

Book Review

MATT ANDREWS, 2013. THE LIMITS OF INSTITUTIONAL REFORM IN DEVELOPMENT: CHANGING RULES FOR REALISTIC SOLUTIONS. CAMBRIDGE, ENGLAND: CAMBRIDGE UNIVERSITY PRESS.

Richard Allen

Matt Andrews has written a timely and important book that crystallizes thinking he and others have been developing over several years, and is underpinned by rigorous theoretical and empirical analysis. It is to be hoped that the lessons of the book will not be lost on the governments of developing nations, and more especially on agencies such as the World Bank, who need to adjust their development models to reflect the radically new approach to reform set out in the book. Andrews uses vivid language and colorful examples to highlight his important messages, and make them relevant to practitioners as well as scholars. The book deserves a wide readership.

Since the late 1990s, loans, grants and technical assistance by the World Bank and other donors to support the reform of public institutions have risen sharply. Much of this support has focused on public financial management (PFM), or on reorganizing the civil service, restructuring the public sector, and establishing anti-corruption commissions. Institutional malfunctioning, it is rightly argued, is a prominent cause of poor economic and social development. Reform the institutions of government and better developmental outcomes will be achieved. Yet, with few exceptions, this important message has not been translated into results, and huge amounts of public money have been wasted as a result.

Andrews documents many examples of reform failure. He notes for instance that “[Quality of Governance, QoG] scores dropped in Honduras [during the 2000s] ... and GDP per capita grew at about 2 percent per annum, much less than the average for other lower-middle-income countries. A coup in 2009 reflected on broad governance problems in the country. The large set of reforms, introduced at a cost exceeding \$700 million, may have made the Honduran government look better, but apparently fell short of making the government good enough to register in external indicators or to stave off political upheaval” (page 25). Many other countries – Andrews cites as examples Argentina, Bolivia, Senegal, Sri Lanka, Thailand, and Togo – experienced similar declines

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in their QoG scores between 1998 and 2008. Ratings derived from the World Bank's Country Policy and Institutional Assessment (CPIA) and Public Expenditure and Financial Accountability (PEFA) assessments present a similarly mixed picture.

What explains these generally disappointing results? Andrews presents a series of hypotheses which he tests empirically and through the analysis of case studies. His results indicate that:

- Public sector reform is often initiated as a 'signal' to attract international recognition and the support of donors. This partly explains why reform efforts are often not sustained and their impact is poor.
- Donors and governments have developed "entrenched and inflexible" ways of thinking about and doing reform which are generally unhelpful to the reform process.
- The 'cargo cult' idea that "development flies in from outside to overwhelm and improve the inefficient ways of developing countries" (page 56) has achieved much popularity with reformers, but often produces poor results because the solutions are not adapted to the local context.
- Starting reforms early does not guarantee success.
- Donors generally pay insufficient attention to the vitally important institutional, political and cultural aspects of the reform process: reform is not primarily or even mainly a technical issue. Andrews vividly describes such approaches to reform as "iceberg tips with no foundation" (page 82).
- Similarly, focusing reform on 'formal' elements such as laws, regulations and professional standards (Andrews provides a telling analysis of the failure of accounting reforms in Africa) is useful but only deals with part of the problem, and not normally the most important part.
- The tendency for reformers and their advisors to focus the reform effort on a narrow range of counterparts – mainly technocrats in central departments of government such as the finance ministry – leads to poor results. In the finance area, for example, important initiatives such as the establishment of a financial management information system (FMIS) or a single treasury account have often been blocked because the finance ministry failed to reach out to counterparts in spending agencies whose support is crucial to the success of the reform.

Andrews concludes that existing modalities of designing public sector reform programs and delivering technical assistance need to be rethought. Shipping in international experts with little local knowledge for short periods of time generally adds little value. More regular and sustained support, as provided by some of the IMF's regional technical assistance centers for example, brings better results. Approaches to reform that start with a consideration of problems rather than leaping immediately to solutions, and reforms that are internalized and 'embedded' in local officials, are also much more likely to be successful and sustained.

The book reviews various models and approaches that have been used to design public sector reform strategies in developing countries, notably in the PFM area, without providing necessarily much clarity to the reform process. These models include Allen Schick's "back to basics" framework and the "platform approach", which has been enthusiastically embraced by donors but has a mixed record of success in countries such as Cambodia and Uganda. Andrews proposes a new model, the "problem-driven, iterative and adaptive" (PDIA) approach, which is very different and will be challenging for many reformers. PDIA involves multiple small steps, a localized focus on problems and contextual realities, and requires "broad scanning during which external and internal ideas are introduced for discussion, translation and experimentation" (page 185). Interestingly, it replicates the slow, step-by-step approach to reform that is typically found in advanced countries, but which developing countries (and their advisors) have largely ignored.

The realism and pragmatism of the PDIA approach offers perhaps the most promising route to successful public sector reform in developing countries, but will require a substantial change in the attitude and behavior of the development partners. Donors tend to have a limited view of what is right for a country (focusing on solutions rather than problems), together with a bias toward public sector reform projects that require large disbursements of financial resources and technical assistance.

What conclusions can be drawn from Andrews' spirited and insightful analysis?

First, developing countries should be highly selective in the public sector reforms they take on, focusing on no more than one or two major reform initiatives at any one time. Overstretching a country's capacity for reform – which is very limited in practice – is encouraged by donors, who too frequently judge the performance of their project managers more by their ability to disburse funds than by the development outcomes that are achieved, but a serious mistake nonetheless. This important message – tackle one important reform at a time – has not been lost on advanced countries, which have strong institutions and much higher capacity than most developing countries. In the U.K, for example, it took more than ten years of concentrated effort together with a lot of "muddling through" – a term much used by Andrews in the book to express a virtue of reformers and the reform process rather than a deficiency – for the government to complete the transition from cash accounting to accrual-based accounting and budgeting.

Second, ministers and top officials should take an active lead in preparing their country's public sector reform strategy. This will put the government, notably the finance ministry, in the driver's seat when it comes to negotiating the strategy with development partners. Donors will no longer be able to bully the government into accepting projects that they neither want nor need. Government officials should not be afraid to say "no" to donors offering a juicy grant or technical assistance that does not fit the ministry's requirements or may be useful later but not now.

Third, governments should focus on the problems they actually face rather than picking

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from a shopping list of solutions – a brand new FMIS for example - recommended by the ‘traveling salesmen’ who know little of the country’s institutions and public sector management systems. In the finance area, for example, such problems may include accumulating arrears, overestimation of government revenues, cash rationing, and lack of credibility in the approved budget. Once the main problems have been identified, an intensive discussion of potential solutions can take place, on the lines suggested by Andrews. Such a dialog should reach out to all stakeholders – line ministries, the central bank, parliamentarians, CSOs, etc. – whose support will be required in achieving an effective solution. A sensible time frame should be set for designing and implementing reforms that are often more troublesome and complex than they seem at first sight.

Finally, useful changes to the functions and organization of the government can be made that support the desired public sector reforms. Take the finance area, for example. Modern finance ministries have a strong policy-orientation. They carry out high-quality analytical work on fiscal, expenditure and tax policy, and monitoring budget developments (but not actually executing the budget). Over time, functions that are predominantly transactional in character – such as accounting, processing payments and managing cash flow – should be gradually devolved to line ministries whose capabilities in these areas, however, need to be developed. At the same time, finance ministries in developing countries can learn from the experience of more advanced countries in terms of slimming down their organization, reducing the number of layers of management, building effective human resource development strategies, and strengthening communications vertically and horizontally within the organization, and with external counterparts and stakeholders.

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