

WORKSHOPS AGENDA

Tuesday, 10 December 2002

9:00 – 10:00

Opening Ceremony:

Representative of the United Nations
Representative of the Government of Italy
Honourable Minister, Government of Morocco

10:00 – 10:30

Break

10:30 – 13:00

Plenary Session:

Chairperson : Mr. Abdoulie Janneh, Assistant Administrator, UNDP

Speakers:

Ms. Merilee Grindle, Professor, Harvard University

Mr. Ian Goldin, Director, Development Policy Department, the
World Bank

Mr. Shabbir Cheema, Principal Advisor and Programme Director,
Division for Public Economics and Public Administration, UNDESA

Ms. Jean Houston, Former Advisor, UNICEF

Moderated discussion

Rapporteur: Ms. Elia Armstrong

13:00 – 14:30

Lunch

14:30 – 18:00

Eleven parallel Workshops

Wednesday, 11 December 2002

9:00 – 13:00

Eleven parallel Workshops (continued)

13:00 – 14:30

Lunch

14:30 – 16:30

Plenary session

Chairperson: Mr. Guido Bertucci
Presentation of the findings of the parallel workshops
Moderated discussion

Rapporteur: Ms. Adriana Alberti

17:00 – 19:00

Opening Ceremony of the Fourth Global Forum

Workshop 1 - Strengthening Governance Institutions and Systems

Organized by the International Institute for Democracy and Electoral Assistance – IDEA
in collaboration with the UNDP Human Development Report Office

Tuesday, 10 December 2002

- 14:30 – 14:45 **Introduction and Context: Consolidating Democracy and Good Governance: Monitoring Tools**
Mr. Patrick Molutsi, Director of Programmes, International IDEA
- 14:45 – 16:00 **The State of Democracy and Governance: Challenges and Prospects**
Ms. Sakiko Fukuda-Parr, Human Development Report Office, UNDP
- Discussion
- 16:00 – 16:30 Break
- 16:30 – 18:00 **Analytical and Monitoring Tools**
Mr. David Beetham (UK) and Mr. James Nxumalo, ECA
- Discussion

Wednesday, 11 December 2002

- 09:00 – 10:30 **Applying Tools to Address Challenges**
Ms. Nancy Thede, Rights and Democracy, Montreal, Canada
Professor Dalem Ch. Barman, Dhaka University, Bangladesh
- 10:30 – 10:45 Break
- 10:45 – 12:00 **Trends, Progress and Players on Democracy Assessments and Indicators**
Discussion introduced and moderated by Mr. Patrick Molutsi, Director of Programmes, International IDEA
- 12:00 – 13:00 General discussion and conclusions

Workshop 2 - Decentralized Governance and Poverty Reduction

Organized by the United Nations Development Programme

Tuesday, 10 December 2002

14:30 – 15:30 **Opening:** Mr. Abdoulie Janneh, UNDP Assistant Secretary-General, Regional Bureau for Africa

**Addressing the Challenges of MDGs at the National and Local Levels:
Implications for and the Role of Decentralization**

Open discussion

15:30 – 16:00 **Presentations of Lessons and Tools and Open Discussion**
Mr. Robertson Work, Decentralization Advisor, UNDP New York
Ms. Pratibha Mehta, Local Governance Advisor, UNDP New York

16:00 – 16:15 Break

16:15 – 18:00 Discussion

Wednesday, 11 December 2002

9:00 – 10:10 **Presentations of Lessons and Tools and Open Discussion** (continued)
Mr. Jonas Rabinovitch, Urban Development Advisor, UNDP New York
Mr. Maleye Diop, Acting Manager, PPPUE, UNDP Pretoria

10:10 – 10:30 Discussion

10:30 – 10:45 Break

10:45 – 11:45 Discussion

11:45 – 1:00 General discussion and conclusions

Workshop 3 - Public Administration Reform and Management Innovation in Developing Countries

Organized by the United Nations Department of Economic and Social Affairs (UNDESA),
Division for Public Administration and Development Management

Tuesday, 10 December 2002

- 14:30 – 14:40 **Opening:** Mr. John-Mary Kauzya, Chief, Governance and Public
Administration Branch, DPEPA/DESA, United Nations
- 14:40 – 15:40 **Institutional and Organizational Restructuring of the Civil Service in
Developing Countries**
Professor Oscar Monteiro
- 15:40 – 16:00 **Cooperative Delivery of Public Services**
Professor Allan Rosenbaum
- 16:00 – 16:15 Break
- 16:15 – 16:50 Discussion
- 16:50 – 17:50 **Civil Service Reform and Human Resources Development**
Ms. Corazon Alma G. De Leon
- 17:50 – 18:00 Wrap-up of the day

Wednesday, 11 December 2002

- 09:00 – 10:00 **Management Innovation in Civil Service Reform**
Professor Peter Blunt
- 10:00 – 10:30 **Rebuilding Public Administration in Post-Conflict Countries**
- 10:30 – 10:45 Break
- 10:45 – 12:30 General discussion and conclusions

Workshop 4 - Fostering the Availability, Quality and Access to Public Services

Organized by the School of Public Administration
(*Scuola Superiore della Pubblica Amministrazione (SSPA)*), Italy

Tuesday, 10 December 2002

Chairman: Prof. San Mauro, Head of the Technical Secretariat of Minister Frattini, Italian Minister for Public Administration

14:30 – 15:30 **The Italian experience in implementing the Legge Ronchi on the waste collection, published in 1997 by the Italian Parliament**
Eng. Giovanni Fisco, General Director, *Azienda Municipale Ambiente*

16:00 – 16:15 Break

16:15 – 18:00 **The Italian experience in reforming the water sector and major changes occurring in the electricity sector**
Dr. Francesco Lo Passo, Associate Director NERA
Prof. Fabio Pistella, Economics applied to Engineering c/o University “Roma Tre”

Discussion

Wednesday, 11 December 2002

Chairman: Prof. San Mauro, Head of the Technical Secretariat of Minister Frattini, Italian Minister for Public Administration

09:00 – 10:00 **Competition in the gas sector (the EU Gas Directive 98/30)**
Prof. Andrea Bollino, Vice President, Italian Association of Energy Economists

10:00 – 10:30 Discussion

10:30 – 10:45 Break

10:45 – 11:45 **The transport sector: process of liberalization and privatisation. The local experience of public transport and the case of air transport**
Dr. Francesco Pacifico, National Vice President, *Associazione Nazionale Autotrasporto Viaggiatori (ANAV)*
Prof. Ernesto Stajano, *Scuola Superiore dell'Economia e delle Finanze*

11:45 – 12:15 Discussion

12:45 – 13:00 General discussion and conclusions

Workshop 5 - Strengthening Partnerships between the State, the Private Sector and Civil Society

Organized by the Institute of Public Administration and Health Care Management (IPAS),
Bocconi University, Italy

Tuesday, 10 December 2002

- 14:30 – 15:00 **Opening:** Prof. Les Metcalfe, IPAS Bocconi
- 15:00 – 15:45 **Exploring the concept of “partnerships”: from rhetoric to action**
Prof. Les Metcalfe, IPAS, Bocconi University
- 15:45 – 16:00 Discussion
- 16:00 – 16:15 Break
- 16:15 – 17:00 **Partnerships in practice: the role of civil society**
Dr. Igor Koryakov, International Institute for Democracy and Electoral Assistance
- 17:00 – 17:45 Discussion
- 17:45 – 18:00 Concluding Session

Wednesday, 11 December 2002

- 9:00 – 9:15 **Opening:** Prof. Les Metcalfe, IPAS, Bocconi University
- 9:15 – 10:00 **Partnerships in practice: balancing effectiveness and accountability**
Prof. Christopher Selby Smith, Monash University
- 10:00 – 10:30 Discussion
- 10:30 – 10:45 Break
- 10:45 – 11:30 **Partnerships in practice: views from the field**
Dr. Eduardo Missoni, IPAS Bocconi
- 11:30 – 13:00 General discussion and conclusions

Workshop 6 - Strengthening Central/Regional Relationships and Processes

Organized by Formez - Training and Study Center , Italy

Tuesday, 10 December 2002

Chairman: Dr. Carlo Flamment, President of Formez

14:30 – 15:30 **Governance and Policentrism**
Dott. Alessandro Botto, General Secretary of the Italian Communications Authority

16:00 – 16:15 Break

16:15 – 18:00 **The Italian Devolution Process: the State Reform and the Role of Local Government**, Coordinator: Mr Stefano Pizzicanella, Director for International Affairs, Department of Public Administration

The Framework: Prof. Luciano Vandelli, Regional Ministry of Institutional Affairs (Emilia Romagna Region); **Regulatory aspects:** Prof. Giuseppe Di Gaspare, “Guido Carli” Luiss University, Rome; **Financial aspects:** Prof. Gianfranco Polillo, Head of the Department of Economic Affairs of the Prime Minister’s Office

Wednesday, 11 December 2002

Chairman: Prof. Giuseppe Tomai, Formez

9:00 – 10:30 **National and Local Devolution Processes: Models and Experiences**
Coordinator: Dr. Danielle Mazzonis, Formez;

The UK State Reform: Mr. Michael Emmerich, Director of the Institute of Political and Economic Governance, University of Manchester; **The Spanish Example:** Central-Regional Relationships: Mr. Eduardo Sanchez Monjo, Coordinator of Regional Cooperation, EIPA Maastricht; Director of European Centre for the Regions, Antenna Barcelona; **The Kingdom of Morocco Present Reform:** Mr. Mohamed Brahimi, General Director of Local Communities, Ministry of the Interior of Morocco

10:30 – 10:45 Break

10:45 – 12:30 **The Regional Experience**

Chairman: Mr. Mohamed Ibrahim, General Director of Local Communities, Ministry of the Interior of Morocco

Decentralization Process in Eastern Europe: A National Experience: Dr. Pavel Nastase, Secretary of State, General Director of the National Institute of Administration, Romania; **European Governance: The White Paper and Its Follow-up:** Dr. Renaud Denuit, Advisor in the Secretariat General of the White Paper on European Governance (European Community); **Mercosur Governance: The On-Going Process:** Ambassador Agustin Espinosa (Uruguay)

12:30 – 13:00 General discussion and conclusions

Workshop 7 - Globalization, the Role of the State and the Enabling Environment

Organized by the World Bank and by UNDESA

Tuesday, 10 December 2002

- 14:30 – 15:00 **Globalization and Sustainable Economic Development: the New Face of the State - Private Sector Partnership**
Mr. Ian Goldin, Director, Development Policy Department, The World Bank
- 15:00 – 15:30 Discussion
- 15:30 – 16:00 **Attracting Foreign Direct Investment: What Do States Need to Do?**
Mr. Xiaolun Sun, Investment Policy Officer, Foreign Investment Advisory Service (FIAS), International Finance Corporation (IFC)/World Bank
- 16:00 – 16:15 Break
- 16:15 – 16:45 Discussion
- 16:45 – 17:15 **Corporate Social Responsibility**
Mr. Nigel Twose, Program Manager, Corporate Social Responsibility, Private Sector Advisory Services Department, Foreign Investment Advisory Service, International Finance Corporation (IFC)/World Bank
- 17:15 – 18:00 Discussion

Wednesday, 11 December 2002

- 09:00 – 09:30 **The Enabling Environment for Private Sector Development: Building an Effective Institutional and Regulatory Framework**
Mr. Joseph Battat, Manager, FIAS Program, Foreign Investment Advisory Service, International Finance Corporation (IFC)/World Bank
- 09:30 – 10:00 Discussion
- 10:00 – 10:30 **Interlinkages between the FDI and the Regulatory Regime: Country and Regional Experiences**
Mr. Manuel Penalver, Adjunct Professor, Georgetown University, and Former Director, South Asia Operations, The World Bank
- 10:30 – 10:45 Break
- 10:45 – 11:15 Discussion
- 11:15 – 12:15 **Panel Discussion**
Rapporteur: Mr. Manuel Penalver
- 12:15 – 01:00 General discussion and conclusions

Workshop 8 - Trade and Investment in a Globalized Economy

Organized by UNCTAD

Tuesday, 10 December 2002

- 14:30 - 14:45 **Opening**
Chair: Mr. Reinaldo Figueredo, Director, UNCTAD-UNDP Global Programme
- 14:45 - 16:00 **Conceptual and Analytical Framework**
Mr. Georges Chapelier, Senior Policy Adviser, UNCTAD-UNDP Global Programme
- 16:00 - 16:15 Break
- 16:15 - 17:45 **Strategic Stances in WTO Negotiations**
Mr. Reinaldo Figueredo, Director, UNCTAD-UNDP Global Programme

Wednesday, 11 December 2002

- 09:00 - 10:30 **Technology Transfer: Forward and Backward Linkages to the Economy**
Mr. Mongi Hamdi, Chief, Technology for Development, UNCTAD
- 10:30 - 10:45 Break
- 10:45 - 12:30 **Competitiveness, Clusters and SMEs**
Amb. Werner Corrales, UNCTAD-UNDP Global Programme
- 12:30 - 13:00 General discussion and conclusions (Rapporteur: Ian Richards, UNCTAD-UNDP Global Programme)

Workshop 9 - Improving Resource Mobilization and Tax Administration Systems

Organized by Association de Planification Fiscale et Financiere, (APFF), Montreal, Canada
and by UNDESA

Tuesday, 10 December 2002

- 14:30 – 14:10 **Opening:** Mr. Yvon Caron, President and General Manager of APFF
- 14:40 – 15:30: **The Legitimacy of the Power to Levy Tax**
Mr. Raymond Garneau, Chairman of Board “Industrielle Alliance, Assurance et Services Financiers”
- 15:30 – 16:00: Discussion
- 16:00 – 16:15 Break
- 16:15 – 17:15 **Improving Resource Mobilization by Intelligent Taxation, Productive Public Expenditure, Transparency and Information in Long Run**
Prof. Pierre Lefebvre, Department of Economics, University of Quebec, Montreal
- 17:15 – 18:00 Discussion

Wednesday, 11 December 2002

- 9:00 – 10:00 **Fiscal Resource Mobilization: Why, by Whom and How?**
Prof. Francois Vaillancourt, Dept of Economics, University of Montreal
- 10:00 – 10:30 Discussion
- 10:30 – 10:45 Break
- 10:45 – 11:45 **Improving Financial Resource Mobilization in Developing Countries and Economies in Transition**
Mr. Suresh Shende, Interregional Advisor, United Nations
- 11:45 – 12:15 Discussion
- 12:15 – 13:00 General discussion and conclusions

Workshop 10 - Enhancing Accountability and Transparency

Organized by Transparency International (IT), Berlin, Germany

Tuesday, 10 December 2002

- 14:30 – 14:45 **Institutional and Policy Pillars of Good Governance**
Mr. Miklos Marschall, Executive Director, Transparency International
- 14:45 – 15:15 Discussion
- 15:15 – 15:30 **“Integrity Pact” as a Tool to Ensure Transparency in Public Procurement**
Ms. Juanita Olaya, Program Manager, Transparency International
- 15:30 – 16:00 Discussion
- 16:00 – 16:15 Break
- 16:15 – 16:30 **Making Politicians More Accountable: Monitoring Election Campaign Financing**
Ms. Lolita Zigane, Lead Consultant, TI Latvia, OSI
- 16:30 – 17:00 Discussion
- 17:00 – 17:15 **Information Is Power: National Corruption Observatory, Morocco. A Case Study of Civil Society Monitoring**
Mr. Sion Assidon, Executive Director of TI Morocco
- 17:15 – 18:00 Discussion

Wednesday, 11 December 2002

- 09:00 – 10:30 **Best Practices from Around the World**
Five-minute presentations by the participants moderated by the chair
- 10:30 – 10:45 Break
- 10:45 – 12:00 **Ten Steps to Enhance Accountability and Transparency in Public Life**
Joint efforts of the participants to formulate viable strategy recommendations moderated by the panelists
- 12:00 - 13:00 General discussion and conclusions

Workshop 11 – Promoting Gender Participation in Governance

Organized by UNIFEM and NORAD

Tuesday, 10 December 2002

- 14:30 – 15:00 **Opening** by UNIFEM
- 15:00 – 15:30 **Gender and Governance: Key Challenges and Issues**
Bodil Maal, Adviser, the Norwegian Agency for Development Cooperation, and
Liss Schanke, Adviser, The Norwegian Association of Local and Regional
Authorities
- 15:30 – 16:00 Discussion
- 16:00 – 16:15 Break
- 16:15 – 17:00 **Participation and Percentage: How Can Quotas Increase Women’s
Participation in Governance?**
- Experience from the SADC region after the introduction of the
30% quota**
Ms. Bookie Kethusegile-Juru, Technical Adviser for the SADC Gender
Unit, Botswana
- **Expectations from Morocco regarding the introduction of the 10%
quota**
Ms. Rachida Tahiri, Democratic Association of Moroccan Women
- 17:00 – 18:00 Discussion

Wednesday, 11 December 2002

- 09:00 – 09:15 Summing up of the previous day
- 09:15 – 09:45 **Participation, Impact and Power**
**Experience from India: Does Women’s Participation in Local Governance
Improve Local Democracy and Service Delivery?**
Dr. Kumud Sharma, Centre for Women’s Development Studies, India
- 09:45 – 10:30 Discussion
- 10:30 – 10:45 Break
- 10:45 – 13:30 General discussion and conclusions