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Foreign Aid, Governance and Economic Development in Nepal

Kishor Sharma

This article contributes to the aid effectiveness debate using Nepal as a case study, a country which has failed to accelerate growth and reduce poverty and inequality despite being a significant aid recipient for over half a century. The weak aid absorption capacity and lack of commitment to institutional reform appear to be the reasons for aid ineffectiveness. Nepal needs to embark on major reforms in governance, institutions and policy aimed at rural development. The commitment of donors to give more aid without fundamental reforms in these areas will only enable the ruling elite to remain in power without achieving the objectives of helping the poor and disadvantaged groups who live in the rural and remote areas.

Introduction

In the wake of a growing threat to international security and peace from development failure in many developing countries, foreign aid has received a renewed emphasis in recent years. The proponents of aid in this context point to the fact that aid helps accelerate growth, and thereby addresses poverty and underdevelopment (Hansen & Trap 2001; Dalgaard, et al 2004; Sachs 2005). Those on the other side show evidence that it retards growth (Easterly 2001; Rajan & Subramniam 2005). Critics argue that foreign aid distorts incentives for savings and investment perpetuates corruption and enriches the elite in poor countries. They also argue that often aid programs are too bureaucratic, unfocused, and poorly managed. While there is growing evidence to suggest that aid has been ineffective in many countries, supporters recognise the weaknesses in the aid programs and the validity of the some of the criticisms (Radelet & Levine 2008). Recently, Burnside and Dollar (2000) and Collier and Dollar (2001) (hereafter BD and CD) have argued that aid is growth-enhancing in countries with good policies and institutions, and linking aid to policy reforms should help accelerate growth and alleviate poverty. While the BD and CD findings appear to have influenced aid allocation decisions, the empirical base and methodologies applied in their studies have been increasingly questioned (see Easterly, et al 2003). As the debate continues, the literature on aid effectiveness has been mushrooming, “but with increasingly sharp differences between a diminishing cadre of believers and an increasing band of critics” (Ranis 2006).
One of the major problems with the aid-growth literature is that empirical studies are largely based on cross-country data which, by its nature, simply presents an “average” picture. Naturally, they don’t capture the country-specific peculiarities and structural features. Depending on the sample size, countries covered and variables used, sometimes aid is growth-enhancing and sometimes not. The cross-country studies also fail to capture either the donor’s motives or recipients’ capacities and interests in receiving aid, which can have significant impact on its effectiveness. There is certainly a need for systematic country case studies, which pay due attention to each country’s structural features and policy history to inform the policy debate.

The purpose of this article is to meet this gap in the literature by undertaking a case study of the role of foreign aid in economic development in Nepal, which has been one of the highest recipients of aid in the developing world. Located between India, to the east, west and south, and China, to the north, Nepal’s strategic position has attracted unusually high attention from the donor community, especially during the Cold War period. From the 1950s through the 1970s, foreign aid financed about 95 percent of the government budget, although aid inflow to Nepal and the nature of projects funded by bilateral donors varied with the intensity of the Cold War. By the early 1990s, aid flows to Nepal reached 14 percent of the gross national product as opposed to only 3 percent on average for low-income countries (World Bank 1993). Despite this, it remains one of the poorest countries on the planet with a per capita income of US$ 320 and half of its population living on US$ 1.25 a day (2008). Rising poverty, together with growing rural-urban inequality, provided a fertile ground for the eruption of civil war in the mid-1990s, which lasted for over a decade, causing massive damage to the country’s institutions and infrastructure. Civil conflict also cost over 10,000 human lives. Naturally, this raises a number of questions as to why aid has failed to accelerate growth and reduce poverty and the rural-urban inequality, which were the roots of conflict and war in Nepal.

**Aid and Development: The State of the Debate**

In the immediate post-war era, economists developed growth models to demonstrate how foreign aid can – by addressing the savings-investment gap and the foreign exchange shortage – accelerate growth in developing countries. Since developing countries’ ability to attract foreign private capital to meet the saving-investment gap and foreign exchange gap was limited partly due to the lack of efficient institutions and partly due to weak physical infrastructure, it was argued that foreign aid was the only means of rescuing these economies from poverty and underdevelopment.

Following this view, aid requirement was calculated based on the difference between “domestic savings” and “required investment,” and the gap was met through financial and technical assistance. This “aid
orthodoxy led to huge inflows of international assistance to developing countries, without assessing the growth and development implications of such lending and the aid absorption ability of recipient countries.

By the late 1960s, developing countries were flooded with foreign aid. In many circumstances, they lacked ownership and accepted any kind of assistance without assessing the growth and welfare implications (Hudson & Mosley 2008). While addressing poverty and underdevelopment were the obvious reasons for international assistance, often aid allocation was motivated by donors’ economic self-interest as well as political and strategic self-interest (Ruttan 1996; Balla & Reinhardt 2008). As infrastructure development was the immediate focus of aid programs in post-war years, this led to the development of capital-intensive projects, particularly in the urban areas. This was instrumental in the growth of urban-based import-substitution (IS) industries which – by creating a bias against agriculture – attracted resources away from the rural areas and contributed to a rise in rural-urban inequality and poverty.

By the mid-1970s, as the distributive consequences of an urban-based strategy became clear, aid flows to poor countries further increased, but this time donors’ lending priorities shifted towards rural development, in particular health, education and agriculture extension. However, in the presence of a bias towards urban development – brought about by the IS strategy and urban-based infrastructure development programs – even the rural development strategy failed to make a dent on poverty and inequality, as the tendency to divert resources towards urban development and relatively developed regions continued. As aid inflows increased, this perpetuated corrupt behaviour and created moral hazard, which significantly undermined institutions rather than building them (Bauer 1976). Clearly, access to foreign aid distorted incentives for savings and investments, delayed much needed reforms for private sector development and prevented the ruling elite from embarking on institutional reforms.

It was not until the late 1990s that the donor community realised that institutions, good governance and good economic policy were crucial for aid to have a lasting impact on growth. This led to the view that, where economic policy, governance and institutions are reasonable, aid is effective, and where they are unreasonable, reforms in these areas can have a significant impact on growth and poverty alleviation (Burnside & Dollar 2000; World Bank 2003). There is now a growing consensus that aid is more effective in countries with good governance, which provides protection of property rights, ensures rule of law, and creates incentives for saving, investment and entrepreneurship. While governance has been a major determinant of aid allocation in recent years, especially in the context of the Millennium Development Goals (MDGs), it has been argued that poorly governed countries should be allocated more project aid, with a shorter time commitment and a narrowly focused set of activities, and that much of the aid should be distributed through reputed NGOs (Radelet
As governance improves, they should have a greater ownership in designing aid programs and should receive longer-term commitments from the donor community. In this context, Rodrik (2003) argues that a modest improvement in governance can produce large growth payoffs, but that this has to be highly country-specific.

Economic and Political Background

This section presents a brief profile of the Nepalese economy and its political and policy settings, to place the study in context.

Economic Background

Nepal is located between the most populous countries in the world – India and China. It shares borders to the east, west and south with India, and to the north with China. The country's landscape can be divided into three geographical regions: the high mountain region of the Himalayas, the hill region with valleys and hills, and the South Terai belt, which borders with India. About 70 percent of the country's land area is covered by hills and high mountains, which provide shelter for about 50 percent of the country's population – a population that relies on subsistence farming in the absence of commercial opportunities. These hills and mountains have significant potential to attract leisure tourists. However, in the absence of an efficient transportation network, access to these regions remains very difficult (particularly in the winter season). About 85 percent of Nepal's total population live in rural areas (Table 1).

Agriculture is the backbone of the Nepalese economy, contributing about 33 percent of the GDP (Table 2) and 10 percent of export earnings, although its share was as high as 67 percent and 70 percent respectively until the mid-1970s. This significant decline in the contribution of agriculture appears to be partly due to a rapid increase in population size (which grew at the rate of 2.5 percent per annum over the past three decades) and partly due to its lacklustre performance (see Appendices I & II).

Manufacturing in Nepal is in its infancy and contributes about 8 percent to GDP, while employing less than 3 percent of the workforce (Sharma 1999). Following the liberalisation of trade and the investment regime of the mid-1980s, export-oriented manufacturing grew rapidly until the mid-1990s, mainly to take advantage of Nepal's most favoured nation status and the quotas of the generalised system of preferences. However, since then, it has experienced a significant decline, mainly due to the eruption of civil war in the mid-1990s. The abolition of the Multi-Fiber Arrangement in 2005 also appears to have contributed to the contraction of its export-oriented manufacturing industries, particularly ready-made garment exports.

Over the years, the urban-based services sector has grown rapidly at about 6 percent per annum, but it employs less than one-quarter of the...
Table 1
Distribution of Population in Rural and Urban Areas in Nepal, 1952/54 - 2005

<table>
<thead>
<tr>
<th>Year</th>
<th>Urban</th>
<th>Rural</th>
<th>Total Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>1952/54</td>
<td>238,275</td>
<td>8,018,350</td>
<td>8,256,625</td>
</tr>
<tr>
<td>1961</td>
<td>338,183</td>
<td>9,074,813</td>
<td>9,412,299</td>
</tr>
<tr>
<td>1971</td>
<td>463,909</td>
<td>11,092,074</td>
<td>11,555,983</td>
</tr>
<tr>
<td>1981</td>
<td>958,702</td>
<td>14,064,137</td>
<td>15,022,839</td>
</tr>
<tr>
<td>1991</td>
<td>1,697,710</td>
<td>16,793,387</td>
<td>18,491,097</td>
</tr>
<tr>
<td>2001</td>
<td>3,009,685</td>
<td>20,141,738</td>
<td>23,151,423</td>
</tr>
<tr>
<td>2005</td>
<td>4,004,137</td>
<td>21,338,501</td>
<td>25,342,638</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Urban % Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1952/54</td>
<td>2.9</td>
</tr>
<tr>
<td>1961</td>
<td>3.6</td>
</tr>
<tr>
<td>1971</td>
<td>4.1</td>
</tr>
<tr>
<td>1981</td>
<td>6.4</td>
</tr>
<tr>
<td>1991</td>
<td>9.2</td>
</tr>
<tr>
<td>2001</td>
<td>13</td>
</tr>
<tr>
<td>2005</td>
<td>15.8</td>
</tr>
</tbody>
</table>


Table 2
Composition of GDP (in percentage): 1961-62 to 2005-06

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>63.85</td>
<td>65.22</td>
<td>67.21</td>
<td>54.06</td>
<td>39.10</td>
<td>34.71</td>
<td>33.37</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>0.85</td>
<td>1.48</td>
<td>3.13</td>
<td>4.15</td>
<td>8.90</td>
<td>7.92</td>
<td>7.68</td>
</tr>
<tr>
<td>Services</td>
<td>35.30</td>
<td>33.30</td>
<td>29.67</td>
<td>41.79</td>
<td>48.0</td>
<td>57.37</td>
<td>58.95</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: The author’s calculations based on data from Economic Survey (various issues).

Economically active workforce. Tourism – in which Nepal has an inherent comparative advantage due to its natural beauty – remains undeveloped and its contribution to the economy is very small. In fact, it has experienced a significant decline since the eruption of civil conflict, as reflected by a fall in foreign exchange earnings from tourism – from 4 percent of GDP in the early 1990s to about 1 percent by the mid-2000s (Sharma 2006).

Political Background

The history of modern Nepal goes back to the late 18th century when King Prithivi Narayan Shah, King of Gorkha, led the formation of a united Nepal by unifying several states as the risk of invasion from British India increased. Since then, the Shah dynasty ruled the country until the middle of 2008, when the country was declared as the People’s Republic of Nepal, following the Constituent Assembly election held in early 2008.

In a military coup that took place in 1946, Jung Bahadur Rana – a military commander – took over the country without overthrowing the monarchy and established a hereditary prime ministership known as
Rana family. For 104 years (1846-1950), the prime minister from the Rana family became the ruler and the king had no power. The Rana regime ran the country in a ruthless way maintaining close links with British India, and completely ignoring the need to develop institutions and physical infrastructure. Following the independence of India in the mid-1940s, the late King Tribhuvan – with the help of India and his own people – ended the hereditary prime ministership in 1951 and brought democracy to the country.

Nepal's experience with democracy was rather short-lived, when the late King Mahendra – following the death of his father, King Tribhuvan – overthrew the democratically elected government led by B. P. Koirala on 15 December 1960. Two years later, he introduced an autocratic single-party system known as the Panchayat System (widely known as a pro-king party) to transform the economy (Khadka 1991).

The Panchayat System significantly curtailed basic human rights and outlawed political parties. The King kept all executive powers in his own hands and ran the country from the palace with advice from his relatives and staff. As power was centralised, there was an increasing tendency to wait for green signals from the palace before making any major administrative decisions, which consequently encouraged nepotism and favouritism and discouraged institution-building. To sustain the autocratic regime, the late King himself visited the USA and the USSR, in 1962 and sent his prime minister to China. These goodwill visits – during the Cold War era – brought a significant amount of foreign aid, providing much needed resources to the regime to undertake urban infrastructure projects and highways (Khadka 1991; Mihaly1965).

The autocratic Panchayat System was continued by the late King Birendra – who came to the throne after the death of his father, King Mahendra, in 1972 – until the political agitation of the late 1980s, which gave way to a multiparty democracy. With the installation of multiparty democracy in the early 1990s, several old parties split and new parties emerged, including the Maoists. The Maoists then went underground and began the People's War (the Nepali Civil War) in the mid-1990s in order to cause political and economic transformation though radical reforms. Unfortunately, political parties that came to power after the multiparty democracy failed to bring the Maoists into mainstream politics by addressing rising poverty and inequality, which were the root causes of the civil war. In fact, political parties became self-centred and ignored the interests of the people they represented. Governance deteriorated and corruption rose as party leaders felt obliged to meet the expectations of their supporters through misuse of public resources and abuse of power. The same feudal mentality of the past continued and measures to control corruption became increasingly inefficient, particularly from 2003.

By the early 2000s, the intensity of civil war increased and law and order deteriorated significantly. Against this backdrop, King Gynandra –
who came to the throne after the royal massacre of June 1, 2001 – sacked the democratically elected prime minister, dissolved the parliament and began to rule the country using his constitutional power with the help of 80,000 army soldiers. This irritated the seven major political parties, who then negotiated with the underground Maoists in New Delhi in early 2006 to fight jointly against the king. Following this historical treaty, intense political agitation took place in several parts of the country in April 2006. This, together with pressure from India and the United States to protect the democratic rights of the people, forced King Gynandara to reinstate the parliament and the prime minister he had sacked earlier. Following this historic event, the first session of Parliament officially declared it would conduct the Constituent Assembly (CA) election to decide the fate of monarchy in the country. Consequently, the CA election was held in early 2008 (electing 450 members of the parliament from 24 political parties) and the Maoists got control of a large number of seats.

At the first sitting of Parliament on 15 August 2008, the country was declared a republic (after 240 years of monarchy) and the Maoist leader, Mr Puspa Kamal Dahal (also known as Prachanda), was elected as prime minister; he then formed a coalition government and ruled the country for eight months. However, following a disagreement with the president over his decision to reinstate Chief of Army Staff Rookmangud Katawal, who had been sacked by the government, Mr Dahal resigned on 20 May 2009. This gave way for the formation of a new government led by Mr Madhav Kumar Nepal of the Communist Party of Nepal, who was elected unopposed by the Parliament on 23 May. Although the key responsibility of the ruling government is to create an environment for drafting a new constitution for the Republic of Nepal, maintaining law and order in the country remains a major challenge, raising serious doubts about the possibility of long-term peace and stability in the country. The country is increasingly divided along ethnic lines into several ethnic groups that often declare strikes and that have long lists of demands, including a demand for separate states. The frequent strikes have seriously affected normal life and economic activities, further aggravating the problem. The people of the Terai region (known as Madhise) and those of the hill region (mainly Gurung and Tamang) have demanded a provision for separate states in the new constitution that is being drafted.

**Trends and Patterns of Aid Flows**

The share of foreign aid in Nepal's GDP increased from 2 percent of GDP in the late 1960s to over 10 percent by the end of the 1990s (Table 3). This unprecedented growth in aid inflow was largely brought about by rising tensions between the US and China during the Cold War period. A global increase in development assistance since the 1970s also appears to have
Table 3
Nepal's Average Total Aid, Bilateral Aid and Grants Aid, 1960-2006

<table>
<thead>
<tr>
<th>Year</th>
<th>Total aid (% of GDP)</th>
<th>Bilateral aid (% of total aid)</th>
<th>Grants aid (% of total aid)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960-69</td>
<td>1.86</td>
<td>96.65</td>
<td>99.89</td>
</tr>
<tr>
<td>1970-79</td>
<td>3.87</td>
<td>68.24</td>
<td>71.38</td>
</tr>
<tr>
<td>1980-89</td>
<td>10.10</td>
<td>54.65</td>
<td>64.17</td>
</tr>
<tr>
<td>1990-99</td>
<td>10.25</td>
<td>60.87</td>
<td>67.68</td>
</tr>
<tr>
<td>2000-06</td>
<td>6.84</td>
<td>71.82</td>
<td>81.52</td>
</tr>
<tr>
<td>1960-2006</td>
<td>6.57</td>
<td>70.75</td>
<td>77.52</td>
</tr>
</tbody>
</table>

Source: Calculated by the author based on data from OECD/IDS online database

contributed to a rise in aid flows to Nepal. The deteriorating India-China relations after the latter intruded into the Indian territory of Aksai Chi in 1950 may also have contributed to a rise in Indian aid to Nepal.

These developments led to a significant rise in aid inflows to Nepal until the mid-1990s. However, with the end of the Cold War, together with a global decline in development assistance, aid flow to Nepal went into decline and has continued declining since the late 1990s – from 10 percent of the GDP by the end of the 1990s to about 7 percent by the mid-2000s (Table 3). A fall in development assistance also appears to be due to the eruption of civil war in the mid-1990s, a war which lasted for over a decade. As the intensity of civil war increased in the early 2000s, the donor community increasingly suspended their aid programs due to the security of their staff and the growing destruction of projects (Sharma 2006).

Traditionally, bilateral aid has been a major source of development assistance to Nepal, providing over 70 percent of the total development assistance. However, since the early 1960s, multilateral agencies, the UN and the regional development bank began to play a role in Nepal's development attempts.

India, the US, the UK, Canada, Switzerland and China are the major bilateral donors, together accounting for over 90 percent of the total aid to Nepal by 2006. Among them, the US was the first western country to engage in Nepal – in the early 1960s – mainly to keep the communist influence out of the country. To achieve this objective, it offered budgetary support, helped construct the East-West Highway, executed a number of rural development projects and deployed the United States Overseas Mission (USOM) staff and Peace Corps volunteers to address skill shortages in the country (Khadka 1997). By the mid-1960s, the US was a major donor, and it alone contributed over 50 percent of the total development assistance to Nepal. However, its assistance gradually declined when Indian and other western countries' aid began to flow.

Like American aid, Indian aid to Nepal was also motivated by political
and strategic considerations. When China invaded Tibet in September 1949 and Aksai Chi, India became suspicious of China’s expansionist policy and the possibility of a security threat over Nepalese soil. This prompted New Delhi to improve its access to Nepal by investing in transportation and communication in Nepal, for its own security. Consequently, India channelled a significant amount of aid into developing highways (between the key Indian borders and the major Nepalese towns), developed communication systems and constructed airports in strategic locations, including in Kathmandu. It also assisted in establishing industrial estates, irrigation projects, hospitals and water supply projects. By the late 1960s, India became Nepal’s major development partner.

The rising influence of democratic countries – particularly India and the US – on Nepalese soil prompted communist countries to also increase their presence in Nepal. Consequently, China took interest in developing highways (namely, the Arnica and Kodari Highways) connecting Tibet with Kathmandu. It also offered cash and commodity aid, and established several import-substitution industries (including sugar, textile, paper, modern brick and cement) to reduce Nepal’s economic reliance on India.

Aid from the former USSR resulted in the establishment of a cigarette factory in Janakpur, a hospital in Kathmandu and a hydroelectric project in Panauti. It also assisted in conducting a metrological survey for the East-West Highway and offered several scholarships for medical and engineering students.

A large proportion of development assistance to Nepal has gone into the transportation, power and communications sectors – which are controlled by public sector enterprises – attracting about 47 percent of the total aid (Table 4). Social services – which include health, education and drinking water – have been the second largest recipient of aid, absorbing about 23 percent of the total development assistance from 1975 to 2006. As with the previous sector, the social services sector is also largely managed by the government sector. In recent years, this sector has attracted a considerable amount of aid, receiving about 50 percent of the total aid by 2006, as the donor community embarked on poverty reduction strategies under the Millennium Development Goals since the late 1990s.

The third largest recipient of aid has been agriculture, irrigation and forestry, attracting about 23 percent of the total aid from 1975 to 2006. The industry and commerce sector attracted about 10 percent of the total aid until the 1980s in an effort to support the IS strategy, but experienced a significant decline since then as the country embarked on market-oriented reforms.

Aid and Development: An Assessment

There is no doubt that access to foreign aid has facilitated the development of infrastructure and industries in the country and has helped achieve
Table 4
Sectoral Distribution of Foreign Aid: 1975-2006

<table>
<thead>
<tr>
<th>Year / Average</th>
<th>Agriculture, Irrigation and Forest</th>
<th>Industry and Commerce</th>
<th>Transportation, Power and Communication</th>
<th>Social services*</th>
<th>Others+</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975-1980</td>
<td>18.88</td>
<td>9.45</td>
<td>57.68</td>
<td>13.66</td>
<td>0.4</td>
</tr>
<tr>
<td>1981-1985</td>
<td>30.5</td>
<td>7.64</td>
<td>42.96</td>
<td>18.3</td>
<td>0.76</td>
</tr>
<tr>
<td>1986-1990</td>
<td>24.56</td>
<td>9.64</td>
<td>46.78</td>
<td>18.02</td>
<td>1.04</td>
</tr>
<tr>
<td>1991-1995</td>
<td>29.08</td>
<td>8.56</td>
<td>42.56</td>
<td>19.44</td>
<td>0.38</td>
</tr>
<tr>
<td>1996-2000</td>
<td>19.5</td>
<td>1.14</td>
<td>51.94</td>
<td>27.4</td>
<td>0.188</td>
</tr>
<tr>
<td>2001-2005</td>
<td>14.18</td>
<td>1.376</td>
<td>40.78</td>
<td>41.6</td>
<td>2.052</td>
</tr>
<tr>
<td>2006</td>
<td>11</td>
<td>0.5</td>
<td>32.0</td>
<td>50.5</td>
<td>6.0</td>
</tr>
<tr>
<td>1975-2006</td>
<td>22.6</td>
<td>6.4</td>
<td>47.4</td>
<td>22.7</td>
<td>0.8</td>
</tr>
</tbody>
</table>

Source: Computed by the author based on data from Economic Survey (various issues)

*Includes, education, health, drinking water and Panchayat and other social services.
+Admin reform, planning and contingencies.

an annual growth in GDP of over 3 percent from 1975 to 2006. However, GDP growth was largely brought about by an expansion in the urban-based, non-agricultural sector (including IS industries, services, trade and commerce) which grew at 6 percent per annum, while the agricultural sector – the sector in which Nepal has an intrinsic comparative advantage – stagnated at 3 percent per annum (Figure 1). As the urban-based, non-agricultural sector expanded rapidly, it not only attracted a significant amount of resources including foreign aid, but also created a bias against the agricultural sector, as demonstrated by deteriorating terms of trade in agriculture (Figure 2), leading to a decline in agricultural output and productivity. Nepal – which had had the highest agricultural yield per hectare in South Asia in the early 1960s – fell significantly behind other countries by the early 1990s (see Appendices I & II).

The stagnation of the agricultural sector resulted in a fall in real income of the rural population who primarily rely on agriculture for living. For example, from 1988 to 1996, the nominal income of people living in urban areas increased by 16 percent per annum (from US$126 to US$285) as opposed to only 4 percent for the rural population (from US$95 to US$125). When the average annual rate of inflation is taken into consideration, the growth in rural income is in fact negative (Sharma 2006). This not only increased poverty in the rural areas, but also increased the rural-urban inequality, as reflected by the limited access to public goods and services in the rural areas. For example, in urban areas, a health post was accessible within a few minutes, as opposed to over an hour in the rural areas. Similarly, an agriculture extension office was accessible within under half an hour in the urban areas, while in the rural areas it was over two and a half
Figure 1
Growth in Real GDP, Agriculture GDP and Non-Agriculture GDP, 1975-76 to 2005-06

Source: Based on data from His Majesty's Government of Nepal (various issues).
Figure 2
Nepal’s Agricultural Terms of Trade, 1974/75-2005/06 (1994/95=100) \(^a\)

Source: Author’s calculation based on data from the Government of Nepal (various issues).

a Agricultural terms of trade are defined as the ratio of price of agriculture to the non-agricultural sector. It is calculated using the implicit price deflators for agriculture and the non-agricultural sector. Ideally, one should use implicit price deflator for the manufacturing sector instead of the entire non-agricultural sector, but disaggregated data are not available. Nonetheless, our estimates still provide rough estimates of the bias against agriculture inherent in the policy regime.
Table 5
Mean Time Required to Access Basic Public Goods/Facilities by Urban and Rural Households in Nepal, 1996

<table>
<thead>
<tr>
<th>Facilities</th>
<th>Urban Hours and minutes</th>
<th>Rural Hours and minutes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary school</td>
<td>0.12</td>
<td>0.25</td>
</tr>
<tr>
<td>Health post</td>
<td>0.21</td>
<td>1.17</td>
</tr>
<tr>
<td>Cooperative</td>
<td>0.27</td>
<td>2.38</td>
</tr>
<tr>
<td>Agriculture extension office</td>
<td>0.28</td>
<td>2.32</td>
</tr>
<tr>
<td>Commercial banks’ branch</td>
<td>0.19</td>
<td>2.58</td>
</tr>
<tr>
<td>Nearest market</td>
<td>0.19</td>
<td>3.08</td>
</tr>
<tr>
<td>Marketplace (Bazaar)</td>
<td>0.29</td>
<td>4.51</td>
</tr>
<tr>
<td>Paved road</td>
<td>0.09</td>
<td>5.17</td>
</tr>
<tr>
<td>Bus stop</td>
<td>0.19</td>
<td>4.04</td>
</tr>
</tbody>
</table>

Source: Central Bureau of Statistics (1996)

Table 6
Incidence of Poverty in Nepal

<table>
<thead>
<tr>
<th></th>
<th>1976/77</th>
<th>1995/96</th>
<th>2000/01</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural areas</td>
<td>33.0</td>
<td>44.0</td>
<td>39.0</td>
</tr>
<tr>
<td>Urban areas</td>
<td>22.0</td>
<td>20.0</td>
<td>NA</td>
</tr>
<tr>
<td>Nepal</td>
<td>33.0</td>
<td>42.0</td>
<td>NA</td>
</tr>
</tbody>
</table>


a Based on minimum caloric requirement per person per day (i.e. 2256 calories).

hours. Access to markets, paved roads and bus stops was even worse in the rural areas (Table 5). Within the rural and remote areas, inequality even rose between the landed and landless (Macours 2011).

When the incidence of poverty was broken down according to the rural-urban classification, it was significantly higher in rural areas (33 percent in 1976/77 and 44 percent in 1995/96) than in urban areas (22 percent in 1976/77 and 20 percent in 1995/96) (Table 6). The table also suggests that poverty has been rising more rapidly in rural areas, while in urban areas it has marginally declined. When the incidence of poverty is broken down by geographic region, it is immediately apparent that mountain and hilly regions have higher levels of poverty than the Terai belt. Over 63 percent of the people in the mountain ranges are poor, as opposed to 50 percent in the hilly region and only 37 percent in the Terai belt (Panday 2000).

Despite the economic and social significance of agriculture and
irrigation, this area has absorbed relatively less investment and even this has been declining, except for 1981-85 period (Table 4). Unfortunately, a large proportion of aid allocated to this sector appears to have been invested in relatively accessible locations as well as used for purchasing expensive vehicles and constructing high-quality buildings to house staff and experts (Karen, et al 1994).

The development of the transportation, power and communications sector under the aid program has been instrumental in achieving the IS industrialisation and in developing highways. As Khadaka (1991) argues, the construction of highways has significantly facilitated the movement of people and improved administrative control between Kathmandu and the major regional centres, but has failed to integrate the rural-urban area in the absence of adequate feeder roads. Consequently, Nepal’s rural areas remain underdeveloped.

While a significant increase in aid allocation to social services in recent years (50 percent of total aid in 2006) is a welcome development, unfortunately a large proportion of such investments have been directed to the relatively accessible regions rather than to the remote areas where a large proportion of poor and disadvantaged people live. Despite a large inflow of aid towards social services (about 23 percent of the total in over 30 years) – which include schools, hospital and water supply projects – Nepal’s human development index remains very poor. The illiteracy rate is over 60 percent, the incidence of waterborne disease is high and rising, and only about half of the population has access to safe drinking water. Here a major problem is that once a project is handed over to the government, it runs into financial trouble mainly due to mismanagement. No one is accountable and questioned for the failure (Panday 2000). Neither the autocratic regime of the past decades nor the democratic governments of recent years has made bold decisions to undertake reforms in order to sustain and maintain basic services that have been developed through aid programs. Instead of cleaning their own backyard through reforms in institution and governance, ruling elites are simply interested in accumulating more money through aid and rewarding their supporters, further lowering the quality of institutions and governance (Figure 3). Clearly, Nepal needs international assistance for reforming its institutions and governance to attract external private capital to meet its development needs.

As argued earlier, while reasonably good progress has been made in developing basic physical infrastructures, they suffer from inefficiencies in the absence of reform. Frequent disruption in electricity and water supply and the poor condition of highways are the evidence of weak governance and administration of the country, and this has further been aggravated by high aid unpredictability (see Appendix III). While the construction of highways has greatly facilitated the movement of people among the regions, in the absence of well-integrated feeder roads to integrate the
Figure 3
Effectiveness of Governance


Note: The governance indicators presented here aggregate the views on the quality of governance provided by a large number of enterprise, citizen and expert survey respondents in industrial and developing countries. These data are gathered from a number of survey institutes, think tanks, non-governmental organizations, and international organizations. The aggregate indicators do not reflect the official views of the World Bank, its executive directors, or the countries they represent. The WGI are not used by the World Bank Group to allocate resources or for any other official purpose.

It appears that the donor community has often ignored Nepal’s aid absorption capacity. For instance, as aid flows increased and the number of donors rose (from 5 in the mid-1960s to 25 by the late 1970s), this placed a considerable burden on Nepal’s institutional capacity, which was already very weak. However, the donor community tried to overcome this by bringing their own experts into the country. For example, from 1952 to 1960, Nepal received a total of 26,105 experts from the USA alone (Khadka 1991), which is equivalent to over 3,000 experts per year. Technical assistance was also an integral part of other bilateral donors, namely India, China, the UK, Switzerland and Canada, as well as the UN agencies, the World Bank and the International Monetary Fund. While these experts were expected...
to train local counterparts and help develop institutions, they were unable to do so partly due to frequent changes in local staff (with changes in the government) and partly due to lack of experience (Khadka 1997). Even if some of these experts had considerable experience in policy and planning in developing countries, their advice was often ignored by the Nepalese bureaucrats, making them frustrated (Panday 2000). While the donor community also made attempts to build Nepal's institutional capacity by sending talented bureaucrats and students overseas for higher studies and training, often they either did not come back or left the country soon after they arrived due to the low morale within the public service. Those who decided to stay in the country failed to make a significant contribution due to nepotism and favouritism, and became trapped in the culture of pleasing their bosses.

Conclusion

Nepal’s strategic location appears to have played a major role in attracting a huge amount of foreign aid, particularly during the Cold War era, which often prompted donors to ignore the country’s developmental needs and aid absorption capacity (including institutions and governance). As aid inflow increased, ruling elites ignored the need for reforms in governance and institutions, which are crucial for private sector-led growth. This, in the presence of an urban-biased development policy, led to a decline in agriculture and tourism, where Nepal has an intrinsic comparative advantage. As agriculture and tourism declined, poverty and inequality increased, particularly in the rural and remote areas, providing a fertile ground for the eruption of civil conflict in the mid-1990s.

Nepal urgently needs to embark on reforms related to governance, institutions and policy to facilitate rural-based growth led by the private sector. The law and order situation in the country requires urgent attention to attract much needed private sector investment. Despite the peace negotiations between the major parties in 2006, frequent strikes are often seen in the country. In this context, Collier (2007) proposes the presence of international troops "with a mandate to fight to preserve the peace" and maintain rule of law. While it seems appealing in the context of poor governance in Nepal, the viability of this proposition is highly questionable, given the country’s strategic position.

Nepal is the world’s newest republic state – declared on 28 May 2008 after 240 years of monarchy – but it is very fragile in the absence of political commitments. In such a scenario, providing more economic aid without careful assessment of the needs of the country can only provide resources to ruling elites to rule the country in a ruthless way rather than to use resources for the benefits of poor and disadvantaged groups who live in the rural and remote areas. Future aid should be well-targeted and aimed at
conflict-sensitive measures to improve economic and social opportunities for the poor and disadvantaged groups.

Notes

1. Empirical studies are also sensitive to how aid is measured. For instance, when humanitarian and technical aid (which influence growth only in the medium term) are excluded, aid tends to have a positive impact on growth (Clemens et al., 2004).
2. In recent years, foreign aid has financed about 80% of development expenditure.
3. It is important to note that these views have been increasingly questioned by many researchers including Easterly, et al (2003) and Dalgaard et al., (2004).
5. On 3 May 2009, the government led by the Maoists decided to sack the army chief without the coalition’s consensus, leading coalition parties to pull out from the government.
6. Most bilateral aid is in grant form (about 75 percent), which was as high as 100 percent by the late 1960s.
7. Aid unpredictability is measured by the ratio of aid commitment to aid disbursement. A ratio of 1 or more indicates 100 percent aid realization (see Appendix III).

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Ranis, G 2006, Towards the Enhanced Effectiveness of Foreign Aid, Economic Growth Centre, Yale University, Centre Discussion Paper No. 938.


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### Appendix I

**Annual Growth Rates (%) of Agricultural Output (Major Crops) in Nepal and Other South Asian Countries 1961/62 – 1991/93**

<table>
<thead>
<tr>
<th>Country</th>
<th>All crops</th>
<th>Paddy</th>
<th>Wheat</th>
<th>Sugarcane</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nepal</td>
<td>-0.07</td>
<td>0.54</td>
<td>0.29</td>
<td>1.89</td>
</tr>
<tr>
<td>India</td>
<td>2.71</td>
<td>1.92</td>
<td>3.46</td>
<td>1.39</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>1.59</td>
<td>1.55</td>
<td>3.59</td>
<td>0.27</td>
</tr>
<tr>
<td>Pakistan</td>
<td>3.27</td>
<td>1.92</td>
<td>2.89</td>
<td>0.92</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>1.75</td>
<td>1.57</td>
<td>-</td>
<td>2.45</td>
</tr>
</tbody>
</table>

Source: Agriculture Project Services Centre (1995).

### Appendix II


<table>
<thead>
<tr>
<th>Country</th>
<th>Agriculture value added per worker</th>
<th>Agriculture value added per hectare of agriculture land</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nepal</td>
<td>173</td>
<td>198</td>
</tr>
<tr>
<td>India</td>
<td>304</td>
<td>404</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>187</td>
<td>226</td>
</tr>
<tr>
<td>Pakistan</td>
<td>323</td>
<td>466</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>489</td>
<td>561</td>
</tr>
</tbody>
</table>

Appendix III  
Aid Unpredictability, Nepal: 1975/76-2005/06

<table>
<thead>
<tr>
<th>Year</th>
<th>(1) Aid Commitment (Rs Million)</th>
<th>(2) Aid Disbursement (Rs Million)</th>
<th>Aid Unpredictability Ratio (ratio of 2/1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975/76</td>
<td>1416</td>
<td>506</td>
<td>0.357345</td>
</tr>
<tr>
<td>1976/77</td>
<td>1911</td>
<td>557</td>
<td>0.29147</td>
</tr>
<tr>
<td>1977/78</td>
<td>1956</td>
<td>848</td>
<td>0.433538</td>
</tr>
<tr>
<td>1978/79</td>
<td>2417</td>
<td>989</td>
<td>0.409185</td>
</tr>
<tr>
<td>1979/80</td>
<td>1912</td>
<td>1340</td>
<td>0.700837</td>
</tr>
<tr>
<td>1980/81</td>
<td>4013</td>
<td>1582</td>
<td>0.394219</td>
</tr>
<tr>
<td>1981/82</td>
<td>2886</td>
<td>1723</td>
<td>0.59702</td>
</tr>
<tr>
<td>1982/83</td>
<td>2959</td>
<td>2076</td>
<td>0.703588</td>
</tr>
<tr>
<td>1983/84</td>
<td>3100</td>
<td>2547</td>
<td>0.821613</td>
</tr>
<tr>
<td>1984/85</td>
<td>5992</td>
<td>2676</td>
<td>0.446595</td>
</tr>
<tr>
<td>1985/86</td>
<td>9504</td>
<td>3492</td>
<td>0.367424</td>
</tr>
<tr>
<td>1986/87</td>
<td>8727</td>
<td>3314</td>
<td>0.379741</td>
</tr>
<tr>
<td>1987/88</td>
<td>6450</td>
<td>5088</td>
<td>0.788837</td>
</tr>
<tr>
<td>1988/89</td>
<td>10403</td>
<td>5667</td>
<td>0.544747</td>
</tr>
<tr>
<td>1989/90</td>
<td>15830</td>
<td>6427</td>
<td>0.406001</td>
</tr>
<tr>
<td>1990/91</td>
<td>5665</td>
<td>6446</td>
<td>1.137864</td>
</tr>
<tr>
<td>1991/92</td>
<td>21084</td>
<td>7800</td>
<td>0.369949</td>
</tr>
<tr>
<td>1992/93</td>
<td>20527</td>
<td>9236</td>
<td>0.449944</td>
</tr>
<tr>
<td>1993/94</td>
<td>13172</td>
<td>11557</td>
<td>0.877391</td>
</tr>
<tr>
<td>1994/95</td>
<td>12877</td>
<td>11249</td>
<td>0.873573</td>
</tr>
<tr>
<td>1995/96</td>
<td>16537</td>
<td>14289</td>
<td>0.864062</td>
</tr>
<tr>
<td>1996/97</td>
<td>39643</td>
<td>15032</td>
<td>0.379184</td>
</tr>
<tr>
<td>1997/98</td>
<td>32022</td>
<td>16457</td>
<td>0.513928</td>
</tr>
<tr>
<td>1998/99</td>
<td>18353</td>
<td>16189</td>
<td>0.88209</td>
</tr>
<tr>
<td>1999/2000</td>
<td>20448</td>
<td>17524</td>
<td>0.857003</td>
</tr>
<tr>
<td>2000/01</td>
<td>31267</td>
<td>18292</td>
<td>0.584652</td>
</tr>
<tr>
<td>2001/02</td>
<td>33228</td>
<td>14385</td>
<td>0.432918</td>
</tr>
<tr>
<td>2002/03</td>
<td>43203</td>
<td>15886</td>
<td>0.367706</td>
</tr>
<tr>
<td>2003/04</td>
<td>23738</td>
<td>18912</td>
<td>0.796697</td>
</tr>
<tr>
<td>2004/05</td>
<td>38152</td>
<td>23657</td>
<td>0.620072</td>
</tr>
<tr>
<td>2005/06</td>
<td>20924</td>
<td>22102</td>
<td>1.056299</td>
</tr>
<tr>
<td>Average 1975/76-2005/06</td>
<td>15172.13</td>
<td>8962.742</td>
<td>0.590693</td>
</tr>
</tbody>
</table>

The Effects of Public-Private Partnerships on Ultra-Poor Households in Bangladesh: Evidence from the IGVGD Programme

Nilufa Akhter Khanom*

The problem of poverty is particularly severe in Bangladesh. To achieve the national development goals and especially to reduce poverty, the Government of Bangladesh has started to experiment with cooperative approaches involving the private sector and NGOs. Public-Private Partnerships (PPP) have been introduced as one of these novel approaches to poverty alleviation in Bangladesh. Income Generation for Vulnerable Group Development (IGVGD) is one of the important PPP arrangements under the Social Safety Net Programmes (SSNP) in Bangladesh. This article explores the effects of the IGVGD programme from the survey of sixty-six IGVGD households from fifteen Unions of five Districts. The survey results show an insignificant improvement in income levels. However, the survey results reveal that IGVGD is effective for ensuring food security. The programme also demonstrates noteworthy attainments in improving the rates of school enrolments of children; and in health consciousness such as immunisation of children, access to safe drinking water, and hygienic sanitation.

Introduction

Poverty has been identified as one of the world’s biggest problems. The international community recognises that reducing global poverty is one of the major development challenges of the 21st century (World Bank 2000: 1; World Bank 2001). It was estimated that in 2009, 1.8 billion people lived on less than US$2 a day (UNESCAP-ADB-UNDP 2010: i); and in 2010, 1.4 billion people lived at or below the level of US$1.25 per day (UNDP 2010a).

The problem of poverty is particularly severe in Bangladesh. Bangladesh is one of the most densely populated countries in the world with an estimated 164.4 million people living in an area of 147,570 square kilometres (UNDP 2010b). As estimated in 2010, the infant mortality rate (per 1000, at live birth) was 56; child malnutrition (for children under 5) was 48 percent and the percentage of the population that had access to improved water sources was 74 percent (http://www.worldbank.org.bd and http://www.devdata.worldbank.org/AAG/bgd_aag.pdf). The Human Development Index (HDI) ranked Bangladesh at 129 among 182 countries in 2010; the population with income below US$1.25 a day was at 49.6 percent and that falling below the national poverty line was 40 percent in 2005 (UNDP 2010b).
The Government of Bangladesh sets out the country's broad national development agenda and strategic plans. It has a growing appreciation that contemporary development challenges are complex and require partnerships between government, the private sector and NGOs to make the best use of limited resources. Flexibility is necessary to allow each partner to do what it does best. Public-Private Partnerships (PPPs) are seen by the government as an innovative and effective approach to development in Bangladesh, and thus the Poverty Reduction Strategy Paper (PRSP) prepared by the Government of Bangladesh highlights the need for government-NGO collaboration through Public-Private Partnerships (Bangladesh Economic Review 2007: 170-171).

This article represents a contribution to addressing this major policy issue by examining the effects of the Income Generation for Vulnerable Group Development (IGVGD) programme as a novel PPP approach aimed at alleviating poverty in Bangladesh.

Public-Private Partnerships (PPPs) and Poverty Alleviation

PPP as Tools of the Development Process

PPP is now well-accepted as an organisational arrangement for development (Agere 2000: 68; Paoletto 2000:30; Osei 2004). The prominent argument is that PPPs maximise benefits for development through the collaboration of different actors (World Bank 1999) and provide enhanced efficiency (Brinkerhoff 2002; Brinkerhoff & Brinkerhoff 2004). Certain features of PPPs that are seen as particularly suitable for the development process have been emphasised by the Asian Development Bank Institute (ADBI) and the World Bank. From several studies of PPPs in the Asia-Pacific, the ADBI defined PPPs for development as: “collaborative activities among interested groups and actors, based on a mutual recognition of respective strengths and weaknesses, working towards common agreed objectives developed through effective and timely communication” (ADBI 2000: 42). From the experiences of several poverty alleviation programmes in Latin America and Caribbean countries, the World Bank (1999:4) defined PPPs as joint initiatives of the public sector in conjunction with the private for-profit and also the not-for-profit sectors for development, where each of the actors contributes resources and participates in the decision-making process. While the ADBI and the World Bank emphasised PPPs as tools of development process, the pro-poor PPPs are particularly focused on poverty alleviation in developing countries in which NGOs are involved as important actors.

Pro-poor PPPs

Partnerships between government and private sector organisations such as NGOs and community organisations for the provision of services
are becoming increasingly common in developing countries. These partnerships are intended to provide public services that are better suited to the needs of the poor people, since NGOs and community organisations are usually seen as being better able to understand the needs of the poor (UNESCAP 1999 and Caplan 2001). Thus, UNESCAP (2004) defined pro-poor PPPs as arrangements that are able to attract private-sector involvement to the provision of basic services to the poor in a sustainable way for long-term poverty alleviation. The pro-poor PPPs can be defined as those arrangements that constitute a partnership between government and private-sector organisations, particularly not-for-profit organisations, where risks and benefits are shared, and outputs and outcomes directly benefit the poor. The nature of pro-poor PPPs is further explained by UNESCAP (2004). First, while a classic PPP is composed of a public entity (either from central, provincial or local government) and a formally established private company, a pro-poor PPP usually includes NGOs and community organisations as crucial partners. Second, the agreement between the parties does not always need to be a formal contract. It can take any form that suits the particular context and is appropriate for assigning risks and rewards to each partner. Finally, a PPP should be considered as a pro-poor PPP only if it benefits the poor disproportionately and/or explicitly integrates the concerns and needs of the poor into the PPP (UNESCAP 2004).

Pro-poor PPPs can assist in the process of poverty reduction in many ways, since PPPs help in generating income and employment, and address different issues of the multidimensional poverty. The Asian Development Bank (2006:4) argued that pro-poor PPP projects have a positive and direct influence on the poor by:

1. providing affordable access to good-quality economic and social infrastructure services to poor people;
2. generating employment and providing business opportunities for the poor;
3. enabling poor people to have a better quality of life by increasing their access to health care services, education, safe drinking water, information and markets.

Thus, pro-poor PPPs may be concerned with generating income and employment for the poor; providing safe drinking water, sanitation, basic health services and education, and infrastructure services for poor people (World Bank 1999; ADBI 2000; UNESCAP 2004; and ADB 2006). The next section deals with the effects of pro-poor PPPs in poverty alleviation.

Effects of Pro-Poor PPPs in Poverty Alleviation

Pro-poor PPPs are considered as effective tools for reducing poverty because they bring productivity gains and generate capital. In relation
to poverty reduction, Brinkerhoff and Brinkerhoff (2004) argued that the
emphasis on partnership in PPPs is driven by genuine interest in seeking
new inter-organisational arrangements to address poverty reduction and
deliver development services effectively to those who need them.

The World Bank (1999) reported that the synergies and
complementarities achieved by different social actors working together
in PPPs led to gains in output and productivity (World Bank 1999:1). The
gains in output could be found in many forms, such as improved education
for poor children, water and housing for low-income households, more
income-generating opportunities, and other welfare achievements. The
ways in which PPPs achieve such gains are varied in nature and activities.

One of the ways by which PPPs can achieve qualitative and quantitative
gains is through the provision of basic social infrastructure such as water,
sanitation and housing for the poor. In the Water for Poor Communities in
Manila, a PPP achieved both qualitative and quantitative gains that enabled
poor households in Manila to connect to piped water supply (United
Nations 2005). Between 1997 and 2004, 438 projects were implemented that
benefited more than 700,000 urban poor residents by connecting 218,000
households to the water supply. The qualitative gain was the improved
health and wellbeing of the poor people achieved through access to safe
drinking water at lower cost; the quantitative gain was the increased
number of households connected to a piped water supply.

PPPs for income generation among the poor also showed how
productivity gains can be achieved. There are two direct ways of providing
opportunities for income generation: microcredit and microenterprise
programmes. In these programmes, the provision of training in income-
generating skills, technical skills and management skills as well as the
provision of financial capital enables poor people to earn additional income
from increased productivity. For example, a successful income generation
programme was run by the Mendoza Foundation in Venezuela (World
Bank 1999). In the ten years it functioned, the programme provided training
for over 12,000 micro-entrepreneurs. Originally, the Mendoza Foundation
developed its microenterprise programme with technical assistance from
the Colombian Carvajal Foundation, and initial funding was provided by
the Inter-American Development Bank. Over the years, the programme
expanded its coverage by bringing in new actors, such as the national
government’s training programme to develop small enterprise, funding
operating costs from a private organisation and also funding from other
commercial banks. The Foundation was thus able to increase incrementally
the capacity to connect with growing numbers of stakeholders. All this
contributed to constant gains in economic productivity while at the same
time poor participants enhanced their income-earning capacity. Similar
effects are found from several pro-poor PPPs in Bangladesh. For example,
in Bangladesh the Palli Karma Shahayak Foundation (PKSF) (in English, Rural
Employment Support Foundation) provides necessary technical skills
training to NGOs in the Rural Micro Credit (RMC) programmes of the
PKSF; and the NGOs provide income-generating skills training as well as
finance to poor people (PKSF 2006, 2010). The rural poor people utilise both
the training and the finance to earn additional income. Thus, pro-poor PPPs
bring productivity gains to the poor. The next section deals with the pro-
poor PPP programmes in Bangladesh.

PPP Programmes for Poverty Alleviation in Bangladesh

The successful government-NGO partnerships and the PPP in Bangladesh
are found in different development sectors such as education, health and
poverty reduction (ADB 1999). From the experiences and successes of
Gonoshaya Kendra (GK) (in English, Public Health Centre), the World
Bank argues that the development outcomes for poverty reduction and
basic health services would be best attained through effective partnerships
in Bangladesh that involve the triangle of national government, NGOs/
service providers and local government, in which each side of the triangle
acts as an equal partner that strengthens the whole framework (World
Bank 2007: xx). These successes have also encouraged the Government
of Bangladesh to be involved in PPPs. The Government of Bangladesh,
thus, has recently commenced more formal PPP programmes to make a
bigger impact on poverty reduction involving NGOs. There are several
PPP programmes for poverty alleviation in Bangladesh. One of important
initiatives is the Income Generation for Vulnerable Group Development
(IGVGD) of the VGD. Under the Social Safety Net Programmes (SSNP),
the IGVGD is designed to address direct income poverty as well as other
development issues related to human poverty. Apart from the IGVGD,
there are also the Rural Micro-Credit (RMC) programmes of the PKSF,
the Participatory Livestock Development Programme (PLDP), Rural
Infrastructure Development (RID), Youth Development (YD) and National
Nutrition Programme (NNP) (Bangladesh Economic Review 2008, 2009). The
next section outlines a general overview of the IGVGD PPP programme.

Income Generation for Vulnerable Group Development (IGVGD)

An Overview

The Vulnerable Group Development (VGD) programme is one of the
largest SSNPs under the government-NGO partnership arrangements in
Bangladesh. It commenced in 1987 as a pilot partnership programme, based
on an agreement between the Government of Bangladesh, Bangladesh
Rural Advancement Committee (BRAC) and the World Food Program
(WFP) (Matin & Hulme 2003). It targets ultra-poor\(^1\) women-headed
households, specifically aiming to bring sustainable improvement to the
lives of these people with complimentary inputs that will improve their
nutrition, social awareness, livelihoods and self-reliance so its participants graduate out of poverty, hunger and deprivation.

The VGD programme has two components: (i) IGVGD and (ii) Food Security for Vulnerable Group Development (FSVGD). The components together serve 750,000 households (about 3.75 million people) from the ultra-poor households in Bangladesh. In the IGVGD component, participants receive a monthly ration of thirty kg of wheat or twenty-five kg of fortified wheat flour (atta) and in the FSVGD programme, participants receive fifteen kg of fortified wheat flour and Tk. 150 per month.

The focus of the IGVGD is on ultra-poor women trapped in the vicious cycle of poverty, hunger and vulnerability. The IGVGD enables the poorest and most disadvantaged women-headed families to overcome food insecurity and brings them opportunities for sustainable development through Income Generating Activities (IGA) skills training, savings and access to credit. It identifies ultra-poor women-headed families according to five criteria. These are: first, extremely food insecure families who are unable to have at least two meals a day; second, families who have no land or have land less than 0.15 acres (in these two cases, the landless will be preferred for selection); third, families who have very bad housing conditions; fourth, families who have no regular sources of income, or who earn a very low and/or have an irregular income. Finally, the families must be women-headed, or have no income-earning male member (MWCA 2008).

Over a twenty-four month period, the IGVGD development package for participants includes provision of complimentary food rations (either fortified wheat flour or wheat); training on issues such as social awareness, personal health, hygiene and nutrition, legal issues and IGA skills training; savings management; access to credit to allow participants to start IGA and graduation into mainstream NGO development programmes for sustainability (MWCA 2002).

The VGD is operational in fifty-four out of the sixty-four districts across the country. However, during the 2007/08 cycle, only seventeen NGOs were involved with the IGVGD in seventeen districts. The package of development services were implemented by the NGOs in partnerships with local governments, and the Department of Women’s Affairs (DWA) of the Ministry of Women and Children Affairs (MWCA) of the Government of the Bangladesh.

Partnership Management Structure of the IGVGD

The IGVGD is a partnership programme, as its implementation involves the central government, local governments, donors through the WFP and NGOs.

The central government provides financial support through the Ministry of Finance (MoF) to the MWCA. The MWCA is mainly responsible
for the overall design, planning, monitoring and evaluation of the programme. It provides all necessary guidelines, rules and regulations.

The DWA of the MWCA coordinates the whole programme. It is responsible for implementation at Union and Upazilla (sub-district) levels with the involvement of local government representatives - the Union Parishad (UP) chairmen and Upazilla government officials such as Upazilla Nirbahi Officer (UNO) and others. The DWA chooses the NGOs according to criteria set by the MWCA and signs contract agreements with the selected NGOs. The DWA also coordinates with the MWCA.

The local government representatives, especially the elected women members of unions, and the Union VGD Committee are responsible for selecting IGVGD women participants from their unions with the help of the Upazilla Women Affairs Officer (WAO), and/or the Project Implementation Officer (PIO), and the NGO representatives according to the criteria of the MWCA, as mentioned earlier. The local government representatives, mainly the UP chairmen, are responsible for collecting food grains from district food offices and distributing these food grains among the IGVGD women participants (MWCA 2002).

In this partnership arrangement the NGOs are involved in activities to improve the socio-economic status of the participating IGVGD women. This is done mainly by providing a package of six development services:

**Group Formation:** The NGOs form several groups with the IGVGD women; there are not less than five participants and not more than twenty participants in a group from the same union to receive social awareness and IGA skills training.

**Social Awareness Training:** The IGVGD women receive formal, classroom-based social awareness training on different health and social issues. These include personal health and hygiene matters such as using safe drinking water and sanitation, the prevention of basic diseases such as diarrhoea, tuberculosis and HIV, immunisation and child health, the schooling of children, food and nutrition information, natural disaster management and women's empowerment covering such matters as the legal rights of women, marriage and marriage registration, dowry, divorce and birth registration.

**Income-Generating Activities (IGA) Skills Training:** The NGOs provide IGA skills training in at least five activities: poultry rearing, cow and goat rearing, kitchen gardening, pisciculture and entrepreneurship. The NGOs are responsible for developing training modules and providing trainers. The NGOs also ensure that each woman receives at least one type of IGA skills training plus the compulsory entrepreneurship development training.
through formal classroom training sessions.

*Savings Management and Access to Credit:* The NGOs provide training on how to save money and how to manage weekly savings. They are also responsible for providing access to a credit programme in which formal security for the cash advances is not required from the IGVGD women. An IGVGD participant can receive a maximum of Tk. 3,000 in the first year and a maximum of Tk. 5,000 in the second year, although the amounts may vary between NGOs.

*Refresher Training:* The NGOs provide refresher training on different social and health awareness issues and the IGA skills subjects mentioned earlier.

*Starting IGA and Follow-Up:* The NGOs are also responsible for monitoring whether the participating IGVGD women have started any IGA. The NGOs follow up the women’s progress on IGAs during the contract period of twelve months (MWCA 2002).

For these development services, the NGOs receive Tk. 425 per IGVGD woman from the government in the first year of the cycle for a twelve-month contract period.

As an important partner in the IGVGD PPP, the WFP is mainly responsible for mobilising donor resources, and for monitoring and evaluating this programme. It is also responsible for coordinating in planning and implementation with the MWCA (MWCA 2002).

**Expected Outcomes of the IGVGD Partnership Programme**

The expected outcomes of the IGVGD partnership programme are several. First, by receiving a monthly food ration of thirty kg of wheat or twenty-five kg of fortified flour, the poorest families will be able to ensure food security for a twenty-four month period. Second, the participants will improve their household’s food intake and nutritional status. Third, the participants will develop their human and social wellbeing through social awareness training. Fourth, the participants will increase the nutritional level of their family members by using knowledge gained through social awareness and IGA skills training sessions, on matters such as kitchen gardening and poultry rearing. Fifth, the participants will meet the vegetable and protein needs of their households through skills gained in IGA skills training. Sixth, participants will increase their income through utilising IGA skills training and the credit of NGOs. Finally, the participants, by improving their incomes and regular earning capacity, will escape from their poverty cycle permanently (MWCA 2002).
The Household Survey

Purposes of the Survey

The purpose of the survey was to explore the effects of the IGVGD PPP programme on the sample IGVGD households as far as whether they had attained any economic and social development after involvement in the IGVGD in the 2007/08 cycle. The survey particularly examined whether participants had graduated out of poverty, by improving their level of income, earnings and food intake through utilising IGA skills training and the loans provided by the NGOs; whether their children had any improvement in school enrolment and immunisation; and whether they had increased access to safe drinking water and hygienic sanitation.

Survey Methodology

The survey questionnaire was developed on the basis of the expected outcomes of the IGVGD PPP programme which were found in the documents of the MWCA and the DWA. Some questions were included from the report of the Household Income and Expenditure Survey 2005 questionnaire of the Government of Bangladesh (HIES 2005).

The survey questionnaire included several questions on the economic and social wellbeing of the participating households addressing such matters as the average monthly income and per-capita daily income for the FY2007/08 and FY2008/09, expenditure on food, changes in food intake, IGA skills training and loan-receiving behaviour. Other questions covered school enrolment of participants’ children and health issues such as the immunisation status of their children, sources of safe drinking water and sanitation conditions. The survey questionnaire also recorded demographic characteristics such as household size, occupation of the members of households and age and educational qualifications.

To explore the effects of the IGVGD PPPs on poverty alleviation, five districts were chosen out of seventeen, since IGVGD PPP was operational only in these seventeen districts. Fifteen unions from these five districts were selected randomly. Sixty-six women-headed households were selected randomly for this survey from these fifteen unions, as not all households were eligible for IGVGD according to the selection criteria of MWCA (2002). Households were selected from those that had already completed the 2007/08 cycle of the IGVGD programme. The survey data were collected from February to July 2009 and processed using SPSS software.
Table 1
Characteristics of Sample IGVGD Households

<table>
<thead>
<tr>
<th>1</th>
<th>Demographic Items</th>
<th>Households Size (of Persons)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Average Household Size</td>
<td>4.67</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2</th>
<th>Main Occupations/ Sources of Income</th>
<th>Percentage of the Households</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Agricultural Activities</td>
<td>44.8</td>
</tr>
<tr>
<td></td>
<td>Day labourer/Maid</td>
<td>25.8</td>
</tr>
<tr>
<td></td>
<td>Self-employed</td>
<td>24.2</td>
</tr>
<tr>
<td></td>
<td>Others</td>
<td>2.2</td>
</tr>
<tr>
<td></td>
<td>No job</td>
<td>3.0</td>
</tr>
</tbody>
</table>

Findings from the Survey and Analysis

Characteristics of Sample Households

The IGVGD activity is targeted at extremely poor households. According to the selection criteria, the IGVGD beneficiaries should be women-headed households; with a maximum land holding of 0.15 acres of land or landless; between eighteen and forty-nine years of age; having no regular sources of income; and/or being day labourers; and having no productive assets (MWCA 2002).

The survey results (see Table 1) reveal that the average household size among the sample households was 4.67 persons which was slightly smaller than the national average of 4.89 persons in rural areas in 2005 (HIES 2005). It also shows agricultural activities as the leading occupation, accounting for 44.8 percent of sample IGVGD households; which was close to the national data of 47.5 percent that were involved in agricultural activities as the main occupation, although it was lower compared to the national data for the rural areas in Bangladesh, which was 57.6 percent in 2005 (HIES 2005). It is also revealed that 25.8 percent were day labourers/maids, 24.2 percent were self-employed (engaged in different small businesses), and 3.0 percent had no jobs. The findings relating to occupations reveal that the selection criteria were maintained in selecting the IGVGD participants.

Characteristics of Sample IGVGD Participants

The majority of the sample IGVGD participants (56.1 percent) were in the 31-45 years age range, although significant numbers (30 percent) were younger, between 18 and 30 years of age. Educational levels were low with 62.1 percent of the sample participants having no formal education, which
Table 2
Characteristics of Sample IGVGD Participants

<table>
<thead>
<tr>
<th>Demographic Characteristics</th>
<th>Measure/Criteria</th>
<th>Percentage of the Participants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age</td>
<td>18-30 years</td>
<td>30.0</td>
</tr>
<tr>
<td></td>
<td>31-45 years</td>
<td>56.1</td>
</tr>
<tr>
<td></td>
<td>More than 45 years</td>
<td>13.6</td>
</tr>
<tr>
<td>Educational Qualification</td>
<td>None</td>
<td>62.1</td>
</tr>
<tr>
<td></td>
<td>Primary</td>
<td>31.8</td>
</tr>
<tr>
<td></td>
<td>Secondary</td>
<td>4.50</td>
</tr>
<tr>
<td></td>
<td>Higher Secondary</td>
<td>1.50</td>
</tr>
</tbody>
</table>

was higher than the national data for the rural areas in Bangladesh that was 58.88 percent with no formal education in 2005 (HIES 2005). Another 31.8 percent of the IGVGD participants had not moved beyond primary level, while the national data showed that 28.45 percent had at least primary education in the rural areas in 2005 (HIES 2005). The findings of the age level reveal that the selection criteria were followed in selecting the IGVGD participants. However, the findings relating to the educational level reveal that the IGVGD participants were more disadvantaged in education compare to the average rural people in Bangladesh. Table 2 shows the age level and the educational status of the sample IGVGD participants.

Development Status of the Sample IGVGD Households

The survey investigated the development status of the sample IGVGD households including their social and economic development and health consciousness after involvement in the IGVGD programme in 2007.

Monthly Average Household Income and Per-Capita Daily Income

One important expected outcome of the IGVGD PPP was that the IGVGD participants would be able to improve their level of income through utilising IGA skills training and loans. This article explored whether there had been any changes in the average monthly income and per-capita daily income of the sample IGVGD households, as income increase would indicate economic development.

The survey compared the monthly average income of the households for FY2007/08 and FY2008/09. A small improvement in monthly average
Table 3
Monthly Average Income of the Sample IGVGD Households in FY2007/08 and FY2008/09

<table>
<thead>
<tr>
<th>Monthly Average Income</th>
<th>Percentage of Sample Households in FY2007/08</th>
<th>Percentage of Sample Households in FY2008/09</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than Tk. 3,000</td>
<td>47.0</td>
<td>34.8</td>
</tr>
<tr>
<td>Tk. 3,000 to 5,000</td>
<td>34.8</td>
<td>47.0</td>
</tr>
<tr>
<td>Tk. 5,001 to 7,000</td>
<td>16.0</td>
<td>16.7</td>
</tr>
<tr>
<td>Tk. 7,001 to 10,000</td>
<td>2.2</td>
<td>1.5</td>
</tr>
</tbody>
</table>

Table 4
Per-capita Daily Income in US$ of the Sample IGVGD Households in FY2007/08 and FY2008/09

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than Tk. 500</td>
<td>63.6</td>
<td>Less than $0.24</td>
<td>45.5</td>
<td>Less than $0.24</td>
</tr>
<tr>
<td>Tk. 500 to 1,000</td>
<td>34.8</td>
<td>$0.24 - $0.48</td>
<td>50.0</td>
<td>$0.24 - $0.49</td>
</tr>
<tr>
<td>Tk. 1,001 to 1,500</td>
<td>1.5</td>
<td>$0.48 - $0.72</td>
<td>4.5</td>
<td>$0.49 - $0.73</td>
</tr>
</tbody>
</table>

It was found that the proportion of households with an average monthly income of less than Tk. 3,000 decreased from 47.0 percent in FY2007/08 to 34.8 percent in FY2008/09; the proportion of households with an average monthly income between Tk. 3,000 and Tk. 5,000 increased from 34.8 percent in FY2007/08 to 47.0 percent in FY2008/09; and the proportion with an average monthly income between Tk. 5,001 and Tk. 7,000 increased from 16 percent in FY2007/08 to 16.7 percent in FY2008/09.

The survey also examined the per-capita daily income in US dollars to see whether the IGVGD PPP had any effect on it and to compare their level of income with the international poverty line, which was set at US$1 a day. Table 4 also shows a comparison of the per-capita daily average income in US dollars.

It was found that 45.5 percent of households had a daily per-capita income less than US$0.24 in FY2008/09 compared to 63.6 percent of households in FY2007/08, and 50 percent of households had a daily per-
capita income between US$0.24 and US$0.49 compared to 34.8 percent of households in FY2007/08.

Effects of Income

The IGVGD PPP was designed with the expectation that the IGVGD participants would be able to improve their level of income through utilising IGA skills training and loans. There was a slight improvement in monthly average income of the sample IGVGD households in FY2008/09 compared to FY2007/08 (see Table 3). However, it was evident that although the households’ incomes had increased slightly, the average monthly income was significantly lower for 81.8 percent of the households in both FY2007/08 and FY2008/09 than the average national rural household monthly income (HIES 2005). These figures have indicated that the IGVGD PPP had not produced the expected outcome of increasing household income.

As shown in Table 4, although the research found a slight improvement in per-capita daily average income of the sample IGVGD households in US dollars, the per-capita daily income was lower than the international poverty benchmark of US$1 for 100 percent of the sample IGVGD households, and this was the case in both financial years. The research has also specified that 100 percent of the sample IGVGD households lived in extreme poverty in both financial years. Earlier findings on per-capita income of the IGVGD households were similar, with 96.8 percent of the sample IGVGD households having a per-capita income less than US$1 per day after completing the IGVGD 2005/06 cycle (WFP 2007). The findings on the income patterns of the IGVGD households have indicated the low impact of the IGVGD PPP in enhancing income. Moreover, these statistics have pointed out that as the entire IGVGD sample of households lived below national and international poverty lines, the IGVGD PPP had failed to lift participants above these lines and out of poverty. These findings also have indicated inconsistency between the monthly average and per-capita income of the sample households. Several possible reasons for these findings are: the IGVGD participants were very poor (ultra-poor) with no regular income or irregular income and earnings. Further, they could not increase their income for several reasons. For example, they could not utilise IGA skills training, since they were not provided with loans; the small amounts available in loans were insufficient to increase their income.

Food Security

The survey looked into the households’ average monthly food expenditure and changes in food intake in FY2007/08 and FY2008/09 among the IGVGD households to identify changes in circumstances and behaviour. The survey results in Table 5 reveal that expenditure on food increased slightly between FY2007/08 and FY2008/09, since the percentage of
Table 5
Average Monthly Household Food Expenditure in FY2007/08 and FY2008/09

<table>
<thead>
<tr>
<th>Amount of Food Expenditure in FY2007/08</th>
<th>Amount of Food Expenditure in FY2008/09</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount of Taka Spent for Food</td>
<td>Percentage of H/Holds</td>
</tr>
<tr>
<td>Less than Tk. 2,000</td>
<td>33.4</td>
</tr>
<tr>
<td>Tk. 2,000 - 4,000</td>
<td>50</td>
</tr>
<tr>
<td>Tk. 4,001 - 6,000</td>
<td>13.6</td>
</tr>
<tr>
<td>Tk. 6,001- 8,000</td>
<td>3.0</td>
</tr>
</tbody>
</table>

households decreased in two lower categories of food expenditure and the percentage of households increased in one higher category. It was found that 28.8 percent of the sample households spent less than Tk. 2,000 for food per month in FY2008/09 compared to 33.4 percent in FY2007/08 and 48.5 percent households spent Tk. 2,000 to Tk. 4,000 in FY2008/09 compared to 50 percent in FY2007/08. Further, the percentage of households increased in the higher category of food expenditure between Tk. 4,001 and Tk. 6,000 in 19.7 percent in FY2008/09 from 13.6 percent in FY2007/08, which reveals a slight increase in expenditure on food for (19.7-13.6)=6.1 percent households. Food expenditure between Tk. 6,001 and Tk. 8,000 was for only 3.0 percent in both financial years.

One expected outcome of the IGVGD was the assurance of food security for ultra-poor families. To explore this aspect the survey asked about the changes in food intake after involvement in the IGVGD programme. There were no perceived changes in 27.0 percent of the sample households. However, 23.0 percent said that while they did not have enough food security for three meals a day before involvement in the IGVGD programme, they now had food for 3 meals a day. Slight improvement was reported in 38.0 percent of households and even definite improvement reported in 12.0 percent of households. In total, the results reveal that there was a positive impact on food intake in 73.0 percent of sample households. Figure 1 shows the details of changes in food security resulting from the IGVGD programme in FY2008/09.

Effects of Food Security

One expected outcome of the IGVGD PPP was the assurance of food security for ultra-poor families (MWCA 2002). The research explored the average monthly food expenditure and changes in food intake. As shown in Table 5, although the research discovered a slight improvement in expenditure on food, it was still below the national rural average food expenditure. It is found that 28.8 percent of the sample IGVGD households
spend less than Tk. 2,000 on food per month, making their food expenditure less than the national rural average monthly food expenditure of Tk. 3,023 in 2005 (HIES 2005)\(^6\). Almost half of the IGVGD households spent Tk. 2,000 to Tk. 4,000 thus increasing the percentage of the IGVGD household with food expenditure less than the national average, since participants who spent less than Tk. 3,023 were also included in this group.

The IGVGD participants experienced insignificant improvement in food expenditure. However, the programme was effective in promoting food security, since 23.0 percent of the sample households who had no such security before involvement in the IGVGD obtained food security (see Figure 1). Furthermore, there was a total positive effect on food intake for 73.0 percent of sample IGVGD households. These survey results were confirmed by the WFP report, while the WFP (2009) reported that the IGVGD PPP increased the percentage of participating households consuming at least three full meals a day when involved in the programme. Particularly, the WFP reported an effective achievement for 5.4 percent of households who had not enough food for two and/or three meals a day before involvement in the IGVGD (WFP 2009). This research also has established that the IGVGD PPP was successful for increasing food security for the participating IGVGD households.

**IGA Skills Training**

The IGVGD is designed to provide IGA skills training to the IGVGD participants to improve their skills and thus the participants could be involved in income-generating activities. Table 6 shows the types of IGA skills training undertaken by the sample IGVGD households. The survey found that 33.2 percent of the sample IGVGD households did not undertake any IGA skills training.

Of those that did undertake IGA skills training, most took training on poultry raising (47 percent of the sample households). Other types of
Table 6
IGA Skills Training Undertaken in the IGVGD Programme During FY2007/08

<table>
<thead>
<tr>
<th>Types of Training</th>
<th>Number of Participants</th>
<th>Percentage of Participants</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>22</td>
<td>33.2</td>
</tr>
<tr>
<td>Poultry raising</td>
<td>31</td>
<td>47</td>
</tr>
<tr>
<td>Sewing</td>
<td>1</td>
<td>1.5</td>
</tr>
<tr>
<td>Vegetable gardening</td>
<td>5</td>
<td>7.6</td>
</tr>
<tr>
<td>Goat/Cow rearing</td>
<td>2</td>
<td>3.1</td>
</tr>
<tr>
<td>Two Trainings: Vegetable gardening + Poultry/ Goat/ Cow rearing</td>
<td>5</td>
<td>7.6</td>
</tr>
</tbody>
</table>

The survey also investigated how much the IGVGD households earned monthly in FY2008/09 utilising the skills and knowledge gained from the IGA skills training they undertook that year. The survey found that 33.2 percent of the sample IGVGD households did not earn anything since they did not undertake any skills training. Most (62.3 percent) households earned less than Tk. 500 monthly. Three percent of sample households earned between Tk. 500 and Tk. 1,000 monthly and only 1.5 percent of sample households earned more than Tk. 1,000 monthly in FY2008/09. Figure 2 shows the amount of taka earned monthly in FY2008/09 by the sample IGVGD households with the IGA skills they learned. The survey results also reveal that those that did earn mainly received very small amounts.

Effects of Income-Generating Activities (IGA) Skills Training

The IGVGD PPP was designed to provide IGA skills training to the IGVGD participants with an expectation that they would become involved in IGA activities utilising the skills training, and thus would be able to increase their income (MWCA 2002). The research found that 33.2 percent of the sample IGVGD households did not take any IGA skills training (see Table 6) and thus acquired no additional skills for income-earning. Although 62.3 percent of the sample IGVGD participants were involved in income-generating activities, their earnings from those activities were small since they earned less than Tk. 500 per month (see Figure 2). The WFP (2007) found similar participating rates, reporting that 60.9 percent of sample IGVGD households were involved in IG activities after completing the 2005/06 cycle of the IGVGD programme (WFP 2007), although the WFP did not indicate monthly income from those IGA skills training. The findings
Figure 2
Monthly Income Earned in FY2008/09 by the IGVGD Households Utilising IGA Skills Training

Indicate that the expected outcomes relating to the IGA skills training were not achieved from the IGVGD PPP. The possible reasons for this finding are: of those who received IGA skills training, most of them were not involved in any income-earning activities because of insufficient credit, which will be found in the next section. Moreover, in general, there was a lack of relationship between the received IGA skills training and those activities that could generate income.

Loans

It was expected that the IGVGD participants would be able to escape their poverty cycle by joining the NGOs’ regular credit programme and make repayment from regular earnings from loan investment. Participants were asked whether they received loans from the NGOs. Figure 3 shows the survey results. It was found that 87.9 (66.7+21.2) percent of IGVGD participants did not receive any loans from the NGOs. Among them, 66.7 percent of the participants said that the NGOs did not provide them with any loans, though NGOs had to provide access to credit according to the criteria of the IGVGD PPP and although the IGVGD participants were interested to receive loans from the NGOs. Some 21.2 percent said that they did not receive loans since they were very poor and they would not be able to afford weekly repayments given the high interest rates attaching to the loans. The survey found that only 12.1 (7.6+4.5) percent of the sample IGVGD participants took loans from the NGOs, and among them 7.6 percent received less than Tk. 5,000 and only 4.5 percent received loans between Tk. 5,000 and Tk. 10,000.
Effects of Loans

The most important anticipated outcome of the IGVGD PPP was that the IGVGD participants would be able to come out of poverty by having regular earnings through the utilisation of loans from NGOs (MWCA 2002). The research discovered, firstly, that the percentage of the IGVGD participants receiving loans was very low and, secondly, the amount of received loan was very small. It was found that most (87.9 percent) of the sample IGVGD participants did not receive any loans from the NGOs (see Figure 3) and thus had no income from loans. Only 12.1 percent of the sample IGVGD participants took loans from the NGOs, and the amounts of these loans were very low, at less than Tk. 5,000 for 7.6 percent and between Tk. 5,000 and Tk. 10,000 for 4.5 percent (see Figure 3). These amounts were too small to be engaged in any significant income-generating activities. There are several possible reasons for the low take-up of loans. The IGVGD participants were ultra-poor with very limited income earning possibilities, with no assets, and having little or no income-generating skills training to enable them to receive regular earnings. Therefore, they were in no position to make loan repayments, and this discouraged them from receiving loans.

Moreover, NGOs were reluctant to provide loans to the IGVGD participants, 66.7 percent of whom received no loans although they were interested in getting loans. Several explanations are possible for such findings. First, NGOs perceived poor women as powerless despite these PPPs being designed to empower women, and thus the NGOs were reluctant to provide such people with loans. Second, NGOs did not feel confident that the poor women could repay loans. Hulme (2003) identified similar behaviour of NGOs in a micro-study, where he discovered that
although Maymana was an IGVGD participant, as she was very poor, the NGO did not perceive her as a suitable client to provide with a loan. These findings have indicated that the negative attitude of NGOs towards the poor IGVGD participants was one of the factors adversely affecting the expected outcomes of the IGVGD PPP.

**Human and Social Development**

To investigate the improvement in human and social awareness, the survey considered issues such as whether the children of the sample households were enrolled in schools, either primary or secondary, and whether they were going regularly. Health matters were also examined including immunisation of the children, sources of drinking water and sanitation conditions of the sample households.

**School Enrolment and Immunisation**

Table 7 shows the school enrolment and immunisation conditions of the sample IGVGD households’ children in FY2007/08 and FY2008/09. The survey found that the children of 82.5 percent of the households with school-age children were sending those children to school in 2009 compared to 79 percent in 2008. The survey also found that 97 percent of the sample households’ children were immunised in FY2008/09; compared to 93.9 percent in FY2007/08.

**Access to Safe Drinking Water and Sanitation Conditions**

Figure 4 shows the survey results on sources of drinking water of the sample IGVGD households in FY2007/08 and FY2008/09. The survey found that 87.9 percent of the sample IGVGD households had access to safe drinking water in FY2008/09, which was slightly higher than 84.6 percent in FY2007/08. The survey also found that 12.1 percent of the sample households used unsafe water for drinking from man-made wells and from other natural sources such as rivers, canals and ponds in FY2008/09 compared to 15.4 percent in FY2007/08.

Figure 5 shows the sanitation conditions of the sample IGVGD households in FY2007/08 and FY2008/09. The survey results report that 85.2 (53.8+31.4) percent of the sample households used hygienic toilets in FY2008/09 compared to 82 percent in FY2007/08.

**Effects of Human and Social Development**

An important expected outcome of the IGVGD PPP was that the participants would be able to improve their human and social wellbeing
Table 7
School Enrolment in 2008 and 2009, and Immunisation Conditions in FY2007/08 and FY2008/09 of the Sample IGVGD Households’ Children

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<tr>
<td>No</td>
<td>21</td>
<td>17.5</td>
<td>6.1</td>
<td>3.0</td>
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<tr>
<td>Yes</td>
<td>79</td>
<td>82.5</td>
<td>93.9</td>
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Figure 4
Source of Drinking Water of the IGVGD Households in FY2007/08 and FY2008/09

Figure 5
Sanitation Conditions of the Sample IGVGD Households in FY2007/08 and FY2008/09
through social awareness training. The results in Table 7 show a small improvement with already high enrolment. The findings have revealed improved awareness of schooling since the rate for both years of school enrolment of the IGVGD households was higher than the national level for both sexes, which was 72.71 percent for rural poor in 2005 (HIES 2005). However, it was still lower than the national average for 91.9 percent of both sexes in 2008 (GoB 2009), thus demonstrating the ultra-poor families still lagged behind the rest of the country.

Moreover, the findings regarding the immunisation of the households’ children also have indicated noteworthy achievements (see Table 7), since these immunisation rates are higher than the latest survey on national rates of immunisation, which was 82 percent for fully immunised children aged 12-23 months during 2002 to 2006 (GoB/UNDP 2009). This research also has indicated slight improvement in access to safe drinking water for the IGVGD households (see Figure 4). The access to safe drinking water was higher than the latest national survey rates in 2006 and 2007 which were 77 percent and 84 percent for rural areas in Bangladesh (GoB/UNDP 2009) and also higher than the national average rates of 80 percent in 2008 (UNICEF 2011). The research also found that 85.2 percent of the sample IGVGD households had access to hygienic toilets, which was higher than the national rate of 81 percent in 2006 (GoB/UNDP 2009) and higher than the national rate of 53 percent in 2008 reported by UNICEF (UNICEF 2011).

The findings relating to human and social development have indicated significant development of health consciousness among the sample IGVGD households. These are assumed to have resulted from social and health awareness training provided by the NGOs as the part of the package of development services of the IGVGD. Improvements in health awareness were also identified by the WFP, which reported that 26 percent of the IGVGD households acquired access to sanitary latrines and 98.3 percent had access to tube well water (safe drinking water) after finishing the 2005/06 cycle of the IGVGD programme (WFP 2007). The findings seem to confirm the effects of the IGVGD PPP on human and social development, though the improvement in social awareness might not be due to the single effect of the IGVGD PPPs. They might also derive from government campaigns (Ahmed 2007). Thus, although the above findings have indicated improvement, some other factors may have influenced the positive outcomes of human and social development.

Conclusion

The problem of poverty is particularly severe in Bangladesh. Public-Private Partnerships (PPPs) have been introduced as a novel approach to poverty alleviation in Bangladesh. PPPs are assumed to be effective for development since PPPs increase benefits through collaboration, use scarce resources effectively, promote economic growth and enhance efficiency.
The Income Generation for Vulnerable Group Development (IGVGD) is one of the important PPP arrangements under the Social Safety Net Programmes (SSNP) in Bangladesh. The aim of the IGVGD partnership programme is to bring sustainable development to the lives of ultra-poor households in Bangladesh by different complimentary inputs, such as food rationing, social awareness trainings, income-generating activities and access to the credit programmes of NGOs. The expected outcomes of this programme were to ensure immediate food security, improve nutritional status and food intake, improve social and health awareness and improve income. This article has explored the effects of the IGVGD programme from the survey of sixty-six IGVGD households which had completed the 2007/08 IGVGD cycle from fifteen unions of five districts.

The survey results have revealed differential success in achieving the IGVGD programme goals. The IGVGD was effective for ensuring food security and demonstrated remarkable achievements in improving the rates of school enrolments and immunisation of children, access to safe drinking water and using hygienic sanitations. However, the findings have also revealed insignificant improvement in income levels by sample IGVGD households. Moreover, although 66.8 percent of the IGVGD participants received IGA skills trainings, most (60.9 percent) of the sample participants were not involved in any income-generating activities. Furthermore, while the IGVGD PPP aimed to involve poor women in the regular credit programmes of NGOs to improve their income, the survey results revealed that most (87.9 percent) of sample IGVGD participating women were not involved in the NGOs’ credit programme. Finally, the findings have indicated several possible reasons that hindered the expected economic development outcomes from the IGVGD PPPs. These are: most of the IGVGD participants did not receive loans from the NGOs, and thus they could not be involved in any productive income-earning activities and could not utilise IGA skills training, and consequently could not increase their income. Moreover, the IGVGD participants were ultra-poor with limited income-earning possibilities and no assets, which also discouraged them from receiving loans; additionally, the NGOs were reluctant to provide loans which further affected their income-earning possibilities.

Notes
1. IGVGD households usually have poverty lines at less than 1,805 kcal of food intake, which is defined as Ultra-poor (WFP 2007).
2. FSVGD is only operational in seven districts in Northern Bangladesh: Dinajpur, Kurigram, Lalmonirhat, Naogaon, Rajshahi, Panchagarh and Thakurgaon. These areas are ‘monge’ (Bangla name for a near-famine situation) prone areas where the level of food insecurity is very high.
3. The exchange rate in July 2007 was US$1 = 69.86 taka. (Source: www.worldbank.org.bd/bds)
4. The exchange rate in July 2008 was US$1 = 68.57 taka (Source: www.worldbank.org.bd/bds).
5. National Survey Data on monthly income and expenditure for Bangladesh is not available after 2005.
7. Data is not available for fully immunised children after 2006 in Bangladesh; however, data was available for individual diseases such as tuberculosis and measles. For example, 99 percent of 1-year-old children were immunised against TB in 2008 (GoB 2009, UNICEF 2011).

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The Pull and Push between Central and Local Political Parties: A Case Study of Party Branch Organisation in Indonesia

Ulla Fionna

With the resignation of former president Suharto after thirty-two years of oppressive rule, political parties were granted freedom in their operations more than a decade ago, most notably through the lifting of bans on grassroots operations. At the same time, new policies of administrative and political decentralisation have influenced parties to empower their local branches. This combination of political freedom and decentralisation has given parties the opportunity to establish active and functioning grassroots branches and the chance to get local communities to engage in politics. This article examines and compares the operational capacities of four different parties (Partai Golkar, Partai Demokrasi Indonesia Perjuangan, Partai Amanat Nasional, and Partai Keadilan Sejahtera) in their local branches in Malang, East Java. Focusing on the aspects of local administration and local-central relationship, the article demonstrates that although the parties have responded positively to their newfound freedom to operate locally, that same freedom has benefited parties with better local resources and better central support.

Introduction

Never have Indonesian parties experienced as dramatic changes as those presented them in the years following the resignation of former president Suharto in 1998. Although during the Old Order era (1945-66) the parties were free, because the setting of their stage of development was the early days of independence, they were unable to develop fully-functioning branch organisations. Instead, they focused on central politics, but lacked strong roots in society (Rocamora 1973: 144). Feith explained that after the 1945 independence, although parties' focus was to "rally the peasantry", party membership was not a priority and thus local branches were ineffective around 1945-49 and 1950-153 (1957: 8). In the New Order era (1966-98), parties were severely oppressed and manipulated by the government in order to ensure the continuance of victories by the government's electoral vehicle Golongan Karya (Golkar, Functional Group). Until the end of Suharto's era, the Indonesian parties had never had the opportunity to perform their functions effectively – particularly at the grassroots level.
The most challenging circumstances by far for the parties came with the start of the reformasi (reform) era in 1998. After more than three decades of heavily centralised politics, the pressure to open up and decentralise meant that Indonesia developed a free and lively civil society and media, that there was a flow of authority transfer from international development agencies and NGOs to local private bodies (Ribot et al, 2011), and that there was a rise in political representation of marginal and disenfranchised sections of the community at below-state level (Carnegie 2010). For political parties, this era meant that they now not only had complete freedom to establish branches at the grassroots level, they were actually required to have extensive branches across the different regions. Also, since 2005, governors, bupati, and mayors have been elected directly as well – which means that parties that have either gained 15 percent of votes in past elections or occupied 15 percent of seats in the parliament can nominate candidates. These have forced parties to be a lot more active like never before in Indonesian history.

Using case studies from local branches in Malang, this article argues that decentralisation poses great difficulties to some Indonesian parties, particularly because at the same time parties are still centralised (Hellmann 2010), so parties have to delicately manage both forces. Although theories on political parties suggest that decentralisation is a sign of maturity (Blondel 1978; Janda 1980; Mainwaring & Scully 1995), Indonesia’s political parties suffer largely due to lack of support from the central office – a necessity for success in decentralisation. Consequently, the financial and human resource problems have caused them, at times, to abandon party regulations – causing violations in local operations. As organisational effectiveness improves a branch’s capacity in managing activities and members, these challenges could threaten parties’ popularity – which is essential in drawing votes. The better the branch organisation, the more frequent the activities and the greater the chance to attach members to parties. In contrast, poor branch organisation results in erratic activities and detached members. These branches risk losing members, through failure to constantly promote the party, and losing votes, as members are easily swayed by more active parties.

**The Importance of Party Organisation and the Indonesian Experience**

Mainwaring and Scully argue that one of the most important prerequisites of successful democratic transition is the strength of party “roots” in the society and the success of the major parties to provide “regularity,” so that voters know what the parties represent (1995: 5). In this sense, the parties’ branches should be well-established as party representatives that are successful in familiarising parties to the local community. In order to achieve this condition, parties should have stable and active local institutions. Providing specific measures of parties’ organisational success,
Janda (1980: 85-89), Mainwaring and Scully (1995) and Selle and Svasand (1991) contend that indicators of the best-organised parties include a wide-range of activities for their members and capacity to implement party activities at the local level. Local branches must demonstrate their capacity to manage local administration and promote themselves as the link between the parties and the community through the regularity and stability of their function.  

Closer examination of party organisation has resulted in studies with different perspectives. While some looked at party types (Katz & Crotty 2007), Dalton and Waltenberg (2000) argue that a party’s organisation capacity has implications on membership and member mobilisation in a party’s election campaign. Along similar lines, Blondel (1978: 137-140) presents four “ideal requirements of party organisation”: the party should be “large” (a large party is seen to be successful in bringing the community together), “unified”, “dynamic” (organising frequent and regular activities), and “democratic” (listening, caring for, and implementing what members want). In all these requirements, the party needs to establish effective membership organisation. Another scholar that supports the notion of members’ importance is Scarrow (1996), who attributes winning elections to effective party organisation and membership management. The importance of local branches in elections is further asserted by Deschouwer (2006: 298), who points out that they are the ones organising local campaigns, holding public rallies, and disseminating leaflets. Thus, these organised parties are ones that are popular, active, and successful in creating close relationships with local branch members.

Indicators of party organisation also involve both the organisational capacity of the branches themselves and their relationship with central offices. Scarrow’s (1996) study on German parties found that the best organised parties establish a system of close control and support for their branches, where the state office provides financial and guidance control and the regional office handles membership, activities, and campaigning. Supporting Scarrow’s finding, Janda (1980: ch 9) points to the degree of “centralisation”, where regional and local bodies have clear guidance from the central office, as a crucial requirement of effective party organisation. Thus, while local branches need to have clear guidance from central office and have a close working relationship, they also need to develop the capacity to implement activities and programs independently. Centralisation and decentralisation need to be present in balance for parties to be successful.

Another important aspect of party organisation is party funding. Webb (1995) focuses on party finance as an indicator of party organisation and contends that resources and the ability to deploy resources effectively are crucial in determining a party’s organisational strength. He extends his argument to point out that successful parties have a professional internal organisation, which includes the party’s financial position and staffing.
Szczerbiak (1999) gave an even more detailed indicator of organisation, by examining the physical condition of local administrative infrastructure. Pointing to the importance of the “nuts and bolts” of organisation, such as local offices, communication facilities, and paid local party staff, he argues that better-organised parties demonstrate advancements in these aspects. Party employees have been cited as “one of the most under-researched fields in the study of political parties” (Webb & Kolodny 2006: 337). Among the rare studies on party staff, Katz and Mair’s (1994) edited book argues that advanced parties employ skilled and professional (usually paid) staff, permanently or seasonally during election periods.

The developments of party organisation in post-authoritarian studies have also demonstrated specific trends. Studies on post-authoritarian regimes typically distinguish between incumbent and new parties, pointing to the disadvantages of new parties, whose local offices cannot perform bureaucratic functions, as they are usually single meeting rooms with limited communication facilities and no paid employees (Szczerbiak 1999). In these parties, membership dues are symbolic and local branches receive minimal support from central office. Spirova’s study demonstrates the correlation between the level of party organisation with its success in building support and management at the local level and the fact that new parties tend to be inferior in organisational structure, leading to weak links with society (2005: 601-609).

In extension to the emphasis on facilities, Appleton and Ward (1995) present a set of indicators for organisational innovation or an “introduction of new structures and practices”, which they group into personnel, finances, activities, and physical resources. In terms of personnel, parties ideally have a clear division of labour and a change from voluntary to paid staff. In terms of finance, parties should demonstrate clear fundraising techniques and subvention formulas (how funds are distributed across different levels of hierarchy). In terms of activities, parties should have recruitment methods and affiliations with other organisations. In terms of physical resources, parties should have headquarters, satellite offices, and the utilisation of new technology; as Appleton and Ward (1997: 353) argue, the “use of computers or communication systems represents an organisational adaptation”.

These are the requirements that all parties ideally meet. In Indonesia, however, history has created largely dysfunctional parties. Since its independence in 1945, little attention was given to party branches’ organisation (Feith 1957: 7-8, 28-29), and the priority was on members’ mobilisation, as parties with large membership had a greater chance of developing their organisations. Major parties like the Partai Nasional Indonesia (PNI, Indonesian National Party) and the Partai Komunis Indonesia (PKI, Indonesian Communist Party) relied on their capacity to expand party membership for development (Rocamora 1970: 146; Hindley 1966: 73, 78-84). In this period, the branches were set up merely as the
symbol of expansion, but with minimal support from central parties (Feith 1957: 8). Party organisation was crucial in ensuring coordination between central offices and the scattered branches across the regions, but parties were established during the times of struggle against colonisers and had limited resources and little incentive to develop local branches.

Only Partai Komunis Indonesia (PKI, Indonesian Communist Party) was able to manage well-established branches and have good working relationships between central and regional offices, and party constitution was rigorous and heavily enforced to ensure this working relationship (Central Comite Partai Komunis Indonesia 1954: 17). Studies on PKI have also revealed that it had an extensive organisational structure, equipped with various supporting bodies at every level of party hierarchy (van der Kroef 1965: 166). In accordance with Janda’s requirements of centralism (1980), PKI had tightly-controlled administrative and financial arrangements, with strict regulations on the frequency of meetings and decision-making processes (Hindley 1966; Central Comite Partai Komunis Indonesia 1954). It successfully managed itself, relying on members’ dues and its own financial capacity (McVey 1965: 157), and held an extensive range of activities with a strong focus on spreading the communist ideology (van der Kroef 1965: 182-203; Hindley 1966: 116; Tornquist 1984: 77). In education, PKI established a university with communism as an integral part of the curriculum, aside from general subjects (Hindley 1966: 94-95). The PKI also had clear and strict policies on membership and career promotion (Central Comite Partai Komunis Indonesia 1954).

In contrast to PKI, Partai Nasional Indonesia’s (PNI, Indonesian Nationalist Party) organisational enlargement strategies were based on its leaders’ popularity, as well as influence in local bureaucracy (Rocamora 1973: 150, 151, 154; Feith & Castles 1970: 28, 153). Party authority was vested in its Party Council, which is in charge of electing the body responsible for formulating party policies and its day-to-day operations (Rocamora 1974: 140-141; Sjamsuddin 1984: 6-7). However, constant amendments to its party constitutions resulted in chaotic organisational structures, eventually giving more influence to local branches and leaders, which was needed to manage grassroots support for election purposes.

Financially, the PNI was lacking the rigour of PKI. The party relied on contributions from the business community and from the state, while a minuscule 3 to 10 percent of the party’s budget came from membership dues (Rocamora 1974: 190). Although there was a specific department to manage its cadres, there was little contact between local, provincial and central offices (Rocamora 1973: 156). As a result, branches often had to elect local leaders from non-cadres and even non-members (Rocamora 1973: 155). The PKI’s rigorous organisation was key to its success, while PNI’s struggle was mainly caused by its failure to stick to its own regulations.

These two cases of pioneering Indonesian parties demonstrate the importance of supporting and enforcing discipline from central offices...
to ensure the success of local branches. Only major parties were able to
set up branches across the country, and even the large parties faced great
difficulties in maintaining active and well-functioning branches. In this
setting, although the parties had the freedom of self-administration, they
faced serious organisational challenges to establish well-functioning
branches that adhered to party regulations.

In the next period of administration in Indonesia, parties were
oppressed and manipulated as government intruded into internal affairs
of parties.\(^5\) Between 1966 and 1998, Indonesian parties were denied the
freedom and capacity to develop their organisations. During the New
Order era (1966-98), the Suharto government banned parties from having
grassroots organisations, claiming that they would only distract society
from economic development. Known as the “floating mass concept”, the
implication of the policy saw the restriction of political parties, with only
Partai Persatuan Pembangunan (PPP, United Development Party) and
Partai Demokrasi Indonesia (PDI, Indonesian Democratic Party) allowed
to contest in elections beside the government-backed Golongan Karya
(Golkar, Functional Group). What resulted was an apolitical society and a
dysfunctional party system, with political participation being largely non-
existent. Only Golkar was able to continually be present at the community
or sub-district level. The PPP and PDI received minimal funding support,
while Golkar had abundant financial resources from the state. Party
organisation suffered frequent intrusion from the government, and internal
affairs were often decided by the government. Even the government-
backed party, Golkar, was denied independence and the chance to
develop its organisations, and was placed under close government and
army control. In this period, party organisation became the mechanism of
institutionalising government control.

Party ideology and leadership was decided by the government. The
government used Golkar’s status as a non-political organisation to allow
them to operate at the grassroots level, while the PPP and PDI were
prohibited from doing so and could not remained active outside election
periods. The government’s funding and support from civil servants ensured
that Golkar’s victories dwarfed the other parties.

Thus, until the beginning of the reform era, which started with
the fall of Suharto in 1998, Indonesian parties had very little chance to
develop successfully. In the post-independence period, the parties were
still at an early stage of development and the size of the country posed a
great challenge for the parties to implement party regulation rigorously.
Decentralisation during the New Order period happened in a narrow and
limited sense only in that the parties had offices at the district level but
not below that. Thus, although this meant that there were hundreds of
district branches, there was no effort from the parties to connect with local
communities.\(^6\) As a result, party branches’ activities were restricted and
very limited during this New Order period. In both periods, party branches
were unable to perform and function. It was in this situation of lack of experience in development that freedom for parties was created.

**Grassroots Party Organisation in Malang**

Post-New Order, the freedom and the dramatically contrasting conditions between the Suharto and reform-era days have brought varying consequences for the parties. The lack of experience and indeed lack of reference to organisational success from predecessors have forced the current parties to interpret and use the freedom variably among one another. While for better-organised parties the freedom has been successfully utilised to establish active and well-functioning branches, for the poorly-organised parties the independence means lack of central support and chaotic branch management. Because better-organised parties produce more frequent activities, they are more effective in establishing the roots of the parties in the community (Mainwaring & Scully 1995). Thus, decentralisation in Indonesia has been detrimental for the poorly organised parties, as it hinders their attempts to create stronger roots in society.

**Partai Golkar**

Partai Golkar’s Malang district branches demonstrate the party’s capacity to remain the most-organised party in Indonesia. The main reason for success in decentralisation for the party is the well-preparedness of its local branches. It is hard to argue against the fact that, because of all the New Order’s support for the party, Partai Golkar’s branches are the most organised among the incumbents. Its branches have the best resources and staff to maintain strong connections with the community. Party activities are wide-ranging and frequent, and the party’s sub-organisations have a strong presence in local bureaucracy. Party personnel are professional staff with adequate administrative skills, and although office facilities are quite modest, filing and archives are well maintained in both kodya (municipal) and kabupaten (district/regency) offices. In particular, its kodya branch has also established a close working relationship with the central office, with regular quarterly reporting mechanisms in place. For the party, decentralisation has been implemented successfully with its branches’ capacity to effectively handle local responsibilities.

The branches’ superiority in administration has resulted in overwhelming support originating from the former New Order government. One clear example of this support is the existing network of sub-organisations (unsur-unsur), some of which are Himpunan Wanita Karya (HKW or Women’s Functional Group), professional groups and religious groups. The institutionalised network of support that the Suharto government established has been extended to its branches. In Malang, Partai Golkar’s offices own the buildings that they occupied – an
advantage that no other parties have. The ownership of the office buildings signifies its superior resources, while at the same time simplifying its daily administration. Most notably, the party is free of the burden of having to relocate frequently as the other parties do. The party is also the only one that is administered by professional administration staff. The capacity to hire staff with administration skills is also the party’s advantage against the other parties.

The success of decentralisation in Partai Golkar is also evident in the frequency and variety of activities organised by the branches. The kodya office had at least three meetings per week conducted in the building – aside from other activities done outside the office. Local staff members demonstrate their commitment and organisational skills through the extent of local activities. Most notably, the party was successful in organising schools which aimed to serve members. This was done through the party organisation, Yayasan Pengembangan Ilmu dan Karya (Foundation for the Development of Science and Vocation) – which had established schools that prioritise admission for members. The local chairman, Aries Pudjangkoro, who is also a businessman, used his business contacts to connect employers with unemployed members, and the party organised an event in mid-2005 to help promote local vendors to the members and community leaders. Aside from these activities, the branches hold regular religious meetings as well as monthly meetings among different sections in the party.

The party’s financial capacity has further demonstrated its capacity in achieving independence. Although reluctant of being clear and specific of party finance, local members have said that insufficient funding support from the central office forced the branches to conduct their own fund-raising programs. Although Indonesian parties tend to be reluctant in sharing information on their funding matters, it is generally understood that the business community and supporters are their main resources (Mietzner 2007). In Malang, Partai Golkar’s frequent activities and the choice of employing professional staff is a testament of its success in acquiring stable funding resources, despite the lack of central support.

Because of the capability of the branches to secure and maintain resources, Partai Golkar in Malang has been able to have a strong presence among the local community, even below the sub-district level. Its frequent activities and popularity have also been supported by the prevalence of its sub-organisations at the community level. All these factors play important roles in establishing well-functioning local branches. In turn, these branches are instrumental in attracting and maintaining support for the party. During elections, these branches have the responsibility to organise campaigning activities. In this sense, Partai Golkar’s Malang branches have been successful in providing continuous support for the party.

Partai Demokrasi Indonesia Perjuangan

Having similar status as an incumbent or survivor from the New Order
era, Partai Demokrasi Indonesia Perjuangan (PDIP, Indonesian Democratic Party Struggle) reflects rather dramatically different trends to the Partai Golkar. Its two main Malang branches also show levels of strength and commitment in maintaining the party’s local presence that were different from each other. Although the kabupaten (district/regency) branch is quite active in maintaining an active and well-organised branch, its kodya branch is inactive outside election periods. In both offices, the staff are party members with minimal administration skills, as what they were required to do was mainly to man the offices – not to manage the administration. Branch staff involvement in party activities also differs, with kabupaten staff showing greater capacity in administering the office, while kodya staff mainly just man the office. Local activities depend instead on the initiative of grassroots leaders (sub-district leaders and activists), while the district leaders demonstrate limited attention for the party. District leaders were more occupied by their public office position (as mayor or regent) than attending to party business. For instance, the leaders only visited the offices whenever necessary, such as during infrequent meetings. Activities are erratic and party influence at the local level was ineffective, particularly as district branches were typically pad-locked and thus difficult to make contact with.

Decentralisation in PDIP has, in general, enhanced the damages that the New Order government caused the party. The lack of capability to function in the party was inherited from the manipulation of the party system during the New Order era. The imbalance of funding and organisational support given to the government-backed and otherwise, created parties that are too dependent on government and unable to administer themselves. In this sense, the commitment of local leaders have been instrumental in keeping Partai Golkar active, while for PDIP kodya it was the lack thereof. Although there is freedom to establish local organisations, the PDIP kodya has been largely unable to take advantage of such situation.

In terms of its physical office, PDIP enjoyed a similar advantage of inheriting the offices the party used during the New Order. However, different from Partai Golkar, PDIP was unable to manage these offices properly. The kabupaten office generally functioned more efficiently than the kodya office, which was pad-locked most of the time. The kabupaten office hosted frequent gatherings of cadres, with office administrators present in the office daily. In contrast, the kodya office was only a physical building but had a very limited function as an office. Again, commitment from local leaders was the determining factor in this difference. As the kabupaten’s leaders and cadres have shown more commitment to visit and manage the branch, the kodya’s did not. According to the office minders, fewer meetings have been held in the office compared with previous years – as little as once a month or less. This is fewer compared to Partai Golkar’s branches for instance, which held meetings every week at the branches. Although the office did keep a membership database which suggests that there are
hundreds of members\textsuperscript{13}, there has been no attempt to establish regular maintenance to keep it up-to-date. In contrast to the kabupaten office, the kodya office failed to maintain an office archive. Thus, in terms of local administration, the PDIP case demonstrates that, even within the same party, decentralisation may have different impacts on different branches.

Investigation in Malang district revealed that branches depend on the initiative of local leaders to determine a particular system to apply and stick to. In the PDIP, these initiatives emerged from the grassroots leader, rather than the district ones. Most notably, initiative for local activities came from grassroots leaders – in Malang’s case, it was the attempt to build local infrastructure for particular sub-districts. There was also a gathering initiative established among different grassroots groups. One example of these is the establishment of arisan (rotating credit schemes) among several sub-districts and the re-painting of the local kabupaten office. The PDIP greatly benefited from these grassroots initiatives to maintain contact with members, particularly since the district leaders were more occupied with their non-party occupations instead.\textsuperscript{14}

Funding in the PDIP was, similar with Partai Golkar, dependent on external donations rather than the central office’s support. Similar with Partai Golkar, the schemes and methods for fund-raising applied in the local branches were unclear as leaders and members were reluctant to disclose any information on this. However, in contrast with Partai Golkar’s branches, PDIP’s district branches’ lack of activity could hinder the chance of maintaining a close relationship with their external donors. So far, grassroots support has been supported by the popularity of its national leader, Megawati Sukarnoputri, and this has maintained the party’s electoral success. When asked about why they stayed loyal, members typically claimed that they had great admiration for Megawati and/or her father (Indonesia’s first president, Sukarno). Thus, the charisma of both individuals have played a part in the continuous success in accumulating votes, and arguably because of the same reason, the flow of donation from external sources for the party has remained active as well.

Decentralisation in the PDIP has created great challenges for the different branches. The branches that are able to solidify local administration demonstrate that decentralisation has been successful in creating well-functioning local offices – and vice versa. However, the failure of inefficient branches in this sense cannot be blamed solely on the manipulation of the party system during Suharto’s rule. Rather, initiatives at the grassroots level show that branches’ success depends on the initiative of local leaders instead.

\textit{Partai Keadilan Sejahtera}

For a young party such as Partai Keadilan Sejahtera (PKS, Prosperous Justice Party),\textsuperscript{15} the trend of decentralisation came much sooner than it
did for the incumbents. It needed to develop strong local organisations throughout the regions, and the branches had to immediately be independent in performing their functions. However, the PKS has demonstrated that young parties can develop rapidly, and its Malang branches were successful in establishing active local offices. The district and sub-district branches organised frequent activities – among which were monthly meetings and Quranic study groups, and also aggressive recruitment methods. Party funding was also managed well locally, with party members and cadres showing great commitment in ensuring the flow of financial resources through their contributions. Leaders claimed that aside from external donations, members adhered to strict membership financial contribution. The Malang branches were also the most advanced in the use of technology, with official letters typed on computers and an active e-mail address. Consequently, party staff were also the most technology-savvy. All these factors contribute to the branches’ capacity to project an active party and this in turn contributes to its success of attracting grassroots support, as suggested by election results.

Although the party is much younger than the incumbents, the lack of organisational experience did not show in PKS’s Malang branches. Instead, the branches were much better-organised than the PDIP’s, with offices that were open daily and local leaders were easy to meet in the office. In particular, the PKS’s Malang branches were more responsive to requests from any researcher who was interested in investigating the party. The staff were all party cadres who volunteered to manage office administration. They showed responsibility by being present everyday in the office and dealing with enquiries swiftly. The commitment and professionalism of the local staff was also evident in their handling of the constant relocation of both offices – a process resulting from the fact that both branches were still renting their offices and thus needing to move every year.

PKS’s Malang activities also illustrate the branches’ organisational efficacy, with all activities being Islamic in accordance to the party’s ideology. However, the range of activities from the branches also demonstrates the creativity of the local personnel and their commitment to ensuring electoral success for the party. Some of the activities that the branches organised were exhibitions of Islamic scholars’ caricature, pre-marital information sessions for Muslim couples, and a long-march to remind the society of the coming fasting month around the years 2005 and 2006. Aside from these occasional activities, the branches also organise regular Quranic study groups and recruitment drives to attract new members.

As a young party, PKS has served as a showcase success story and has demonstrated advanced proficiency even in comparison to some of the more experienced parties. The challenges of decentralisation have been addressed successfully through the commitment of party staff. The Malang branches also demonstrate a better-organised funding arrangement, by
ensuring that party members regularly pay their dues. Party cadres who served at the local assembly were also required to donate a portion of their salaries for the party. This is different from the other parties discussed in this article, which in Malang chose not to impose dues and as a result depend on external sources. Although the branches still rely on external sources, they have greater independence resulting from the success of organising internal funding.

Partai Amanat Nasional

The Partai Amanat Nasional (PAN, National Mandate Party) was established after the fall of Suharto in 1998. It relies heavily on the charisma of its former leader Amien Rais, who was also a prominent figure in the pro-reform movement. Decentralisation for this party has caused even more detrimental effects compared to the PDIP. For PAN, the lack of support from the central office and of local members has created inefficient branches that struggle to maintain their presence. Inefficient organisation of the branches has seen a lack of local activities. The struggle of local branches to maintain the party’s presence at the local level has been reflected in the party’s declining votes between the 1999, 2004 and 2009 elections.\(^\text{16}\)

PAN’s Malang branches serve as a showcase of the struggle experienced by the new party that lacks the capacity to handle the challenges of current Indonesian politics. In particular, decentralisation has caused the branches to be inactive. The PAN branches in Malang, similar to the conditions with PKS’s, had to relocate yearly as a result of renting. However, in contrast to PKS’s branches, PAN branches did not manage their relocations well, and consequently the kodya branch had a long period of vacuum, with no physical office as party representation and no activities organised. The kodya staff used the local assembly’s room assigned for the party as the temporary office during the long search for a new office.

It must be noted here that, in both the kodya and kabupaten offices, local staff played a crucial role in ensuring that the party remained alive despite these difficulties. Most notably, the kabupaten branch depended entirely on the chairman, who let his residence be used as the physical office, although he claimed that he was looking for a more representative office to rent. The kodya staff also showed greater enthusiasm than their leaders in responding to enquiries. When a new office was finally found, the cadres were also responsible in setting up the office.

Because of the failure to maintain active branches, local activities at the kabupaten level suffered a long period of inactivity. For the kabupaten office, the activities were also limited because the chairman was mainly running the office alone. The chairman himself was even responsible for the distribution of invitations for regular meetings. These inefficiencies have also impacted the ability of local branches to attract funding. As an evidence of this, local leaders expressed their dependence on external funding, but with the
branches’ inactivity it would be difficult for the branches to garner support from external donors and convince them to donate funding.

These circumstances demonstrate the difficulties for political parties in Indonesia to cope with the current demands. Although PAN’s case shows the weakness of local organisation against the demands of decentralisation, it also highlights the importance of local staff and their role in maintaining parties alive – particularly the challenges of having to be independent. The vacuum of activities and the growing popularity of other new parties (most notably Partai Demokrat/PD/Democrat Party – the current president’s party) are a serious threat to continuing the party’s presence and stabilising or growing grassroots support.

Local-Central Relations and Branch Performance

The case studies on the four parties discussed here have indicated the significance of the local-central relationship on branches’ efficiency and success in organisation. The parties with routine reporting mechanisms have demonstrated better performance – in that they were able to stay active at the local level, while the ones with lax or less-regulated connection with a central office tended to struggle in maintaining well-functioning branches. The local branches require more than a regular supply of funding from the central office. The routine reporting mechanism, such as that shown by Partai Golkar and PKS, created a support mechanism that enabled them to remain active and energised throughout election and non-election periods.

The sweeping trend of decentralisation in Indonesia strongly contributed to the emergence of local politics and local elections. Not only do central offices have to manage national elections, they depend on the local branches to ensure that local elections are well-anticipated as well. Although it must be noted here that mechanisms for candidate selection tends to be centralised and rather blatantly disregard internally-bred candidates, parties with better organisation at least have an option to look internally for candidates. In this sense, central parties with an existing and active report mechanism benefit from having already active connection with local branches.

The four parties have different arrangements of how to manage connections with central offices. Thus, despite the importance of strong central control, generally for all the parties, it is entirely up to the local branches to choose how and how frequently they contact the central offices – and this poses the biggest challenge for the parties. The branches are free to have close or lax connections with the central parties and thus the four parties have different arrangements for reporting mechanisms. Even in the same party, two branches could have different connection arrangements, and the central parties do not impose upon branches to form a connection with them. In the Partai Golkar, the branches demonstrate
great responsibility in maintaining close connections to the central office. The *Kodya* Malang branch, in particular, was committed in organising a regular quarterly report for the central office. The branch organised a compilation of activities complete with details of funding, budget, and photo documentation. One *Kodya* leader, Aries, proudly showed the compilation of books detailing every event that the branch organised, some photographs and even the details of the budget, including receipts from various expenses. However, the *kabupaten* branch did not have the same mechanism although it maintained a close relationship with the central office by frequently consulting it.\(^{18}\) The case of Partai Golkar demonstrates that close central-local relations contribute to more vibrant local branches.

The importance of a close central-local relationship is further demonstrated in PDIP. In Malang, both the *kodya* and *kabupaten* branches operate independently from the central office. For instance, the central office had little influence over the fact that the *kodya* branch was inactive and the office building was padlocked most days. The fact that the *kabupaten* office, in contrast, was very active and held frequent meetings and other activities, further indicates the lack of central control. Instead, it is entirely up to the local office to decide what kind of local organisation it wants to establish. It must be noted here that, despite the lack of frequent connection, the branches have a very strong respect for the central office’s decision. Thus, the connection between local-central offices in PDIP is limited to regular updates from the central to branches (top-down approach), while the branches have very little responsibility to report to the central office. At the same time, central support for branch organisation was very limited and the branches were independent in determining their own operation.

The PKS in Malang was a perfect example of an active and close central-local connection that benefits a young party in the efficiency of the local branches. Both the *kabupaten* and *kodya* offices stayed active throughout the year and maintained frequent activities in the area. This success was due to commitment of the local staff, who showed great care and responsibility to ensure the success of the party and who were equipped with relevant skills to contribute to the party organisation. Relationship with the central office and other higher offices was kept active by frequent communication, in particular between local and central leaders. The party showed a clear distribution of tasks between the central and local offices, with the local offices having a clear understanding of what their responsibilities were. For instance, different from Partai Golkar’s, PKS’s branches understood that they could issue research permits independently.\(^{19}\) The vibrant PKS branches in Malang were clear examples of the possibility of what a young party can achieve with branch staff commitment and central support.

In contrast to PKS, PAN as a young party struggled to maintain its activeness in Malang. During the *kodya* and *kabupaten* office struggle to maintain operation in Malang, there was limited support from the central office. Although the lack of support means that the level of decentralisation
was strong in the party, it also indicated the lack of care for the branches, which in turn indicated the weak relations between the local and central offices. The lack of close relations was further demonstrated by the fact that, despite the concern that grassroots members were being swayed to join another party, the central office still provided very little, if any, support to organise ways and means to keep the members. PAN demonstrated how decentralisation could cause serious challenges when local staff and resources are left to fend for themselves and unable to handle the requirements of keeping active local organisations.

The four parties in this study show a variety of arrangements for relations between the local and branch office. Two of the parties, Partai Golkar and PKS, have close and active relations, while the two others, PDIP and PAN, have weaker and more erratic relations with the central office. This finding indicates two things: firstly, that the post-New Order parties have freedom in organising their own operations and that, secondly, the incumbents do not necessarily always have the advantage of experience in organisation. Younger parties demonstrate that they could be as capable in managing local operations as the incumbents. More importantly, the study indicates the correlation between the local-central relations and the capacity of the local branch. This study suggests that successful parties manage successful decentralisation by maintaining close relations with the local representing branches. Thus, rather paradoxically, successful decentralisation requires close central guidance.

**Party Organisation and Electoral Performance**

Parties depend on their branches at the grassroots level as their representatives, and the more active the branches, the easier it is for voters to connect and make the decision to vote for the party. It must be noted that there is a chance that parties’ local branches were inactive but maintained significant level of support because of the charisma and attractiveness of the national leaders – such as shown particularly by how PDIP has been relying on Megawati Sukarnoputri as a national figure. By the same token, branch activeness does not always guarantee continued success in elections, as shown by the comparison of voting results from the four parties (see table). However, active branches provide more effective and sustainable means and ways for the voters to create stronger attachment to a particular party. In contrast, dependency on specific figures and persons will be more difficult to maintain as leadership changes periodically.

In the past three elections in post-Suharto Indonesia, the trend suggests that the parties which struggle to maintain active local organisations (PDIP and PAN) recorded declines in their performance in national elections (see table). As one explanation of the continued decline, the aggressiveness of recruitment activities was also pointed out by PAN as the reason why
Table 1

<table>
<thead>
<tr>
<th>Contestant</th>
<th>Year</th>
<th>Partai Golkar</th>
<th>PDIP</th>
<th>PKS</th>
<th>PAN</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kodya Malang</td>
<td>1999</td>
<td>16.30%</td>
<td>41.64%</td>
<td>0.76%</td>
<td>10.94%</td>
</tr>
<tr>
<td></td>
<td>2004</td>
<td>12.78%</td>
<td>27.78%</td>
<td>7.67%</td>
<td>7.99%</td>
</tr>
<tr>
<td></td>
<td>2009</td>
<td>7.04%</td>
<td>18.89%</td>
<td>7.41%</td>
<td>4.87%</td>
</tr>
<tr>
<td>Kabupaten Malang</td>
<td>1999</td>
<td>18.32%</td>
<td>38.47%</td>
<td>0.40%</td>
<td>2.90%</td>
</tr>
<tr>
<td></td>
<td>2004</td>
<td>16.75%</td>
<td>28.63%</td>
<td>3.13%</td>
<td>2.56%</td>
</tr>
<tr>
<td></td>
<td>2009</td>
<td>7.57%</td>
<td>12.60%</td>
<td>2.94%</td>
<td>1.23%</td>
</tr>
<tr>
<td>National</td>
<td>1999</td>
<td>22.44%</td>
<td>33.74%</td>
<td>1.36%</td>
<td>7.12%</td>
</tr>
<tr>
<td></td>
<td>2004</td>
<td>21.58%</td>
<td>18.53%</td>
<td>7.34%</td>
<td>6.44%</td>
</tr>
<tr>
<td></td>
<td>2009</td>
<td>14.45%</td>
<td>14.03%</td>
<td>7.88%</td>
<td>6.01%</td>
</tr>
</tbody>
</table>

Source: Pemilu 1999 dalam Angka (Komisi Pemilihan Umum); Suryadinata et al. (2002); Suryadinata et al. (2005); Komisi Pemilihan Umum Malang (2009)

some of their members have changed their affiliation to the PKS instead. While the rise of young parties was influential in the decline of these four parties, PKS, which has demonstrated solid local branches, has recorded more stable election results. Partai Golkar, however, has suffered losses at all levels, and one former party leader claimed that – despite the effort of some branches to maintain tight relations with the central office – it was due to the failure of central leadership to maintain strong relations with the branches. This comment indicates that it is not the failure of the branch organisation, and that despite serious efforts to maintain local activeness, the commitment and management of the central office remains crucial for electoral success.

These examples show the importance of keeping local branches active, and the parties in this study indicate that it is hard to achieve that without close relations and the support from central parties.

Concluding Remarks

The departure of Suharto has opened many doors for Indonesian political parties to be independent and develop their organisations freely. Despite, and because of, the lack of experience, together with the growing trend of decentralisation, the opportunity to be independent has caused different effects for the parties. Although the incumbents have more experience, the success of decentralisation has been determined by the organisational capacity of the local branches. The parties with solid local organisation
demonstrate better management in the delegation of tasks and thus perform better in maintaining active and well-functioning branches. Decentralisation necessitates both independence and adherence to party regulation, to ensure that the branches have rigorous guidelines in their operation. As Indonesian parties continue to manoeuvre their way in the democratic transition, local organisation proves to have gained more importance in party politics.

Notes

1. The Habibie government restructured the election system by Law No. 3/1999, which required parties to have branches in at least 14 provinces and 14 districts/special regions and to have established committees (pengurus) in more than half of the Indonesian provinces and in half of the districts and special regions.
2. Malang is located in East Java. Its urban and rural population combined is a total of around 3 million people.
3. Examples of the two conditions are Thailand’s Democrat Party, which encourages establishment of local branches, while South Korea’s New Democratic Party (NDP) had branches in all constituencies which were closed in non-election periods (Sejong Institute 2000).
4. The party had a Party Congress, a Central Committee, and a Party Conference at the national level. At each level of local government, there was a Major District Party Organisation, a Major District Party Conference, and a Major District Committee (Central Comite Partai Komunis Indonesia 1954).
5. The oppression against parties began in the Sukarno administration with the establishment of Guided Democracy in 1959. However, Suharto, as the next president, institutionalised the systemic manipulation against parties to ensure the continuous winning of the government-backed party, Golkar. For a full discussion on this matter, please see, for example, Reeve (1985) and Feith & Castles (1970).
6. District level is below provincial level in Indonesia.
7. Golkar changed its name to Partai Golkar after the fall of Suharto in 1998.
8. The local staff effectively handled administrative matters, such as book-keeping, record-keeping, and correspondence to the offices. For instance, the office regularly updated the schedule of meetings held in the building – while other parties, such as PDIP and PAN demonstrated no such efforts.
9. Partai Golkar has the most extensive network of community sub-organisations, which focuses on societal and/or occupational groups, such as women, youth, artists, pedicab drivers, fishermen, etc HWK (Himpunan Wanita Karya) and AMPI (Angkatan Muda Pembaruan Indonesia/Renewal Young Generation Indonesia).
10. The decline in number of votes in the 2009 elections could be caused by the aggressive rise of new parties. The discussion on this issue is beyond the scope of this article.
11. The party is the successor of Partai Demokrasi Indonesia (PDI) of New Order.
12. As observed during fieldwork in the 2005-2006 period.
13. In PDIP Malang, membership was problematic. There were members who claimed to have submitted a formal request and a copy of identity card as required, but there were others who claimed that they “simply joined in” (masuk begitu saja). (Interview with party members, September-October 2005).
The leaders of both the kodya and kabupaten offices served as members of local parliament.

PKS was established in 1997 by a group of young Muslim scholars. See table for election results in 1999, 2004, and 2009.

Evidence of the regular communication between central and local offices was when the kabupaten office was informed of the central decision to grant research permit for this study. The kodya and kabupaten offices have different arrangements to grant research permits – where the kodya office required the permit to be issued by the central office, while the kabupaten issued the permit independently.

As mentioned earlier, Partai Golkar’s kodya and kabupaten offices had different procedures for researchers to apply for research permission. It is important to consider here the rise of Partai Demokrat (Democrat Party) in the 2009 elections.

An interview with PAN’s Kabupaten Malang chairman revealed his concern that PAN members have been swayed to PKS instead. This was the observation of Akbar Tandjung, former chairman of Partai Golkar, quoted from an interview after the 2009 general election, as seen at http://politik.vivanews.com/news/read/48220-_golkar_gagal_menjaga_solititas_partai.

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Performance Auditing and Public Sector Innovation: Friends with Benefits or Strange Bedfellows?

Stuart Kells and Graeme Hodge

Today, “innovation” is increasingly seen as a primary dimension of improving public sector performance. “Performance auditing” is, in turn, a widespread activity that seeks to enhance the performance of public sector organisations. This article examines intersections between the performance auditing process and public sector innovation. After presenting simple models of the audit process and the innovation system, the article considers the plausibility of performance auditing’s improvement aspirations. The article then briefly considers performance auditing in the Australian state of Victoria and concludes that, while the circumstances in which performance auditing can spur innovation may be limited, there is cause for cautious optimism about performance auditing’s value in this regard.

Introduction

Innovation is increasingly seen as the key to performance improvement in the public sector (Mulgan 2007; National Audit Office 2006; ANAO 2009; PAEC 2010). Performance auditing (PA) is in turn a widespread activity that seeks, as one of its primary objectives, to enhance the performance of public sector organisations (Kells & Hodge 2009; Barzelay 1996). If innovation is central to improving public sector performance, then the impact of PA on innovation is a dimension of auditing that deserves scholarly investigation.

This article examines, theoretically then empirically, intersections between PA and innovation in public sector organisations. After presenting simple models of the performance audit process and innovation, the article examines the plausibility of PA’s performance improvement aspirations; that is, the extent to which they are founded on realistic assumptions that would be satisfied in a large proportion of performance audits of public sector organisation. Overall, the article argues that it is necessary to examine how PA is likely to affect public sector performance improvement through innovation in a more analytical way than has been the case to date.

A Simple Model of Public Sector Innovation

Innovation is so frequently cited as leading to public sector performance
improvement that the causal relationship is taken for granted. These concepts are indeed almost treated synonymously. In analysing the nature of innovation, it is necessary to distinguish between innovation and R&D. The latter is primarily a creative process, leading to new technologies and products. In contrast, innovation has been conceived of as involving both new and old ideas (Schumpeter 1943). A large part of innovation involves applying existing ideas in a different situation. Innovation is therefore a broader concept than R&D. As such, innovation encompasses numerous aspects of organisational learning and may include new management approaches and service delivery processes, and the borrowing of ideas from many sources.

At the most basic level, innovation involves making a change to an organisation with a view to achieving some type of performance improvement. This may be in the form of improved effectiveness (more or better outcomes) or improved efficiency (more or better outputs for a given set of inputs, or the same level and quality of output with fewer inputs). It may also occur as better governance, greater compliance, or as some other form of benefit.

Innovation occurs in the context of uncertainty. It is often not possible to identify all the potential beneficial changes that can be made in a particular organisation at a particular time. Also, before a change is made, it is difficult to know whether the change will be an improvement, no matter how compelling the a priori case is for making the change. Figure 1 presents a simple taxonomy of ideas. Viable ideas are those which, if well implemented, would generate net benefits. The figure indicates that, due to uncertainty, some viable ideas are not identified, and some ideas that are implemented are non-viable ideas mis-identified as viable. There is even greater uncertainty over time; change in the organisation or operating context can render a viable idea non-viable, and vice versa.

Innovation in public sector organisations can take many forms. In addition to changing how an organisation delivers its outputs, public sector innovation encompasses changes to institutional structures; the range of outputs produced; the number, quality and allocation of staff; asset management; organisational strategy; and systems.

Whatever type of innovation is adopted, there are common ingredients in the innovation process. The innovating organisation must be capable of change; staff and management must be agile and adaptable, and able to manage a change project. Impetus for change is another ingredient. For an organisation to innovate, it must have a reason to do so, such as pressure from clients or the legislature, or disruptive changes in the operating environment.

Drawing upon ANAO 2009, Mulgan 2007, NESTA 2009 and OECD 2007, Table 1 defines six elements that form a simple model of public sector innovation. Recognising that innovation takes place over time, Figure 2 shows an innovating organisation in a series of time periods. The six
elements are present in each time period and there are connections between the elements over time. For example, the results from monitoring an innovation can affect the impetus for future innovation. A potential criticism of this model is that it implies a more mechanistic innovation process than most likely occurs in practice. Certainly real world innovation processes are more fluid, organic and serendipitous, but ultimately every change to an organisation or system can be thought of as a discrete idea being implemented, even if the process leading to the selection and implementation of the change was circuitous or discontinuous.

Table 1
Six Innovation Elements

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Capacity to innovate (the organisation’s tangible and intangible resources, and its ability to reorganise those resources and assimilate new ones)</td>
</tr>
<tr>
<td>2.</td>
<td>Impetus for change</td>
</tr>
<tr>
<td>3.</td>
<td>Identification of possible changes (ideas)</td>
</tr>
<tr>
<td>4.</td>
<td>Management endorsement and adoption of change</td>
</tr>
<tr>
<td>5.</td>
<td>Implementation of the change</td>
</tr>
<tr>
<td>6.</td>
<td>Monitoring and measurement of impact</td>
</tr>
</tbody>
</table>
A Simple Model of the Performance Audit Process

PA is a feature of public administration in most advanced countries. It has been defined formally as “an objective and systematic examination of evidence for the purpose of providing an independent assessment of the performance of a government organization, program, activity, or function in order to provide information to improve public accountability and facilitate decision-making by parties with responsibility to oversee or initiate corrective action” (US Comptroller General 1994, cited by Brooks 1996: 17). Performance audits are typically undertaken by public audit offices or courts of audit that also have financial audit mandates (for the history of PA, see Kells & Hodge 2009).

A primary goal of PA is to lift public sector organisations’ performance. Performance auditors seek out improvement opportunities and make findings and recommendations to enhance the performance of auditees. PA also has a scrutiny and transparency purpose. By synthesising and disclosing information about an organisation, performance auditors can shine a light on poor performance and provide assurance about how agencies operate.

Drawing upon Kells 2011b, Kells and Hodge 2010, Thynne and Goldring 1987 and VAGO 2009, Table 2 describes the key stages of the performance audit process from the auditee perspective. This process model is sufficiently general to accommodate jurisdictional differences in standards and methods. The importance of the various elements differs across jurisdictions; in some places elements 5 and 6 may be informal or ad hoc, for example. A key feature of this model is that the auditor cannot compel the auditee to act on the audit findings or adopt the audit recommendations. This is consistent with most performance audit mandates around the world.
Table 2

Elements of the Performance Audit Process

<table>
<thead>
<tr>
<th>Element</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Possibility of a future audit</td>
<td>An organisation faces the possibility of being audited if an audit institution exists and has appropriate powers and resources, and the organisation falls within the institution’s jurisdiction.</td>
</tr>
<tr>
<td>2. Confirmation of planned audit</td>
<td>Occurs when the organisation is on a published audit schedule or is informed by the audit institution that an audit is planned.</td>
</tr>
<tr>
<td>3. Conduct of audit</td>
<td>Fieldwork phase.</td>
</tr>
<tr>
<td>4. Reporting of audit findings and</td>
<td>“Findings” here includes findings and conclusions from the audit.</td>
</tr>
<tr>
<td>recommendations</td>
<td></td>
</tr>
<tr>
<td>5. Advice about implementation</td>
<td>Provided by the auditors to the auditee; how to implement the recommendations and address the findings.</td>
</tr>
<tr>
<td>6. Monitoring and follow-up</td>
<td>Auditor monitors implementation or post-audit performance; may conduct a follow-up audit.</td>
</tr>
</tbody>
</table>

Intersections Between Innovation and PA

In their practical application, innovation and PA can intersect in several ways (Table 3). Figure 3 summarises how the audit process may influence or intersect with the innovation system of the audited organisation as we have conceptualised it. The figure shows these *a priori* lines of influence and provides a model on which empirical measurements could be taken to establish the relative strength of each link. The figure shows that the unconfirmed possibility of a future audit, the confirmation of a future audit and the conduct of an audit are each separate potential influencers of organisational innovation; and that impacts on the set of potential ideas are distinct from impacts on innovation capability.

The figure suggests that reporting may well be one of the most influential elements of PA insofar as it most likely affects at least five of the six innovation elements. The conduct of the audit also appears to be another influential element, given its link to four of the six innovation elements. While the possibility of an audit and the confirmation of an audit are not shown as affecting the organisation’s capability to innovate directly, they may spur it to take steps to increase its future innovation capability. Likewise, the conduct of the audit and provision of the audit findings might affect how the auditee monitors its own innovations.
Table 3

Examples of How PA Could Affect the Six Innovation Elements

<table>
<thead>
<tr>
<th>Innovation Element</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Capacity to innovate</td>
<td>The auditee’s staff may learn from the audit process (eg. they may develop new skills for problem diagnosis and problem solving), thereby enhancing their ability to innovate.</td>
</tr>
<tr>
<td>2. Impetus for change</td>
<td>The performance audit (possible or actual) is a source of change pressure.</td>
</tr>
<tr>
<td>3. Identification of possible changes</td>
<td>The performance audit is a source of ideas.</td>
</tr>
<tr>
<td>4. Management endorsement and adoption of change</td>
<td>Aspects of the performance audit (such as the competence and empathy of the auditors) affect management decisions about change, and the degree of management buy-in to recommended changes.</td>
</tr>
<tr>
<td>5. Implementation of the change</td>
<td>The auditor may provide advice about implementation. The relationship between the auditor and auditee affects the level of staff buy-in to the recommended changes.</td>
</tr>
<tr>
<td>6. Monitoring of innovation and measurement of impact</td>
<td>PA can affect the level of the organisation's investment in monitoring systems. Monitoring and follow-up by the auditor of its recommendations can contribute to the agency's own monitoring of the innovation.</td>
</tr>
</tbody>
</table>

Having developed conceptual models of the innovation system and the performance audit process, and having articulated the principal links between the models, we now turn our attention to whether PA can plausibly help innovation. Based on the conceptual models, there are likely to be a number of mechanisms through which PA might encourage innovation and therefore add value for the community as a whole. Let us consider some categories of different possibilities for illustration.

The Prospect of a Future Audit

The mere possibility of being audited at some unknown future date may spur government agencies to innovate to improve their administrative systems and other aspects of how they operate. This is particularly so in the case of high-profile or high-risk organisations, and given that public audit offices apply predictable criteria such as risk and materiality in forming their audit programs, which may be published well in advance.

There are reasons to be sceptical, however, about the general idea that a
Figure 3
Principal a priori Intersections Between the Audit Process and Innovation by the Auditee

Audit

Innovation

Possibility of audit
Confirmation of planned audit
Conduct of audit
Reporting of findings & recs
Advice on implementation
Monitoring & follow-up

Innovation capability
Impetus for change
Potential ideas & innovations
Endorsement by mgt
Implementation
Measurement & evaluation
prospective audit might spur an agency to “lift its game” in advance of the audit. For the prospective audit to cause an agency to innovate and so lift its performance, a number of conditions must be met:

(i) performance-enhancing innovations must be available to the agency;
(ii) the agency must be able to identify and adopt the innovations without the assistance of the auditor; and
(iii) there must be a causal link between the prospective audit and the decision to innovate.

This last condition means that, if the audit was not in prospect, the agency would not identify and adopt the innovation.

It is highly likely that condition (i) will be satisfied, because a large number of potential innovations exist. Conditions (ii) and (iii) are more difficult, however, as they require the agency to: display initiative in ways that it did not in the absence of the impending audit; see the impending audit as a credible reason for change; and make changes without specific information about what the auditor might discover and recommend.

Condition (iii) in particular would only be satisfied if the many other pressures facing the agency – such as the CEO’s performance arrangements; the management hierarchy; internal audit; ideas and pressure from staff, customers and peers; and scrutiny from other institutions – are not sufficient to encourage the agency to identify and adopt the type of improvements that it believes a future audit might identify.

Over and above PA, other factors that might affect an agency’s innovation capability include its board and management; its staff; consultants and experts; and other oversight bodies. Likewise, there are numerous sources of impetus for change – including internal change pressure from the board, the CEO and staff, and external pressure from clients, taxpayers, the government “owner”, the media, the legislature and oversight bodies – and numerous sources of ideas, such as staff and management, customers and clients, private consultants, researchers and experts, peer organisations, organisations in other sectors or jurisdictions, and oversight bodies.

Given the number and strength of the other reasons to innovate, and the fact that the agency must self-diagnose the problem and the solution, it is unlikely that a credible causal link between (i) the prospect of a future audit, and (ii) innovation in advance of the audit, could be established in most cases.

**Participating in the PA Process**

The second type of potential benefit arises from participating in the PA process. During an audit, agency staff will meet with the auditors and see aspects of how they work. From the auditors, the staff may learn new ways to think about performance, and new types of improvement to make. This
could increase the innovation capability of the organisation and transfer new ideas.

Again, some scepticism is warranted. The nature of the auditor-auditee relationship limits the extent of this type of benefit. The auditor is a mixture of “good cop” and “bad cop”. Notwithstanding the auditor’s avowed role of helping an agency to improve, the auditor also has a role to expose fraud and other types of underperformance. This duality, and the fact that auditors come from outside the agency and may lack topical knowledge, can lead to antagonism in the auditor-auditee relationship (Parker 1986; CCAF 1983; Kells 2011a). Agencies may in all likelihood therefore look to other sources for coaching and helpful advice, such as consultants, and concentrate their interaction with auditors on making sure the audit is as limited and painless as possible.

The Findings and Recommendations of the Performance Audit

A third way in which PA might generate benefits is via the findings and recommendations of an audit. The auditor’s goal is that the findings will be acted upon, and that the recommended steps will be taken to address identified shortcomings. Whilst a myriad of conditions probably need to be met in order for an audit finding or recommendation to improve performance, four such conditions are likely to be particularly important: (i) underperformance is present; (ii) underperformance is discoverable by the external auditor; (iii) the correct remedy is diagnosed; and (iv) the remedy is implemented successfully. Let us examine each of these conditions.

According to the first condition, for a recommended change to be valuable, the auditee must in fact be measurably underperforming. The challenges of measuring performance in the public sector are legendary (Patterson 1988; Hodge 1993; Van de Walle 2009; Jackson 2011). There is considerable uncertainty surrounding the task (McSweeny & Sherer 1990; Everett 2003). So the extent to which measured underperformance is real is difficult to say; such “underperformance” may be due to problems with the measures. What looks like underperformance may in fact be the best possible performance in the prevailing circumstances and constraints, or the “underperformance” may be against an impossible standard of perfection rather than the real-world efficiency frontier that is actually attainable, but the audit might generate a false negative conclusion.

Logically, underperformance implies that a viable remedy or set of remedies is available to address the underperformance. In other words, if an agency’s “underperformance” cannot be improved, the agency is not underperforming; rather, the agency is on the efficient frontier, such that output cannot be increased without reducing quality, and quality cannot be increased without reducing output.

If the agency is underperforming and a remedy exists but has not been applied, this may be because the agency is unaware of the
underperformance or the remedy, in which case implementing a recommended innovation may be straightforward. Things are more difficult if there are political or funding constraints that prevent the agency from applying the remedy.

The second condition is that the underperformance is discoverable by the auditors in a reasonable timeframe and with reasonable effort. This is far from certain, as auditors face their own timing and resource constraints, and, as “outsiders”, are at an information disadvantage vis-à-vis the auditee.

The third condition is that the auditors must in fact identify and recommend a viable innovation. In this regard, there is a risk that the auditors will misdiagnose the problem, and recommend an inappropriate remedy. The performance auditors may lack the required skills to evaluate performance correctly and come up with an effective remedy (Shand & Anand 1996). To simplify their task, the auditors may apply standard templates to diagnose problems and recommend solutions; this risks creating false readings of underperformance where an agency deviates from the templates for good reasons such as peculiarities in its operating context. An agency that deviates systematically from standard operating principles and metrics may be an innovator rather than an underperformer, and addressing deviation from a standard template may even do more harm than good.

Audit mandates often place limits and constraints on what auditors can analyse and recommend. For example, audit offices may be prevented from commenting on matters of policy (Flesher and Zarzeski 2002; McGee 2002; Sharkansky 1988). The best remedy may be outside the auditor’s authorisation.

The fourth condition is that the agency implements the remedy. An otherwise useful recommendation cannot enhance performance if the organisation or the government rejects it. Even if the recommendation is overtly accepted, this does not mean it will be implemented. The acceptance of the recommendation could be a facile acceptance, or the agency could be so bruised by the audit process that management and staff do not “buy in” to the recommended action. Recall that those managers and staff are being called upon to implement a remedy that they were unaware of the need for, or were unable or unwilling to identify and apply. Finally, even if the agency genuinely accepts the recommendation, implementation may fail.

Many countries, including Britain and Australia, have seen a proliferation of auditing, and of review bodies and oversight institutions (Power 1999 & 2003; Bowerman, et al 2000; Bowerman, et al 2003). Public sector management consultancies, and efficiency and implementation units within the executive branch, have also become more widespread. As a consequence, public sector agency managers have many sources of advice. If, as is likely, the sources are not coordinated, the agency could be pulled and pushed in several directions at once (Kells 2011a). Also, multiplication of sources of advice may make every individual source less definitive, and
its findings and recommendations less likely to be adopted.

It may be that meeting these four conditions is easiest in discrete instances of inappropriate behaviour, such as corruption. A significant instance of corruption in an otherwise well governed system provides an example of underperformance; discovering such corruption is arguably core business for auditors, and is an instance where performance auditors can use the tried and true tools of their financial audit colleagues; identifying a viable remedy for corruption is straightforward (ie. punish the corrupt, tighten systems); and agencies and governments would be keen to be seen to address the corruption in a timely way.

Solving more complex instances of underperformance is much harder. An agency may be underperforming for a plethora of reasons. For example, it may have adopted an unsuitable governance structure or service delivery method; it may be under-resourced; or its policy goals may be inherently difficult or even unachievable. A performance audit seeking to address these causes could fail at any of the conditions in Table 4. Based on this discussion, beyond identifying discrete instances of corruption and non-compliance, the circumstances in which a performance audit can improve performance are likely to be limited. This is a sobering conclusion, and contrasts the often made assumption of an automatic link between PA and performance improvement.

Two Other Categories of “Benefit”

Are there perhaps other potentially worthy performance audit benefits of a more diffuse and indirect nature?

In addition to the agency level benefits outlined above, it could be argued that authorising a public audit office to undertake performance audits could have wider benefits by showing that a government is open to scrutiny, and is therefore more accountable or legitimate. Similarly, PA may have a localised benefit for parliamentary democracy, in that such a function is expected of the Parliament, and so fulfils a strong citizen expectation. Further, establishing an active PA function may signal to other countries and trading partners that the jurisdiction in question is an advanced one, and opposed to a public sector rampant with systemic waste and corruption.

It is tempting to add these wider types of benefit to the catalogue of benefits of PA. However, to avoid double-counting benefits, or otherwise erroneously inflating the benefits of PA, this temptation should be rejected. The reasons for this conclusion can be shown in the following thought experiment. Suppose that PA fails entirely, at the agency level, to achieve the “performance improvement goal” and the “transparency goal”, in the senses in which these goals were defined above. Suppose also that the PA function is nevertheless still undertaken; audit reports are produced and debated, and, from the outside, it appears that the interests of performance
improvement and transparency are still being served. In this example, however, because performance audits are not substantively assisting performance improvement and transparency, the "wider benefits" are the result of an error. PA in this example has become a "ritual" in the sense of Braithwaite 2008 or a "ritual of comfort" or "institution of pacification" in the sense of Power 1999: it is merely creating the impression of scrutiny and transparency without delivering them. In this case, parliamentary and other discourse about the audit findings and recommendations would be mere puff, and the “signalling effects” of this are just as likely to hurt a country's reputation, by showing its people to be gullible or deluded, as they are to enhance it.

The point of this discussion is to argue that the wider benefits of PA described above do not have a separate existence from the primary, agency-level performance improvement and transparency goals of PA. If these latter goals are not achieved, then the other benefits do not continue on independently. The community's appetite for public sector accountability and performance improvement will only be sated if PA delivers these at the agency level.

There is another category of potential benefit that should not be included among the benefits of PA. This category comprises the ancillary products and services of audit offices. Audit offices may, for example, provide staff training and "good practice guides". These products and services are not relevant to reckoning the benefits of PA as they can be provided by other organisations that do not undertake performance audits.

The Costs of PA

In addition to the dangers outlined above, which concern whether PA could fail to achieve beneficial change, there are other dangers that PA may pose. Over and above the direct operating costs of the audit office, and the cooperation costs that are imposed on auditees (Bowerman et al. 2000), PA may impose costs on the community as a whole by actually discouraging innovation.

A number of authors have considered how PA might impede innovation among auditees: see for example Sloan 1996, Bowerman et al. 2003, Shand and Anand 1996 and PAEC 2010. A theme of this literature is that excessive formal controls and procedures may hinder entrepreneurial spirit and appropriate risk taking in public sector organisations. Underlying these concerns is the possibility that performance audit reports will make adverse findings about innovative decisions and methods that lack the attributes expected by the auditor based on past templates and models.

While this is always a danger, the auditor could well answer that it can mitigate this risk by keeping up to date with developments in public administration and by developing an appropriate understanding of the scope and purpose of the particular innovation. However, keeping up to
date with regard to every agency and every major innovation is difficult and costly, and tailoring audit hypotheses and analytical methods to each auditee is demanding of money and time. Auditors may lack the topical and technical expertise needed to understand and evaluate a particular innovation and, as noted, they start from the disadvantage of entering an organisation as outsiders who may not be trusted by the auditee.

There are other ways in which PA could lead an innovative manager to avoid innovation, and to adopt an inferior audit recommendation even if the manager has informational advantages over the auditor. Agency managers operate under uncertainty, and are subject to a variety of performance expectations and sanctions. When presented with an audit recommendation with which they disagree, managers can ignore the recommendation and innovate in a different direction, or they can act on the recommendation. The latter course may be safer because of its external source of legitimacy. If the approach recommended by the auditor fails, the manager can share accountability with the auditor. If the manager instead chooses to innovate in another direction and that fails, the manager is in double trouble: the innovation failed and he or she has gone against the auditor’s advice. As a consequence, even independently minded managers may gravitate toward the audit recommendations. The upshot of these impacts on innovation may therefore at worst be a public sector that progressively lacks the optimal degree of dynamism.

There is also a risk that performance audits may cause agencies to make unnecessary investments. Agencies concerned about audit criticisms may overinvest in preventing the types of problems that auditors can perhaps more easily detect, such as corruption, at the expense of investing in more necessary or extensive changes that are outside the auditors’ knowledge or mandate but that promise substantive performance improvement. Also, the risk that the auditor will “get it wrong” gives rise to the risk of unnecessary controls being established in the audited agency, as a consequence of flawed audit recommendations (Sutherland 2003). To the degree that this occurs in practice, PA may be unwittingly contributing to the growing “regulatory burden”.

A performance audit that incorrectly provides positive assurance about an organisation’s activities may also impair innovation. By erroneously affirming an existing approach or delivery technology, the audit can reduce the likelihood of change, even though change is desirable for reasons not identified in the audit.

A further category of potential costs is where performance audits “crowd out” other accountability mechanisms. For example, whistleblowers might be less inclined to come forward if their organisation is scheduled for audit, notwithstanding that the audit may well not detect the relevant problem, yet whistleblower disclosures could be an important source of ideas and an impetus for change.

Ultimately, the impact of PA on innovation is inevitably an empirical
question. The following section presents evidence regarding the impact of PA in Victoria.

**Performance Auditing in Victoria**

The Victorian Auditor-General’s Office (VAGO) is the supreme audit institution in Victoria. For details of VAGO’s history and approach see Kells and Hodge 2010 and Kells 2011b. VAGO undertakes performance audits in accordance with the *Audit Act 1994*, which provides that:

The Auditor-General may conduct any audit he or she considers necessary to determine –

(a) Whether an authority is achieving its objectives effectively and doing so economically and efficiently and in compliance with all relevant Acts; or

(b) Whether the operations or activities of the whole or any part of the Victorian public sector (whether or not those operations or activities are being performed by an authority or authorities) are being performed effectively, economically and efficiently and in compliance with all relevant Acts (s. 15(1)).

Under the Act, VAGO is not authorised “to question the merits of policy objectives of the Government” (s. 16(5)).

According to VAGO’s strategic plan for 2010-11 to 2014-15, its vision is “to be a catalyst for continuous improvement in the accountability and performance of the public sector” (VAGO 2010: 2). In support of this vision, VAGO has expressed the goal of being “a catalyst for change in the public sector...to influence improvements in accountability and performance through the relevance, accessibility and quality of our reports” (VAGO 2011: 1).

The most direct way for performance auditors’ recommendations to achieve beneficial innovation is for those recommendations to be implemented. A predictor of implementation is the degree to which auditees “support” the recommendations. Between July 2008 and June 2009, VAGO completed twenty-six performance audit reports relating to ten departments. Most of the reports contained recommendations for more than one department. In all, there were sixty-eight instances in that year where a department was required to respond to a VAGO performance audit report. On average, therefore, there were 6.8 performance audits of relevance to each department. Table 5 summarises the profile of the departmental responses with regard to whether the performance audit recommendations were fully supported, partially supported or not supported by the audited
department. (Phrases such as “partial support” or “supported in principle” may be bureaucratic code for “not supported”).

The table shows there was significant variation between departments regarding their response to VAGO’s recommendations. For example, DIIRD and DPCD accepted all recommendations in all eleven performance audits of relevance to them, whereas DOJ accepted all recommendations in only one of the eight audits relevant to it that year. Overall, and importantly, VAGO’s recommendations were fully supported in 53 percent of the responses. In 46 percent of the responses, some recommendations were partially supported, while in 4 percent of cases some recommendations were not supported in the response.\(^1\)

The fact that not all recommendations were adopted has a number of implications relevant to PA and innovation. First of all, it means there is a partial disconnect in the mechanism by which PA seeks to achieve change. Second, it indicates, particularly where recommendations were not supported, that the auditee did not buy in to all the recommended changes, even to the extent of agreeing to their spirit if not their substance. These are “cup half empty” readings of the data. If we take a “cup half full” view, then the data indicate that a high proportion of recommendations were adopted. Furthermore, it was very rare for a recommendation not to be supported at least partially or in principle. Only 4 percent of the departmental responses

<table>
<thead>
<tr>
<th>Department</th>
<th>Number of responses</th>
<th>Proportion of responses where all recommendations were supported (%)</th>
<th>Proportion of responses where some recommendations were partially supported (%)</th>
<th>Proportion of responses where some recommendations were not supported (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education and Early Childhood Development</td>
<td>7</td>
<td>43</td>
<td>57</td>
<td>0</td>
</tr>
<tr>
<td>Human Services (DHS)</td>
<td>9</td>
<td>44</td>
<td>44</td>
<td>22</td>
</tr>
<tr>
<td>Innovation, Industry and Regional Development (DIIRD)</td>
<td>5</td>
<td>100</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Justice (DOJ)</td>
<td>8</td>
<td>13</td>
<td>88</td>
<td>0</td>
</tr>
<tr>
<td>Planning and Community Development (DPCD)</td>
<td>6</td>
<td>100</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Premier and Cabinet (DPC)</td>
<td>6</td>
<td>50</td>
<td>50</td>
<td>0</td>
</tr>
<tr>
<td>Primary Industries</td>
<td>6</td>
<td>67</td>
<td>33</td>
<td>0</td>
</tr>
<tr>
<td>Sustainability and Environment</td>
<td>6</td>
<td>33</td>
<td>67</td>
<td>0</td>
</tr>
<tr>
<td>Transport</td>
<td>8</td>
<td>63</td>
<td>38</td>
<td>0</td>
</tr>
<tr>
<td>Treasury and Finance (DTF)</td>
<td>7</td>
<td>43</td>
<td>57</td>
<td>14</td>
</tr>
</tbody>
</table>
included “not supported”. That most recommendations were supported, either verbatim or in spirit, indicates that the recommendations had the potential to be influential, and relationships between auditor and auditee at the end of the audits were not poisonous in the majority of cases. This is cause for cautious optimism about the innovation impact of PA.

A limitation of this analysis is that it does not indicate whether or not the accepted recommendations were in fact implemented. VAGO does not systematically report this, nor does it report how well recommendations were implemented, or whether, once a recommended action was taken, it generated measurable net benefits for the community.

Another source of data allows us to delve more deeply into VAGO’s performance. Every three years VAGO is itself subject to a performance audit that is commissioned by the state parliament. Analysis of those performance audits sheds light on how well VAGO encourages innovation through its own performance audits.

The 2010 performance audit of VAGO was undertaken by PKF Consulting, which made a number of findings and recommendations aimed at addressing gaps in VAGO’s methods and performance reporting (PKF 2010). Importantly, PKF found that, “in the absence of a direct follow-up process undertaken by the Victorian Auditor-General/VAGO, to gain assurance that its recommendations are implemented in a timely and effective manner across government, the objectives of a performance audit...may not be fully achievable” (PKF 2010: 32). PKF noted the analogy of the US Government’s General Accountability Office (GAO), which “specifically tracks the implementation of their recommendations to auditees over 5 years [to] the point at which their experience has shown that if a recommendation has not been implemented, it is not likely to be” (PKF 2010: 33).

PKF recommended that VAGO “consider performing follow-up reviews on the implementation of recommendations, [and] monitor auditees’ progress in addressing agreed findings” (PKF 2010: 5). In relation to “Measuring Adequacy and Effectiveness of VAGO’s Audits”, PKF found that, in Victoria, “there is no quantifiable measure being used to gauge the adequacy and effectiveness of VAGO’s audits in promoting improved performance and accountability as well as efficiency in the Victorian public sector” (PKF 2010: 44). Accordingly, PKF recommended that VAGO “Consider reporting quantifiable measures relating to recommendations raised by VAGO” (PKF 2010: 6).

PKF also reported data relating to parliamentarians’ and auditees’ satisfaction with VAGO’s performance. Table 6 summarises data from two sources: surveys of parliamentarians’ satisfaction with VAGO’s reports and services; and surveys of “performance audit clients” (i.e. auditees) regarding the processes adopted by VAGO, the quality of its performance audit reports, the value of the performance audit recommendations, and the overall performance of VAGO’s performance auditors. In both surveys, 100 is a perfect score.
The bottom row of the table, “value”, refers to whether auditees considered the performance audit reports to have added value, such as through recommending worthwhile innovations. The table shows that the value of VAGO’s performance audit recommendations was consistently rated below the “process”, and that auditees’ overall satisfaction with the performance audits fell between 2009 and 2010. PKF reported that the survey of VAGO's performance audit clients indicated there was potential for VAGO to improve: the accuracy, balance and fairness of the final reports (which affects auditee buy-in); understanding of the auditees and their operating environments (a necessary condition for identifying worthwhile innovations); timeliness of advice on significant issues during audits; delays to audit timelines; and the level of auditee input into, and the appropriateness of, the scope of audits.

To further elaborate on these themes, PKF interviewed three departmental secretaries, who identified “potential areas for improvement” (PKF 2010: 41). The secretaries responded that performance audit scopes were not discussed in detail with auditees, to enable VAGO to fully understand auditee operations, and that audit scopes on occasions were “fishing expeditions” or sought to identify “newsworthy items”. According to the secretaries, performance audit findings were not always discussed with auditees in a collaborative manner, and goodwill between public sector agencies and VAGO had deteriorated due to the contentious interaction approach adopted by VAGO. Critically, the interviewed secretaries claimed that performance audit recommendations generally added little value in assisting auditee organisations to improve their performance or operations, and that inappropriate performance measures were applied.

The survey evidence, along with the secretary interviews, is relevant to several aspects of how well VAGO encourages innovation. These
sources indicate that, at the end of some performance audits, the auditor-auditee relationship was damaged to the extent that it would likely affect the take-up of recommendations, and therefore the impact of PA on innovation. The sources also indicate concerns regarding whether VAGO's auditors adequately understood the auditees' approaches and operating environments, and therefore whether they could recommend the right remedies. As noted above, implementing the wrong recommendation can be as harmful as failing to implement the right one. In the secretaries' feedback there are also the familiar criticisms that auditors act as “headline hunters” and stray into areas of policy (Kells 2011c). Under the heading “Fostering Productive Relationships with Audit Clients”, PKF recommended that VAGO “consider strategies to further improve relationships with auditees” (PKF 2010: 6). VAGO supported this recommendation.

Conclusion

Like all other aspects of public administration, PA should only be undertaken if it demonstrably generates significant net benefits for society as a whole. This article has argued that, with regard to the performance improvement goal of PA, one appropriate way to frame the question of the value of PA is to ask: does PA encourage or impair innovation in public sector organisations?

In answer to this question, we concluded tentatively, utilising general concepts of innovation and PA, that the conditions under which PA is likely to improve public sector performance may exist only rarely in practice and, as a consequence, across a large number of audits only modest performance improvements should be expected, at best, as a result of PA. The circumstances in which PA encourages innovation, and therefore performance improvement, are thus likely to be far more modest than is commonly assumed in discussions of the goals and consequences of PA.

There are several points at which the relationship between the PA and innovation can, and likely sometimes does, break down. Viable innovations may not be identified by the audit, or may fall outside the auditor's mandate; agency problems may be misdiagnosed and unviable innovations may be prescribed; or, for reasons such as politics, funding and a lack of relevant capability, viable innovations may not be adopted by the auditee, or the innovations may fail in implementation. Fundamental aspects of the auditor-auditee relationship compound these problems. The auditor is at an informational disadvantage to the auditee, and adversarial aspects of the audit relationship can discourage the adoption of recommended solutions, and therefore blunt the potential impact of PA on innovation.

Attributing innovations and performance improvements to PA is difficult, in part because performance audits are just one of many factors potentially affecting innovation in public sector organisations. Those organisations have many sources of ideas, many reasons to innovate, and many determinants of their innovation capability. Depending on the
institutional context, a further complication is that governments, auditees and auditors may have incentives to attribute innovations to a performance audit even though those innovations had other causes, and therefore would have occurred in the absence of the audit.

In addition to generating only modest benefits, PA also risks imposing significant costs on auditees and the wider community. Such costs, including in particular the risk that PA will discourage innovation and distort organisations’ investments in performance enhancement, need to be considered in any reckoning of the social costs and benefits of PA. So, too, does the risk that PA may crowd out accountability mechanisms such as whistleblowers. Though the risk that PA will discourage innovation may be small, it is nonetheless likely to be non-trivial.

Overall, we observe that huge uncertainties exist with regard to the impacts of PA. Around the world there is scant quantitative research on the value of PA and its relationship with public sector innovation. In Victoria we found evidence that the auditor-auditee relationship was such that auditees were sometimes reluctant to buy-in to recommended solutions, and that auditees questioned audits’ value, basis and relevance. This is bad news for the relationship between PA and innovation.

The empirical evidence was cause for cautious optimism nonetheless. There was high adoption of the recommendations and auditees expressed some confidence in the audit process. When judging the relationship between PA and innovation, the perspective that is adopted matters: if expectations of the impact of PA on innovation are high, disappointment is likely, but if expectations are only modest, they might be met by a pleasant surprise.

Further research on the relationship between PA and innovation, and on measuring the benefits of PA in light of the relationship, would be most valuable. The models of innovation and PA presented in this article, and the distillation of the intersections between the PA process and organisations’ innovation systems, provide hypotheses and frameworks to assist such empirical research. For example, future research might usefully study precisely how the prospect of a future audit changes auditee behaviour, and how auditees learn from the audit process.

Notes

1. One of the DHS responses and one of DTF’s responses included ‘partial support’ as well as ‘not support’, and therefore the figures for those two departments do not add to 100 percent.
2. Neither recommendation was supported by VAGO.
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Are Fiji’s Government Commercial Companies in Competent Hands?

Desmond Uelese Amosa and Atishwar Pandaram

Following the launch of Fiji’s public enterprise reform in 1993 that involved commercialisation and corporatisation to create solutions in the ailing government commercial companies (GCCs), not much improvement has been seen in recent times. Many questions were raised in an attempt to determine the cause of the problem. In return, a lot of explanations and answers were presented and the key competencies of senior managers in charge of GCCs were acknowledged amongst the myriad of issues raised. This study seeks to bring to the fore key competencies central to sound performance of GCCs according to senior managers of GCCs following the reform. This is based on several interviews and questionnaires conducted on senior managers of GCCs. The findings of this research are important for many reasons. In particular, it helps government officials identify and address the training needs of senior managers of GCCs.

Introduction

In 1993, the Soqosoqo ni Vakavulewa ni Taukei (SVT) government established a pool of public enterprises called government commercial companies following the processes of commercialisation and corporatisation (see Appendix 1 for list of GCCs). It was an attempt to improve performance of GCCs through the introduction of business-type rather than bureaucratic practices. The reform proceeded in two phases, namely commercialisation and corporatisation. The former is perceived as the initial stage and includes the adoption of private sector management practices. It is followed by the latter, which emphasises changing the structure of public enterprises using the "arm’s length" concept in order to give public enterprises political and managerial freedom critical to their commercial operations (Amosa 2010). The Public Enterprise Act was enacted in 1996 to oversee and regulate the activities of GCCs and the Ministry of Public Enterprise was established in the same year to enforce this legislation. Some specific performance requirements were applied to all GCCs, including sound profitability per annum, a 10 percent return on investment and dividends to be paid to government on a yearly basis.

Unfortunately, after more than a decade, the intention still falls far short of its declared purpose. In recent years, the performance of GCCs remains
unconvincing despite extensive changes to improve performance. A review conducted by the Asian Development Bank (ADB) highlighted a low return on investment from state-owned enterprises (SOEs) in Fiji for the period 2002-06. Accordingly, SOEs contribution to GDP in Fiji is -2.2 percent in 2005 and an average return on equity of -0.7 percent for the period 2002-06 (ADB 2009: 1). Most GCCs have failed to flourish despite numerous changes implemented. This raises several questions, including critical competencies necessary for GCCs’ senior managers to manage their respective agencies following the change. Competencies of senior managers running the show are without doubt partially attributed to the dismal performance of GCCs.

Research Question, Rationales and Objectives

It is evident that GCCs in Fiji have gone through a transition. The government under the *Public Enterprise Act 1996* sent a clear message to GCCs: they are to operate like profit-making ventures. They needed to generate profit and a higher return on investment. What then are the desirable competencies for senior managers in charge of state-owned enterprises going through a change from social to commercial operation? This is the question central to this study. In the attempt to find an answer, the perceptions of senior managers managing GCCs in Fiji were sought on critical competencies to successfully steer GCCs in the new environment following the change in 1996.

In theory, part of the answer to the leading question of this analysis is strong leadership, and in particular transformational leadership. This form of leadership emerged in the 1980s with its mantra of leading change in organisations facing turbulent environments (Kotter 1990; Schein 1985). This led to the proliferation of contributions to the literature on leadership in organisations mainly in the private sector since the 1980s (Bass 1990). While this is a credit to the private managers, their counterparts in the public sector did not have the same privilege. According to Van Wart (2003), the literature in the public sector is relatively thin. Despite the dearth of contributions, it is evident from the existing literature that leadership in public organisations is also a critical competency to higher performance and managing change (Horton 2000; Ingraham 2001; Lodge & Hood 2005; Morley & Vilkinas 1997; Van Wart 2003). As Van Wart (2003: 214) puts it: “In organisations effective leadership provides higher-quality and more efficient goods and services . . . and it provides an overarching sense of direction and vision, an alignment with the environment, a healthy mechanism for innovation and creativity, and a resource for invigorating the organisational culture”.

Fiji’s case deserves close scrutiny for various reasons. Of particular interest is the longstanding concern about small developing island states rushing to adopt foreign prescriptions, as recommended by international donors, without carefully examining their capacity in terms
of skills available and due processes to meet the necessary requirements. Obviously, the reform demands an entirely different set of managerial competencies for senior managers of GCCs compared to those applied to the pre-reform setting. Without doubt, the shift towards pure commercial practices demands managers with sound competencies and proven business experience to oversee the operations of GCCs. Moreover, state-owned enterprises in Fiji since 1996 have received significant investment in terms of total assets in the economy. This is estimated at between 16 to 22 percent by the Asian Development Bank (ADB 2009). In addition, the return on this investment since the reform has been very low. The ADB estimated it at -0.7 percent for Fiji in the period 2002-06, while the contribution to GDP is $0.07 for every dollar invested in 2006 (ADB 2009). In addition, only two GCCs were found profitable for the period 1996-2006, the Unit Trust of Fiji and Ports Terminal. The rest were struggling financially. Apparently, GCCs in Fiji are consuming substantial public resources but are failing to produce the expected returns despite the sweeping changes that took place in the mid 1990s to lift their performance. The attempt to provide some insights on the perceptions of senior managers of GCCs in Fiji on essential competencies for managing state-owned enterprises is therefore warranted in terms of assisting the concerted effort to find solutions to resuscitate the ailing GCCs following the reform.

Literature Review

Competency in the public sector according to Lodge and Hood (2005) has been a feature of administrative changes in the past and in recent years, although it was referred to in various terms. Max Weber’s several principles of the bureaucracy in which there is emphasis on appointing the public official on merit (Lodge & Hood 2005) and the idea of specialisation (Gerth & Mills 1970) underscore the view that competency is nothing new to the public sector. Horton (2000) also ascertains this view by relating competency to scientific management and the human relations school of thought. In recent times, and in particular the 1980s and the 1990s, the idea has gained momentum due to the popularity of the managerialism approach that dominated public sector reforms in Britain and Europe (Horton 2000; Lodge & Hood 2005).

Despite the recent surge in defining competencies for public managers over the last decade or so, the literature on the subject matter remains stagnant compared to the private sector (Van Wart 2003). The task becomes much more challenging due to the absence of any study on the competencies of public managers in Pacific Island Countries (PICs) managing public enterprises dealing with commercial operations of their respective governments. Nonetheless, there are potential overlaps in both sectors regarding “common managerial concerns and responses” (Horton 2000: 306) that are useful in shaping views on possible and effective
managerial competencies required for managing public enterprises.

In compounding matters, the term competency (or competencies in plural) is used interchangeably with other related concepts like competence and competences in the literature. This complicates the analysis further (Lodge & Hood 2005). For the purpose of this study, a general approach is taken towards this conceptualisation debate. What is important, however, is that despite the overwhelming overlaps and differences in conceptualisation, the preferred choice is contingent on the context and the jurisdiction the terms are used.

For this study, the notion of “attributes underpinning behavior like knowledge, skill and attitudes” tendered by Moore and associates (2002), Boyatzis (1982) and Nordhaug and Gronhaug (1994) is used as the key reference for competencies. Their analyses provide a logical deduction by using a comprehensive conceptual framework. In essence, not only does their formulation emphasise individual attributes like skills, knowledge and attitude, but equally important is the fact that most PICs, including Fiji, perceive this concept in the same dimension.

Moore, et al (2002), Boyatzis (1982) and Nordhaug and Gronhaug (1994) posit four competencies (competence areas) that are regarded as vital for public managers: task competence, professional competence, administration/political competence and ethical competence. This theoretical framework is based on the findings of earlier writers on the issue; nevertheless, its emphasis is on what Virtanen calls "value competencies" or "commitment" (Horton 2000; Virtanen 2000). On the other hand, Noordegraf (2000) claims that effective public managers are "professional sense-makers". This is noted from observing the behavior and action of twelve public managers working for different public agencies in the Netherlands. Accordingly, public managers face ambiguous situations and goals and are compelled to make sense of these based on their readings of political preferences and institutional settings. Cohen and Eimicke (2002: 16) describe the goals of public organisation as “shifting goal posts because of shifting political priorities; effective public managers are those who are able to adapt programs accordingly and build organisational resilience to meet a change of course”. While the studies discussed earlier certainly contribute to the quest for competencies of effective public managers, the competencies are broad in scope and are not specifically for public enterprises dealing with the commercial arm of government.

A study by Thach and Thompson (2007) ranks twenty-three competencies that are regarded as important to public managers in order of importance. Morley and Vilkinas (1997) also provide a list of competencies essential for Australia’s senior executive service (SES) both at the federal and state levels. While the latter does not rank competencies in order of importance, the study, nevertheless, provides some ideas for international comparison where possible.

It is apparent that there are overlaps and differences amongst the
many studies contributing to the literature. This reaffirms the notion that there is no “generic model” of management. Managerial competencies vary from one jurisdiction to another due to situational differentials. That said, it is beyond contention that competency is widely hailed as the key to managerial and organisational success and without doubt has been a familiar concept for managers and organisations recently and in the distant past, in both the private and the public sectors. Armstrong (1999) and Hondeghem (2002) view competencies as factors contributing to high levels of individual performance and organisational effectiveness. In fact, competencies are seen as a means of changing the bureaucratic organisation to a more modern and flexible unit (Hondeghem 2002). Many organisations are now using competencies in performance management and development (Rowe 1995), and linking competencies to rewards (Cira & Benjamin 1998; Cofsky 1993).

Research Methodology

Interviews and detailed discussions were held through focus group meetings with twelve CEOs, and thirty-eight senior managers of twelve GCCs in order to obtain a list of key competencies required to manage government commercial companies. The rationale for the interview was to obtain good insight into senior managers’ ground knowledge on competencies critical to the effective management of GCCs in Fiji. From the focus group meetings, a wide range of competencies (20) were obtained. Table 1 presents the list of twenty competencies that CEOs and senior managers of GCCs suggested during the interview process.

Following focus group meetings, a questionnaire was circulated to the same senior managers to rank the competencies they had suggested in order of importance using the Likert scale. The Likert scale was utilised, as respondents in the study found it quite simple and easy to comprehend. From fifty questionnaires sent to respondents, fifty questionnaires were completed and received. This indicates a usable response rate of 100 percent.

Findings and Analysis

Table 1 presents the mean and standard deviation of responses for the twenty competencies, arranged in descending order. The top three competencies support the theoretical argument about leadership as an essential competency for public organisations undergoing substantial changes. On the other hand, it could also be argued that the top ranking given to these three competencies reflect the reform message sent to senior managers of GCCs. Apparently, there was pressure on them to perform by delivering agreed results. Senior managers were also expected to show strong leadership in determining the direction GCCs should take and
Table 1
Competencies for Senior Managers of Government Commercial Companies in Fiji

<table>
<thead>
<tr>
<th>Rank</th>
<th>Competencies</th>
<th>Mean</th>
<th>Standard deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Performance-oriented</td>
<td>4.78</td>
<td>0.42</td>
</tr>
<tr>
<td>2</td>
<td>Leadership</td>
<td>4.73</td>
<td>0.50</td>
</tr>
<tr>
<td>3</td>
<td>Visionary</td>
<td>4.71</td>
<td>0.51</td>
</tr>
<tr>
<td>4</td>
<td>Self-confidence</td>
<td>4.66</td>
<td>0.53</td>
</tr>
<tr>
<td>5</td>
<td>Transparent</td>
<td>4.61</td>
<td>0.59</td>
</tr>
<tr>
<td>6</td>
<td>Teamwork</td>
<td>4.61</td>
<td>0.54</td>
</tr>
<tr>
<td>7</td>
<td>Customer-oriented</td>
<td>4.61</td>
<td>0.49</td>
</tr>
<tr>
<td>8</td>
<td>Empowering</td>
<td>4.59</td>
<td>0.50</td>
</tr>
<tr>
<td>8</td>
<td>People management</td>
<td>4.59</td>
<td>0.50</td>
</tr>
<tr>
<td>8</td>
<td>Self-knowledge</td>
<td>4.59</td>
<td>0.59</td>
</tr>
<tr>
<td>9</td>
<td>Communication</td>
<td>4.56</td>
<td>0.50</td>
</tr>
<tr>
<td>9</td>
<td>Honesty</td>
<td>4.56</td>
<td>0.71</td>
</tr>
<tr>
<td>10</td>
<td>Commercially oriented</td>
<td>4.54</td>
<td>0.60</td>
</tr>
<tr>
<td>11</td>
<td>Problem-solving</td>
<td>4.51</td>
<td>0.51</td>
</tr>
<tr>
<td>12</td>
<td>Strategic</td>
<td>4.49</td>
<td>0.55</td>
</tr>
<tr>
<td>13</td>
<td>Hardworking</td>
<td>4.37</td>
<td>0.66</td>
</tr>
<tr>
<td>14</td>
<td>Managing conflict</td>
<td>4.34</td>
<td>0.69</td>
</tr>
<tr>
<td>15</td>
<td>Flexible</td>
<td>4.32</td>
<td>0.65</td>
</tr>
<tr>
<td>16</td>
<td>Intelligent</td>
<td>4.29</td>
<td>0.64</td>
</tr>
<tr>
<td>17</td>
<td>Stress management</td>
<td>3.83</td>
<td>0.77</td>
</tr>
</tbody>
</table>

importantly to change the culture from bureaucratic to a business mindset.

While the top five competencies clearly reflect the government's agenda to push for a strong turnaround in the performance of GCCs, it is interesting to note that some of the key competencies that complement sound performance and leadership like “intelligent” and “hardworking” are at the bottom half of the table. “Intelligent”, for instance, is critical to good leadership. Intelligent managers make good leadership decisions not average managers. “Hardworking” is also closely related to performance. A substantial increase in productivity is a result of “hardworking”, not the opposite.

Moreover, it is evident that honesty is a critical competency in the case of Fiji because of the content of its culture and economic status. With respect to the former, Fiji values collectivism culturally. The practice of
nepotism and favoritism is prevalent in government agencies. Since the military takeover in late 2006, the contracts of CEOs of six GCCs have been terminated for unethical and unprofessional behavior, where their honesty and poor judgment have been questioned (Amosa 2010). The result shown in Table 1 presents the lack of attention devoted to this valuable competency for managers of GCCs.

In consideration of the competitive environment in which GCCs are now operating and the forces of globalisation, it is apparent that strategic management skills are crucial for managers in charge of GCCs. GCCs should learn to adapt and prepare themselves not only for the upcoming challenges presented by the global market, but also to align their organisational resources and capabilities that are in line with their strategies, so as to win competitive battles. It is management's role to analyze strategically and capitalise on strengths while trying to overcome the weaknesses. It is the competent manager's job to foresee the opportunities and be able to implement strategies to tap into the opportunities and, at the same time, design action plans to battle the threats posed by the ever changing external environment. Unfortunately, this competency is ranked fifth from the bottom by managers of GCCs.

Conclusion

This study confirms leadership as a critical competency for public enterprises undergoing a transitional period. Second, the study also assumes a direct relationship between the selection criteria for public managers and the competencies they perceived to be important. This conclusion perhaps needs more testing. This study also confirms extensive similarities between the competencies of senior managers of GCCs in Fiji and those working abroad. It also highlights the conventional notion of generic management skills and how these skills vary from one country to another in terms of importance depending on the jurisdictional environment.

The study, on the other hand, also raises a question about some of the competencies critical to strong leadership and sound performance like “intelligent”, “hardworking” and “honest”. In essence, strong leadership does not exist in a vacuum. Leaders need to be intelligent, hardworking and have integrity in order to be recognised and respected by others in the organisation. Obviously, these competencies should be at the top of the list; however, this is not the case. These competencies are found at the bottom half of the list.

Overall, it appears that there is an urgent need for the authority responsible for the appointment of senior managers in Fiji to revise its policy with respect to the appointment of GCC managers in Fiji. Obviously, the environment in which GCCs are now operating is relatively different from what it was prior to the reform. Government commercial companies
are now functioning in a competitive environment that requires a totally different set of managerial competencies. While leadership is important in this environment, other competencies that are integral to strong leadership like “intelligent”, “hardworking”, “strategic thinking” and “honesty” are equally important if leadership in GCCs is to carry any weight. Unfortunately, these are given less priority by the senior GCC managers consulted for this study. This probably accounts for the poor performance of GCCs ten years following the reform.

References


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Ingraham, P 2001, Linking Leadership to Performance in Public Organizations, PUMA/HRM.


Appendix 1

Government Commercial Companies Since 2007

<table>
<thead>
<tr>
<th>GCCs</th>
<th>Short title</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Airports Fiji Limited</td>
<td>Airports Fiji</td>
</tr>
<tr>
<td>2. Fiji Broadcasting Corporation Limited</td>
<td>Fiji Broadcasting</td>
</tr>
<tr>
<td>3. Fiji Hardwood Corporation Limited</td>
<td>Fiji Hardwood</td>
</tr>
<tr>
<td>4. Fiji Ships and Heavy Industries Limited</td>
<td>Fiji Ships</td>
</tr>
<tr>
<td>5. Fiji Ports Corporation Limited</td>
<td>Fiji Ports</td>
</tr>
<tr>
<td>6. Post Fiji Limited</td>
<td>Post Fiji</td>
</tr>
<tr>
<td>7. Rewa Rice Limited</td>
<td>Rewa Rice</td>
</tr>
<tr>
<td>8. Unit Trust of Fiji Limited</td>
<td>Unit Trust</td>
</tr>
<tr>
<td>9. Viti Corp Limited</td>
<td>Viti Corp</td>
</tr>
<tr>
<td>10. Yaqara Pastoral Company Limited</td>
<td>Yaqara Pastoral</td>
</tr>
<tr>
<td>11. Ports Terminal Limited</td>
<td>Ports Terminal</td>
</tr>
<tr>
<td>12. Food Processors Fiji Limited</td>
<td>Food Processors</td>
</tr>
</tbody>
</table>

Source: Ministry of Public Enterprise

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