

MINISTRY OF FOREIGN AFFAIRS OF DENMARK
Danida



EFFECTIVE AND ACCOUNTABLE PUBLIC-SECTOR MANAGEMENT

STRATEGIC PRIORITIES

FOR DANISH SUPPORT FOR GOOD GOVERNANCE

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Refugee camp for refugees from Angola, Nangwesi, Zambia. An outdoor office.

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1. INTRODUCTION

Improving all aspects of governance is vital to reducing poverty and promoting sustainable development for the benefit of poor women, men and children. The public sector is at the heart of this challenge. The quality of public-sector management and administration¹ is crucial to achieving the Millennium Development Goals, as public-sector entities are, in most countries, responsible for delivering services, such as health and education, for laying down a regulatory framework that fosters private-sector development, for ensuring and upholding the rule of law, as well as for promoting gender equality.

The international community has reiterated this position on numerous occasions and in several declarations, including the High Level Plenary Meeting of the United Nations General Assembly in 2005. The General Assembly also noted that countries bear the primary responsibility for their own economic and social development. While developed countries have pledged to increase development assistance, developing countries have made commitments to improve the management of all resources at hand. International development co-operation can support the efforts of developing countries, but ultimately, responsibility rests with the countries themselves.

Processes of change, aimed at improving governance and reducing poverty, take time and have to be built from within each country. The public sector is obviously at the core of these processes. However, on its own, the public sector cannot deliver results. Civil-society groups and other non-state actors, such as the private sector and the media, are critical in holding the public sector accountable and in advocating needs and priorities.

The challenges faced by the public sector are significant. Indeed, in many countries, the public sector is in a deplorable state. Poor service delivery is a visible sign of this, as is corruption. Capacity must be developed, not necessarily to expand the public sector, but to help nurture an effective and accountable public sector capable of contributing to the reduction of poverty.

A key challenge for development co-operation is to support the efforts of partner countries towards improving the effectiveness and accountability of the public sector. At the same time, the commitments made by Denmark, alongside other signatories to the Paris Declaration on Aid Effectiveness², offer opportunities and pose challenges

¹ Shortened to 'public-sector management' in the rest of the paper.

² Paris Declaration on Aid Effectiveness, OECD/DAC, 2005.

to donors and their modus operandi. Clear priorities as well as robust and innovative approaches need to be identified to take advantage of the opportunities and tackle the challenges.

So far, donors have unintentionally and occasionally contributed to undermining capacity and ownership. Too often, donors, including Denmark, have built up parallel and unsustainable management systems in the sectors for which support is provided, instead of improving existing management and administration systems. Furthermore, our approach has often been inconsistent across sectors and failed to take heed of the general policies and approaches to public-sector management adopted by the countries' own government. With this paper, Denmark seeks to ensure that its support for the public sector is consistent across sectors as well as with national policies, procedures and management systems.

Denmark is determined to improve Danish aid effectiveness by focusing the use of resources. As a relatively small donor, Denmark will concentrate on a limited number of countries and areas of intervention. Denmark will actively support the division of labour between donors. This will help developing countries, but will also assist Denmark in maintaining and further strengthening its position as a competent, relevant and respected partner in development.

The priorities and principles outlined in this paper will guide the focusing and strengthening of Danish development co-operation in the field of improving governance in the public sector, not only in Denmark's main countries of bilateral cooperation, but also as regards Danish contributions at the international level.

2. PURPOSE AND FRAMEWORK

Purpose

Danish support for governance in partner countries stems directly from the overriding objective of Danish development assistance, namely poverty reduction.

The purposes of the present paper are to

- *define strategic priorities (guiding principles and core areas) for Danish support for improved public-sector management in developing countries, including cooperation both at the level of the individual partner country and at the level of international organisations and forums, such as regional organisations formed by partner countries, the European Union, the United Nations, and international financial institutions;*
- *serve as a framework for dialogue with partner countries' governments, various groups in civil society and other non-state actors, as well as other donors, on how best to improve management in the public sector; and*
- *guide the further strengthening of capabilities within the Danish Ministry of Foreign Affairs, including the Danish embassies, as regards public-sector management.*

Focus

This paper focuses on public-sector management. Obviously, the governance agenda is much wider than that, encompassing major elements such as human rights and democratization, the media, the judicial sector and, more generally, the rule of law. Although these latter issues are relegated to the background in order to focus this paper and attend to practical concerns in the design of governance support, they should not be neglected, as they are intimately related to public-sector management. Achieving more welfare, less poverty, more just and less unstable societies necessitates an understanding of the whole governance agenda, and ultimately coherence in all efforts to improve governance.

Within its focus on public-sector management, the paper addresses mainly the situation and needs in those countries of cooperation with which Denmark has entered into long-term partnership.

Core areas of support

Denmark has defined three core areas for support to public-sector management:

- *the fight against corruption*
- *local service delivery and governance*
- *public financial management*

In these three areas, the Danish Ministry of Foreign Affairs will seek to develop particular competencies and expertise to become a competent, relevant and respected partner capable of acting as lead donor at the level of partner countries and internationally. Accordingly, Denmark will be less ambitious in terms of technical capacity in other areas of public-sector management.

Focusing on the three core areas does not rule out Danish financial support to other areas of public-sector management. Joint donor funding of broader reform programmes is becoming more frequent in the partner countries. In such cases, Denmark cannot earmark funds to particular areas. Such funding will therefore continue to take place on the basis of, among other criteria, country-specific needs, programme designs, and funding modalities.

In several ways, the whole field of public-sector management constitutes the framework for general budget support. Effective and efficient public-sector management, underpinned by strong accountability mechanisms, is obviously essential to the use of budget support as an aid modality.

Promoting gender equality is a particularly important challenge with regard to the public-sector, and will be taken into account consistently when dealing with public-sector management. All support for public-sector management will adhere to the Strategy for Gender Equality in Danish Development Co-operation and the forthcoming guidelines.³

Chapter 4 elaborates on the choices made and the core areas of support.

³ http://amg.um.dk/NR/rdonlyres/BFD3562F-9081-4FA6-BBBF-BC50784AE8EB/o/gender_equality.pdf

Aid effectiveness

The increased priority given to improving public-sector management is directly linked to the aid effectiveness agenda, as stipulated in the Paris Declaration. As is true for all Danish development assistance, the principles of the Paris Declaration will continue to underpin Denmark's support in the field of public-sector management.

Briefly, the principles and their applications in Danish development assistance are:

Ownership - Denmark will base its development cooperation on nationally owned and led strategies, policies, and plans for improving governance in partner countries.

Alignment - Denmark will, to the maximum extent, provide its governance assistance using the administrative systems, structures and procedures of partner countries, thus seeking to strengthen these. Support will be included in the national budget, and budget support will be provided if the necessary conditions are in place⁴.

Harmonization - Denmark is committed to harmonizing its approaches to aid management with other donors. This includes joint analyses and assessments, or using those previously conducted by others⁵, joint approaches and participation in the promotion of governance in partner countries, joint financing arrangements, and moving towards an explicit division of labour, focusing on fewer but larger initiatives.

Managing for results - Denmark will assist in achieving results and improvements in the governance situation in partner countries, to be measured by means of national performance monitoring and assessment frameworks.

Mutual accountability - Denmark will support partner countries' own commitment to reform, applying a long-term perspective and seeking a spirit of real partnership, in which both partners take their obligations seriously, building a relationship that is sufficiently mature and robust to overcome obstacles in the way.

4 The principles are outlined in the document 'Principles for Provision of General Budget Support, May 2006', link:<http://amg.um.dk/NR/rdonlyres/4059FoE9-8692-4863-81B8-F327FEBD293F/o/PrinciplesBudgetSupport.doc>

5 Possible tools of assessment are, for instance, PEFA, procurement assessment, EC Governance Profiles, Oslo UNDP Governance Centre's governance assessment framework, analyses by other bilateral donors, such as the 'Power Studies' of SIDA, World Bank Institutional and Governance Reviews (IGR), and the World Bank Governance Indicators. This work will strive to undertake nationally-owned assessments and to devise nationally-owned governance indicators.

3. KEY CHALLENGES AND GUIDING PRINCIPLES

Governance is a comprehensive agenda

There are numerous definitions of both governance and good governance, each one emphasizing different elements for different purposes. No definition has been universally agreed upon, but for the purposes of the present strategy, the definition provided in the Cotonou Agreement between the EU and the ACP countries⁶ provides a useful point of reference. According to this definition, good governance is “*the transparent and accountable management of human, natural, economic and financial resources for the purposes of equitable and sustainable development, in the context of a political and institutional environment that upholds human rights, democratic principles and the rule of law.*”

Some core elements can be identified: *political commitment, capacity, effectiveness and efficiency, transparency and accountability.* These are defining aspects of legitimacy, and at the same time constitute the basis for understanding that the management of a society’s resources, as well as other aspects of governance, are inherently political in nature.

Political commitment

As the management of a society’s resources is essentially a political process, governance involves sensitive and complex issues relating to fundamental and often incompatible or conflicting political interests and the underlying social, cultural and economic structures.

Donors have tended to perceive public-sector management as being largely about technical and administrative issues, neglecting the importance of the political interests and actors involved – and ultimately the need for sustained political leadership to carry through necessary reforms and changes. This has often led to disappointment with public-sector reforms, as technically well-designed reforms have underperformed in implementation. The lesson is that an essential aspect of providing support for public-sector management is to understand the political circumstances of each country, to assess national reform programmes, development strategies, and support options carefully in the light of these, and to take a political approach in negotiations with partners on public-sector management reforms.

First and foremost, the fundamental precondition for any reform programme to

⁶ The Cotonou Agreement between the European Union and the African, Caribbean and Pacific (ACP) of June 2000, art.9, para. 3.

succeed is the presence of sustained political commitment. Such commitment is, in turn, an outcome of complex processes.

Capacity development

While political commitment to improving public-sector management is a precondition for sustainable change, it is not sufficient. Capacity and capability to perform the functions assigned to the public sector is an equally necessary requirement. In most partner countries, the capacity for public-sector management is weak. In a society characterised by high levels of poverty, the public sector has very limited means and capacity to perform basic public functions, such as ensuring the enforcement of law and order and providing social services.

Capacity is not only a matter of staff numbers and skills. It also depends on the quality of management at the organisational level within the public sector, and on the relationship with the rest of society, i.e. citizens, civil-society groups and other non-state actors, such as the private sector. As a donor providing support for processes of change and for reform in the public sector, Denmark and its international and national partners need to continue to step up the search for more effective ways of fostering capacity development.

Efficiency and effectiveness

An essential part of effective and accountable public-sector management is to transform available resources into maximum impact in accordance with political priorities.

Increasing the *efficiency* of the public sector is about producing the outputs expected from the public sector more cheaply (in terms of financial, human, and natural inputs). Public-sector *effectiveness* is about the quality and quantity of the outcomes and impact of the public sector's activities, as measured against the objectives and priorities laid down for the public sector by accountable political leaders.

Yet, in most if not all Danish partner countries, this constitutes a significant challenge. The scarcity of resources exacerbates the clashes between divergent interests over the use of resources. At the same time, political leaders and the public sector are often not responsive to the needs of citizens, because they are not held to account by citizens, civil society and other non-state actors, such as the private sector and the media. Under these circumstances, the separation between the political and the administrative spheres may become particularly difficult to maintain. The resulting political

interference, even in the day-to-day operations of the public sector, is detrimental to achieving the desired increases in efficiency and effectiveness. This situation is often aggravated by capacity problems. Donors' insistence on their own models of governance and on their own systems for development programmes have put further strain on the public sector and contributed to undermining ownership and accountability.

Transparency

The attainment and maintenance of the needed gains in efficiency and effectiveness is closely related to the public sector's degree of transparency and the strength of accountability between the public sector, on the one hand, and citizen, civil society and other non-state actors on the other. In the absence of the essentials of good governance, effective and accountable public-sector management is difficult to attain and sustain.

The foundation of transparency is access to information. Information needs to flow across the organisations of the public sector in order for public-sector leaders to take rational and well-informed decisions. Equally important, information is needed for citizens, civil society and other non-state actors to take rational decisions themselves, and to exact effective accountability from the public sector regarding the way in which it takes decisions and manages society's resources. Timely and comprehensive access to reliable and relevant information about the decisions and actions (or lack thereof) of the government and the public sector is a vital prerequisite in this regard.

Measures to increase transparency are therefore to be regarded as essential elements of all efforts to improve public-sector management. Often, such measures may even fall within the immediate gains that can be achieved in the context of more comprehensive reforms.

It is also important that donors be transparent about the amount and kind of support provided. Publicizing data on development assistance in individual partner countries, among other actions, is a relatively easy donor step to improve transparency.

Accountability

The fundamental accountability relationship in any democratic society is between those who govern and those who are governed, or between the government and public sector as a whole (often called the 'supply side') and the rest of society (the 'demand side').

Relationships of accountability, however, exist between all stakeholders in a society, forming a complicated web of relationships of which some are formal and others informal, some are legitimate and others illegitimate, even illegal. Obviously, these relationships are not always compatible with each other, and many of them belong to competing systems of accountability. Accordingly, the formal system of democratic accountability is inhibited to varying degrees, and is adversely affected by other systems of accountability. Where such informal relationships attain political significance, not only the effectiveness of public-sector management, but even basic democratic rules may be under threat. The poor and otherwise disadvantaged stand to lose, if these other relationships of accountability are allowed to dominate.

Corruption, whether political or administrative, is one important aspect of such illegitimate accountability relationships, which compromise democracy as well as the performance of the public sector. Corruption also weakens the public-sector's legitimacy in the eyes of the rest of society.

Independent public organisations, such as the judiciary, anti-corruption commissions and the ombudsman, may contribute significantly to countering this weakening of legitimacy, if they are secured sufficient capacity to carry out their mandates, and if their independence is protected. As experience shows, however, these public organisations depend on the pressures and demands for better governance from civil society and other non-state actors.

Civil society and other non-state actors, such as political parties, trade unions, the private sector and the media, play an important role in demanding accountability from government. At the same time, civil society and other non-state actors are as diverse as society at large, and have different functions to perform in exacting accountability, depending on their roles and mandates. Often, many of these actors do not have the necessary capacity to monitor and effectively hold government and the public sector to account. Supporting these actors, in addition to the public sector itself, is therefore an essential element in the fight against corruption in particular and for better governance in general.

Weak legitimacy also exacerbates the scarcity of resources in the public sector, as it reduces the willingness to contribute in the form of taxes at the national and local level, drains public revenue and, more generally, makes citizens less disposed to respect the legal and social framework represented by the public sector. Therefore, measures to enhance legitimacy are crucial to enabling the public sector to perform its functions

and contribute to poverty reduction. Thus, measures need to address both the ‘supply’ and the ‘demand’ side of the basic accountability relationship.

Donors’ governance

Improved governance is not only necessary in developing countries, but should also be pursued by donors in their own development cooperation. The Paris Declaration sets out a range of principles and commitments in this regard. Furthermore, the Danida Action Plan to Fight Corruption from 2003⁷ identifies several actions that have already been taken. Denmark is committed to creating easy access for the press, civil society and others in each partner country to information relating to the disbursement of Danish development assistance to national and other institutions and organisations in partner countries. This will increase the level of transparency and enable citizens to hold their governments accountable.

Guiding principles

The above gives rise to the following principles that will guide the future Danish support for improved public sector management.

Denmark will

- Promote the goal of *poverty reduction*, i.e. ensure that changes and reforms are as pro-poor, gender sensitive and environmentally sustainable as possible.
- Support public-sector management in all programme countries.
- Provide support in the three selected core areas based on an understanding of their interaction and interdependence with the *governance situation as a whole*. There must be sustained political commitment to implement reforms in the core areas.
- Make increased use of *analyses of the political economy* in partner countries (and in some cases of the global actors, e.g. regarding transnational corruption). Where such studies do not already exist, Denmark will seek collaboration with partners in order to undertake them.
- Base all support on thorough and preferably joint *capacity assessments* in order to adapt the provision of resources for capacity development to each situation. Such support will preferably be provided jointly with other donors.

⁷ Link to Danida Action Plan to Fight Corruption: <http://amg.um.dk/en/menu/PoliciesAnd-Strategies/AntiCorruption/AntiCorruption.htm>

- Facilitate and support the *active inclusion of the 'demand side'* of governance in change and reform initiatives at the country level. This could include a push for greater transparency and access to information. Support for capacity development in civil society and other non-state actors will also be provided. If more effective and efficient, this could take place through other programmes or through Danish and international NGOs.
- Promote *gender equality* and special interventions aimed at supporting women's equal access to resources, influence and rights in all interventions based on thorough analyses of opportunities and constraints, preferably together with partners.
- Apply the approaches presented in this document to other Danish support for the partner countries, not least to the *sector programme support*.
- Intensify efforts at the *international level* to promote the guiding principles listed in this paper in the work of international organisations, e.g. by taking political initiatives, seconding staff, exchanging experiences and drawing lessons, developing new joint tools, and otherwise promoting improved and harmonized approaches to support for public-sector management.
- Identify and implement actions that contribute to improving the governance of donors. Existing initiatives will also be enhanced. At the same time, this will be pursued in relevant international forums and organisations.
- Create easy access for the press, civil society and others in each partner country to information relating to the disbursement of Danish development assistance to national and other institutions and organisations in partner countries.

4. CORE AREAS OF SUPPORT

Denmark will focus its support for effective and accountable public-sector management on the fight against corruption, local service delivery and governance, and public financial management. All three areas are at the core of Danish partner countries' efforts to improve public-sector management.

In most countries, efforts to improve public-sector management comprise a vast variety of initiatives, often termed 'reforms' regardless of their depth and scope. Among the most frequent are civil-service reforms, including pay reform, tax-administration reform, public financial-management reform, and institutional reforms, such as decentralisation, privatisation, and the creation of executive agencies and other semi-autonomous bodies within the public sector. The fight against corruption cuts across all of these, and is often pursued by a particular programme to that effect as well.

Support in the core areas will be provided on the basis of in-depth knowledge and understanding of the overall public-sector reform agenda in each country, and of the political and technical feasibility of successful reform, in addition to paying attention to the relationship between the overall development agenda and the area in question. Furthermore, the reform agenda, also in the three core areas, is shaped by the general development context of each country, with its domestic as well as international features and background. When designing and managing the actual Danish support in these areas, it is essential to take these contextual factors into account continuously.

The three selected core areas are often closely linked and offer good opportunities for synergies. The three areas are also highly relevant in most of the sectors and areas supported by Denmark, such as private-sector development, health, education, water and sanitation. It is the ambition that the principles expressed in this strategy be applied across the board in Danish development assistance to ensure consistency between the work carried out at the sector level and at the overall level of public-sector management.

4.1 The fight against corruption

Corruption has been shown to be most detrimental to the poor and vulnerable. It undermines the public sector and economic growth rates, investment rates, the

allocation of public resources, and other essential elements of national development. Corruption redistributes resources and welfare away from those already deprived. It has the general effect of reducing the legitimacy of the government and the public sector in the eyes of the rest of society. This scourge is a major risk associated with development assistance.

Corruption is usually defined as “the misuse of entrusted power for private gain”, the definition used in the Danida Action Plan to Fight Corruption. Though the definition has been criticised for representing a Western tradition of government and administration, it does capture the notion that corruption is based on informal relationships of accountability, which are at odds with formal democratic accountability relationships.

It is useful to distinguish between certain forms of corruption. A fundamental difference is between systemic and non-systemic corruption. Systemic corruption has become such an integral part of the workings of a system (e.g. a country's public sector) and society that it can only be tackled as part of a comprehensive reform of the system and society. This undoubtedly poses a challenge in many of the partner countries, and fundamentally informs the way in which corruption and anti-corruption needs to be understood and approached in these countries.

Another important distinction is between administrative and political corruption, depending on whether those benefiting from it are either politicians or civil servants and other government officials. Administrative corruption causes direct damage to the effectiveness and efficiency of public organisations, while political corruption has particularly severe consequences for the formal and democratically based relationship of accountability between government and citizens. So-called ‘state capture’ is an extreme and very harmful form of political corruption, in which the regulatory and legislative environment is skewed in favour of the corruptor, who thus obtains a more permanent privilege or preferential position, in principle with legal backing.

The Danida Action Plan to Fight Corruption, from 2003, defines actions and outputs at three levels: 1) prevention, which relates to improving rules and procedures, 2) capacity development, and 3) enforcement, which concerns better measures to uphold rules against corruption at the country level and to prevent misuse of Danish development assistance. The actions taken so far, both internally in the Danish aid delivery system and with regard to the recipients of Danish development assistance,

have given, and continue to give, Denmark a strong platform for further support for partner countries' fight against corruption.

Experiences and challenges

Anti-corruption efforts have traditionally focused on internal mechanisms in the government or the public sector, targeting corruption as a phenomenon that may be addressed more or less separately from other aspects of governance. It is now widely acknowledged that corruption is, to a large extent, a symptom of generally malfunctioning governance. Consequently, corruption must be addressed in a more comprehensive and long-term manner than has traditionally been the case, a change already reflected in the Danida Action Plan.

Important aspects of this evolving approach include the increasing focus on the roles of parliament, civil society, and other non-state actors, such as the private sector and the media. These are increasingly being involved in anti-corruption efforts as watchdogs and whistle-blowers, as well as promoters of transparency and accountability more generally. The private sector is also increasingly sought after as a partner in promoting responsible behaviour by the business community and in demanding effectiveness, integrity and accountability from the public sector. In addition to targeting the public sector itself, the fight against corruption thus involves all actors on the demand side of good governance. However, the weakness of parliaments, civil society, the media, the private sector, and other non-state actors in many countries significantly constrains the scope for such initiatives.

On the international scene, the global and regional regulatory framework, such as the United Nations Convention against Corruption, the OECD Convention on Combating Bribery and several regional initiatives, has created new opportunities for advancing the fight against corruption both nationally and internationally.

Several assessments and indexes describe various aspects of corruption, but there is no joint and internationally agreed format that captures the complex nature of corruption and its connection with the overall governance situation.

Danish efforts in the field of anti-corruption have intensified since the launch of the Action Plan. A considerable number of initiatives have been taken in all partner countries, addressing the public sector as well as parliaments, political parties, civil-society organisations and the media. The endeavour has also promoted the adoption of international and regional anti-corruption conventions and other

initiatives. As much of the work as possible is carried out in coordination with other donors. Political corruption is also being increasingly addressed, based on growing recognition that corruption, and in particular political corruption, threatens popular support for development assistance in the donor countries. This should partly be seen in the context of increasing concerns about development effectiveness. Efforts to align development assistance with national procedures and systems in partner countries are being hampered by corruption. However, at the same time, alignment has led to a new and franker dialogue in matters of governance, including corruption. Nevertheless, corruption remains a particularly tough obstacle to joint efforts to implement the alignment commitment of the Paris Declaration.

Guiding principles

Denmark will

- Address the challenges of corruption in its broader governance and accountability context, and as an integral part of improving governance in general.
- Work to promote common approaches and tools for corruption assessments and systems to benchmark progress in anti-corruption, approaches to supporting the fight against corruption in partner countries, and response and coordination mechanisms for cases of deteriorating and/or unacceptable situations of corruption.
- Support the fight against corruption through measures directed at the supply as well as demand side.
- Promote accountability mechanisms generally, including the roles of parliaments, civil-society groups and other non-state actors, such as the private sector and the media, with a view to fighting corruption. Denmark will promote the involvement of the citizenry at large as active participants in national efforts towards improved governance and in the fight against corruption, taking into account the different needs and challenges faced by women.
- Continue to address the fight against corruption as an area of intervention in itself, and as a cross-cutting element in other development assistance.
- Continue to implement the Danida Action Plan to Fight Corruption. The principle of 'zero tolerance' will continue to apply, and cases of corruption

involving Danish development assistance will continue to have consequences. Denmark will maintain high standards of integrity in its development assistance system. This is a natural implication of a partnership based on mutual accountability.

- Exploit synergies between anti-corruption and the other two core areas of support.
- Participate and uphold the aforementioned priorities and principles in relevant international forums, such as the EU, the UN, OECD/DAC, the World Bank and entities related to implementation of the United Nations Convention Against Corruption.

4.2 Local service delivery and governance

The division of labour between the central and local levels is essential with regard to fostering poverty reduction most effectively. While the transfer of authority and responsibility for public functions from the central government to local governments is not a panacea for the challenges of development – nor is it an end in itself – it may contribute to effective and accountable delivery of services and to local democratisation.

At present, reforms aimed at improving local service delivery and governance, including decentralisation, are being pursued in the majority of the Danish partner countries. The nature of reforms varies greatly, ranging from mere technical adjustments of the public administration, mainly in the form of deconcentration, to radical devolution of political power to relatively autonomous local governments. In most countries, local service delivery is carried out by a multiplicity of entities, including autonomous and private organisations.

Denmark has a long history of transferring substantial public functions and authority to locally elected governments, while striking a balance in the vertical division of labour with regard to responsibilities and decision-making. Combined with Denmark's long-standing engagement in decentralisation programmes in development cooperation, this domestic experience provides a vantage point for Danish involvement.

According to Danish as well as international experience, five basic elements are present in effective implementation of reforms aimed at improving local service delivery and governance: 1) A legal framework, 2) financial and 3) human resources adequate to undertake the functions assigned to each level, 4) effective mechanisms for local-level accountability, and 5) central institutional arrangements. These five elements must be analysed prior to any support, and taken into account when designing the programmes.

Experiences and challenges

Improvement of local service delivery and governance has often been looked at from a narrow technical perspective. However, it is also about changes in decision-making processes, and more generally about change in the control over resources. There are 'winners and losers' of reform. Resistance from various groups of society to the transfer of authority to local levels is thus the rule rather than the exception. This underscores a key lesson, namely the importance of fully comprehending the political and political-economy dimension of these reform processes. Local government associations can play an important role in advocating decentralisation.

Experience shows that measures to improve local service delivery seem to make the most headway when forming part of comprehensive public-sector reforms backed by government commitment at the cabinet level, rather than being led by a single line ministry, including a consistent and clear legal framework for the allocation of assignments and their required fiscal and human resources, mechanisms for local accountability, and central standards and supervision. Too many decentralisation reforms and programmes have collided with a lack of commitment at the government level and insufficient coherence with broader-based reforms, including civil-service reform.

In some countries, legislation concerning the division of labour between organisations and levels in the public sector is inconsistent and even contradictory. This gives rise to friction and makes public-sector management inefficient and ineffective. It also makes it difficult for donors to align their support to developing countries' policies and procedures. This is one of the reasons (in some cases even a pretext) for many donors to hold on to traditional aid modalities with parallel structures and specific units of project implementation.

The capacity of local governments and other agencies at the local level is often very weak. This may serve as a pretext to defer reforms. At the same time, the central level is frequently unfamiliar with, or unprepared for, a changed role in a decentralised

public sector. Capacity development – at the local, intermediate and central levels – must therefore go hand in hand with a clearer division of labour between central and local levels.

There is no universal consensus as to what functions can most advantageously be devolved to local governments. One starting point for analysis is the principle of subsidiarity, i.e. that a function should be assigned to the lowest level suitable and capable of undertaking it. However, this principle must always be balanced against an assessment of how the functions can be performed most effectively.

With regard to local democratisation, the transfer of authority and responsibility to the local level brings government closer to the people. However, if carried out uncritically, there is also a risk that this will reinforce social and cultural inequalities, including gender inequality, which may prevail at the local level. Indigenous groups might also differ in their perception of the framework for local-level management and administration. The transfer of authority and responsibility to local levels is more successful when accompanied by efforts to involve the citizens and respond directly to their various needs.

When implemented successfully, decentralisation can be an effective tool against corruption. Experience shows that countries with a high degree of fiscal decentralisation are likely to have less corruption. Citizens' control and accountability mechanisms are generally stronger when the distance between citizens and administration is shorter.

Experience also confirms that a more decentralised set-up for the public sector, based on popular participation and accountability, can give more voice to women at the local level, thus becoming a vehicle for political change.

Successful decentralisation has often led to improved local taxation, as people become more willing to pay taxes, if they receive services. Moreover, increasing local revenue strengthens the independence of local governments, thus helping to create a virtuous cycle.

Support for reforms aimed at improving service delivery and governance at the local level will continue to feature prominently in Danish development assistance, either in the context of comprehensive institutional reforms or as part of sector programmes.

Guiding principles

Denmark will

- Address the overriding objective of poverty reduction in the support to promote local service delivery and governance. Consequently, Danish support for the local level may have a significant element of investment projects in pursuit of poverty reduction, support to cover recurrent costs and capacity development, as well as elements to improve local taxation.
- Support the development of effective accountability mechanisms. Cooperation will be tailored to match the needs of government organisations (supply side), associations of local governments, civil-society organisations and other non-state actors, including customary authorities (demand side).
- Push for increased donor coordination and harmonisation at the partner-country level to achieve joint policy dialogue, programming and funding arrangements.
- Pursue alignment of support for local service delivery and governance and as far as possible, support the level of local government through existing systems.
- Push for and support activities that promote gender equality at the strategic as well as at the programme and project level.
- Ensure that all Danish sector programme support (education, health, environment, etc.) is in line with the overall Danish approach to local service delivery and governance in each partner country, and that potential synergies are exploited.
- Take account of the two other core areas – public financial management and anti-corruption – in Danish support for local service delivery and governance, whenever relevant, seeking to maximise the synergy between efforts in the three areas.
- Actively promote the development of, and agreement on, common guidelines and good practices for support in this area, and generally promote the aforementioned principles in relevant international and regional organisations, such as the EU, UN, OECD-DAC and the international financial institutions.

4.3 Public financial management

A well-functioning public financial-management system is critical to efficient and effective service delivery. It provides relevant and reliable financial information in a timely and consistent manner for control and accountability at all levels. It supports and reinforces other accountability systems regarding budget execution, and thus has a central place in the fight against corruption.

The role of the public financial-management system is to facilitate the planning and budgeting process of the public sector, the recording of financial information, and the controlling of budget execution. It concerns both the revenue and the expenditure side of the budget. The broad objective of a public financial-management system is to achieve overall financial discipline, allocation of resources to priority areas, and efficient and effective use of public resources for the achievement of results.

Financial management is the active use of financial and other information to plan activities and transform inputs and resources into outputs. This is guided by the relevant legislation, the organisation of work, the procedures and systems, the administrative and accounting tools (including IT systems), and the control systems. Procurement of goods, works and services is an important element of a public financial-management system.

There has been a shift in the approach to public-sector management from rule-based administration to focusing more on results and value for money in Danish partner countries as well as in many other places. This has strengthened awareness of the need to enhance public financial-management systems. Furthermore, the donors' commitment to increasing the use of their partners' national procedures and systems for channeling financial assistance has highlighted the need for sound public financial management. This, in turn, has drawn the donors' attention to support for public financial-management reforms in partner countries.

Experiences and challenges

There is increasing public pressure on managers in the public sector to deliver results and value for money. Poverty and scarcity of resources in developing countries make this pressure even more acute. Furthermore, requirements for management information have increased with the greater focus on results and outputs in many developing countries. Public financial-management systems in partner countries are often ill-prepared to support results-based management, and are generally encumbered by weak capacity.

Reforms of public financial management are ongoing in most Danish partner countries. The first round of reform initiatives focused mainly on planning and budgeting. Since the mid-1990s, they have increasingly focused on budget execution, paying particular attention to introducing integrated financial-management systems and improvements in public procurement.

Public financial-management reforms are politically sensitive. Implementation has often been significantly delayed due to overly ambitious and complicated designs, with too many components and inadequate capacity development, poor links between key reforms at central and lower levels, general failure to consider prevailing incentive structures and interests, and too little attention to the need to secure political commitment before embarking on more far-reaching reforms.

Denmark has supported public financial management in most partner countries together with other donors, both as earmarked support through sector programmes and as general support through joint funding arrangements with other donors. The efficiency of donor assistance has been weighed down by the abovementioned delays in implementation, as well as by the absence or shortcomings of the sequencing of the reform package, fragmented financial assistance, and lack of effective donor harmonisation.

Although financial support for public financial management is generally provided in connection with comprehensive reform packages, it appears that donors tend to focus their interest on the beginning of the budget cycle, i.e. the budget preparation and the introduction of multi-year budgets, as well as on the end of the budget cycle, i.e. external audits and – increasingly – the role of parliamentary oversight. However, the equally important intermediate stage of the budget cycle, namely activities related to the execution of the budget, continue to merit stronger attention. Denmark will focus its involvement in the area of public financial management on three sub-areas belonging to this stage: 1) accounting and financial reporting, 2) procurement, and 3) management control and internal auditing. Denmark may consider support for the revenue side of public financial management, e.g. taxation, if there is a need for this, and if other donors are not providing the necessary assistance.

Guiding principles

Denmark will

- Emphasise the need for a country-led, comprehensive, multi-year approach to improving public financial management, as well as the need for appropriate sequencing of reforms, providing support for joint financing arrangements.
- Emphasise the importance of improved accountability, by focusing on strengthening the budget-execution phase of the budget process, working to promote enhanced management control by focusing on timely, consistent, relevant and reliable financial reporting.
- Support the development of capacity in internal audit units at all relevant levels of government with a view to enhancing the effectiveness of management controls.
- Work to promote awareness of the strategic importance of transparent and accountable procurement based on the development of strong national procurement systems and capacity, relying increasingly on these for procurement, also in all Danish-supported activities.
- Work for better access to information for citizens, civil society and other non-state actors, such as the private sector and the media, about public finance, based on improved reporting and transparency.
- Work to safeguard the independence of supreme audit institutions, considering this aspect also in relation to financial-support arrangements in the context of broader financial-management reform.
- Promote the abovementioned principles in relevant international and regional organisations, such as the EU, UN and the international financial institutions. Denmark will continue its participation in relevant forums, such as OECD-DAC, pursuing the development of, and agreement on, good practices for supporting capacity development in public financial management and procurement, and seeking to introduce joint assessment methodologies, such as the concept of Public Expenditure and Financial Accountability Review and the Common Benchmarking and Assessment Methodology for Public Procurement Systems.

5. DANISH CAPACITY FOR GOVERNANCE SUPPORT

A competent, relevant and respected partner in public sector management

Effective partnership requires a donor who is capable of engaging competently in technical issues and who has country-specific knowledge of the sectors and areas in which support is provided. It also calls for knowledge of the political economy and of relevant cultural factors in individual partner countries.

Denmark will strive to live up to its responsibility as a competent and relevant donor in various ways. To this effect, Denmark will, for instance, continue the decentralised management of development co-operation with partner countries, assigning the responsibility for planning and implementing the assistance to resident Danish representations and to the targeted partner organisations. Denmark will also promote harmonised and, whenever possible, joint support for capacity development based on country-led capacity development strategies. As part of its commitment to increasing development effectiveness, and based on a rational division of labour with other donors, Denmark will also reduce the number of sectors and areas supported in each partner country. This will take place in close collaboration with partners. It will release capacity to be deployed in those sectors and areas that continue to be supported, enabling Denmark to take on a more active role as lead donor.

By giving priority to three areas of public-sector management, Denmark will strengthen its technical and professional knowledge and competences in particularly relevant areas such as:

- Political economy and governance analysis
- Anti-corruption
- Local service delivery and governance
- Financial management, including procurement
- Capacity development

This will be done through

- Recruitment of specialists in the field of public sector management.
- Strengthening of competence development for staff at Embassies and Head quarters, when possible through joint training with other donors.
- Participation in relevant international and regional forums, such as OECD-DAC and the Strategic Partnership with Africa, for sharing of experiences.

- Thematic reviews on good practices – preferably carried out with others – regarding support for anti-corruption, local services and governance and public financial management.
- Country-specific courses on the political and administrative systems of the partner countries, where possible through joint training with other donors.
- Workshops and seminars in Denmark on key issues of public-sector management for consultants, NGOs, researchers and Ministry of Foreign Affairs staff.
- Active networking and communication in the abovementioned forums and through www.danidadevforum.dk, seminars and conferences.

6. MONITORING

The implementation of the present paper will be monitored as an integral part of the existing monitoring performed by the Ministry of Foreign Affairs and of those monitoring systems that may exist in individual partner countries.

This endeavour encompasses two overall strands:

- 1) Assessment of the implementation of the main elements of the strategy, i.e.:
 - Assessments made by the Embassies and Headquarters according to their performance contracts. This includes the Country and Programme Assessment Reports submitted on an annual basis.
 - Case-based qualitative reporting regarding human rights, democracy and good governance undertaken every second year.
 - Thematic reviews and/or evaluations undertaken at least every five years.
 - Information from the aforementioned reports will be included in the various annual reports of the Ministry of Foreign Affairs regarding Denmark's development assistance.

- 2) Benchmarking and monitoring of governance performance in partner countries through a set of country- and context-specific indicators, preferably conducted jointly with other development partners, including partner countries. This includes, among other sources:
 - Governance assessments
 - Corruption diagnostic surveys and studies
 - PEFA indicators
 - "Doing Business" indicators and Investment Climate Surveys
 - Public Expenditure Reviews
 - Country Procurement Reports (OECD/DAC Baseline Indicator System)
 - Country Financial Accountability Assessments

However, cross-country and aggregate governance indicators should be used with caution, due to methodological challenges associated with them. They may serve to indicate the extent of governance problems and broad-based international benchmarking, but aggregate governance indicators, such as the Corruption Perception Index developed by Transparency International and the governance indicators developed by the World Bank Institute, are – if used in isolation – inappropriate to substantiate decision-making, e.g. on the allocation of assistance based on performance.

ABBREVIATIONS

ACP	AFRICAN, CARIBBEAN AND PACIFIC
DANIDA	DANISH INTERNATIONAL DEVELOPMENT ASSISTANCE
IGR	INSTITUTIONAL AND GOVERNANCE REVIEW
NGO	NON-GOVERMENTAL ORGANISATIONS
OECD/DAC	ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT / DEVELOPMENT ASSISTANCE COMMITTEE
PEFA	PUBLIC EXPENDITURE AND FINANCIAL ACCOUNTABILITY
SIDA	SWEDISH INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
UNDP	UNITED NATIONS DEVELOPMENT PROGRAMME

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