Public Sector Reform- Myths & Realities

It is not uncommon for the citizen or business people to blame the Government and the public sector in general for all the miseries that they have to endure in their daily lives, be it rising prices or traffic congestion. Not surprisingly many economists call for a reduction in the role of the state, blamed as it is for all the administrative evils that stifle growth and development. Yet for all those who still believe in Adam Smith’s invisible hands, Professor Joseph Stiglitz came to remind us of the harsh realities of market failures. Probably his most dramatic statement was that the vast majority of Americans are today poorer than they were 10 years back. This is not just market failure; it is perhaps also a failure of the state.

The final outcome of all government action is the welfare of citizens. Besides its traditional regulatory, distributive and stabilising roles, the state also provides public goods, has responsibility for the eradication of disease and poverty, as well as for environmental and societal protection. The accumulation of public capital, as for example in the form of infrastructure, also has an important bearing on private sector productivity. How well the state and public agencies fulfil their roles and spend public money is therefore critical to the good conduct of business and to the well being of citizens.

The public sector in Mauritius is by far the largest employer, providing about 15% of total employment, and the government alone has a budget amounting to more than 20% of GDP. According to the recent budget speech, it also accounts for 25% of capital formation. By improving efficiency and effectiveness in programme execution as well as ensuring equity in all its policies, the public sector can have a marked influence on the economy and on society. How the public sector goes about achieving its objectives has been the subject of much debate.

There has been a tendency over the last few decades to adopt the methods of the private sector by, for instance, providing incentives for agencies to perform better. The New Public Management (NPM), as it is called, has unfortunately not entirely fulfilled its promise. As recently pointed out in a World Bank report, most public sector reforms undertaken by the Bank’s clients (which doesn’t include Mauritius) have failed, excepting in tax administration and public financial management. Civil service reform and anti-corruption efforts have remained largely ineffective. Noted examples of bureaucratic corruption include doctors using public facilities for private paying clients, and teachers giving private tuition. Other forms of corruption involve state capture and the allocation of big contracts against reward.

NPM has failed to a large extent because of wrong assumptions regarding the specific nature of public service and the applying of inappropriate performance management systems. The notion of efficiency in the public sector differs from that in the private sector. While in the latter case, efficiency in producing outputs (goods and services) is of prime consideration, the public sector is more concerned with effectiveness of outcomes, as well as with equity. One of the claims against NPM is also that it was destroying a certain public sector culture and ethic that implicitly recognised values which are traditionally not inherent in private sector business models. While the private sector dwelt primarily on resource efficiency with little regard to externalities, the public sector had to ensure a much higher level of robustness and resilience in the quality of goods and services it provides, while also safeguarding equity in outcomes. This implies a form of bureaucracy that looks very inefficient to the private sector.

In many countries NPM took the form of public service agreements which contained a form of reward upon achieving defined performance targets. The reward can be in the form of higher budget allocations, obtaining additional contracts, or direct pecuniary benefits for
organisations or individuals. There may also be implicit rewards, as in the case of our star schools here; because of their outstanding performance, they get the best teachers and the best students, which in turn reinforce their capacity to produce laureates.

Incidentally, education together with healthcare, have been the two most studied sectors in many countries. The general finding has been that NPM has failed to improve efficiency and effectiveness as expected. On the contrary it has been observed that NPM led to many unintended consequences as well as deliberate and perverse reactions meant to defeat the system.

Applying the NPM doctrine in Mauritius therefore requires utmost caution; particularly as many of the agencies are monopolists and therefore do not have similar entities for benchmarking. Typical also of public sector agencies is the fact that there is always a wide discrepancy between politicians’ policy objectives, often ambiguous and non-tangible, and the way these are translated into operational goals by executive agents.

The elusive cohesion between policy objectives, as defined by politicians, and performance goals, which determine managerial success, is what complicates any public performance management system. Policy objectives can change frequently as regimes change or new masters usher in new visions and plans, thus creating a game where goal posts are constantly changing.

Regardless of these shortcomings, public sector reform must imperatively pursue its course. There are reasons to believe that there is cause for optimism. First, there a few countries which can provide models that seem to be working so far. Leading edge countries are Australia, New Zealand, Sweden, Netherlands and UK. Many of them have modified their original models, and some of the detrimental features have been reversed. In Netherlands for example, pecuniary incentives have been abolished. Moreover, new features have paved their way into the new wave NPM, as for instance the integration and balance of measures of equity with efficiency and effectiveness measures.

Secondly, the emergence of e-Governance is radically transforming the management systems, in that end-to-end process engineering permits more holistic structures and greater centralisation, as opposed to the previous disaggregating trends. Along the way there are significant productivity gains as well as considerable enhancement in the quality of service and in accountability.

Finally, it must be recognised that the success story of Mauritius could not have happened without a supportive public sector, be it in the provision of infrastructure or an appropriate regulatory framework, or by preserving social equilibrium.

Improving public sector performance is a challenge that needs to be embraced with the same eagerness as the nurturing of a new economic pillar. Effective service delivery means better outcomes, for both economic actors and the citizens. Enhanced efficiency frees resources that can be diverted to more productive uses. And equitable policies and outcomes lead to sustainable economic development. This is an ambition which Mauritius, unlike many other less fortunate countries, has the unique opportunity to aspire to in the aftermath of the financial crisis- turning myth into reality, or succeeding where others have failed.

Deva Armoogum
Partner & Head of Advisory
KPMG Mauritius
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