Public sector underpinnings of service reform

For Forms of Government let fools contest;
What'er is best administer'd is best.

Alexander Pope, *Essay on Man.*

For basic services in education, health, and infrastructure to work for poor people, governments have to be involved. Whether they fulfill this responsibility by providing, financing, regulating, or monitoring services or providing information about them, the basic functioning of government should underpin, not undermine, effective services.

When governments do not run well, they cannot sustain the institutional arrangements and accountability relationships that yield good services. Looking at all that governments do, the biggest payoffs to service delivery are likely to come from a few key actions: spending wisely and predictably in line with priorities and coordinated across sectors; managing decentralization to reap the benefits of being closer to the client; developing and deploying administrative capacity to take sound decisions at the top and to implement them well; curtailing corruption; and learning from success and failure.

Public sector reforms take time and skillful political navigation. Agreeing on desirable goals is easy. Managing the transition is hard. When starting capacities are low, the road to improved performance

may need to be covered in small steps— what this Report calls strategic incrementalism. Reforming basic incentives that strengthen accountability and raise performance closer to formal standards is the place to start. As incentives become better aligned and internalized and as administrative capacity grows, more advanced reforms can be deployed to support deeper institutional change and scaling up. Throughout this process reforms should be guided by the lessons of success and failure.

Strengthening the foundations of government

Governments are essential to making basic services work for poor people, but a government village school does not ensure that children learn, or a maternity clinic that mothers can give birth safely. Both need timely budget transfers, reliable electricity, a connecting road, probity in procurement, and competent public servants. To sustain services that work, broader structures at the foundation of government must also work.

Whether providing, financing, regulating, or monitoring services, governments focused on outcomes for poor people must strengthen the compact relationship between policymakers and providers along the long route of accountability.[486] For basic services in education, health, and infrastructure, policymakers must deal with multiple compact relationships with providers across sectors, space, and time (figure 10.1). Just as an ensemble makes great music when it is well coordinated and not because it has a few virtuoso musicians, strengthening the long route is easier when the *general* business of government runs well across the entire gamut of government activities, and not just in a few

Figure 10.1 Strengthening public sector foundations for service delivery requires coordinating multiple compact relationships
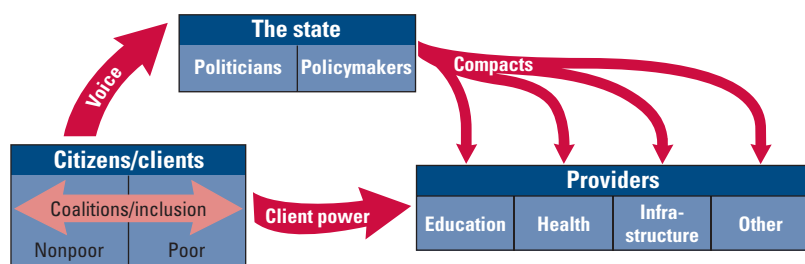
sectors or agencies. The more sound the basic functioning of government, the stronger the foundations for service reforms.

In managing the cross-cutting activities of governments, the three institutional structures likely to influence service delivery the most are budgets, decentralization, and public administration. These are crucial tasks for a government that wants to make services work for people: making budget allocations and implementing them; organizing and monitoring the tiers of government that provide, finance, regulate, or monitor services; and managing public employees involved in service delivery.

Spending wisely

When services fail poor people, a good place to start looking for the underlying problem is almost always how the government spends money. If politicians and policymakers spend more than they can sustain, services deteriorate. If budgets are misallocated, basic services remain underfunded and frontline providers are handicapped. And if funds are misappropriated, service quality, quantity, and access suffer. The budget is the critical link on the long route of accountability connecting citizens to providers through politicians and policymakers.

Public expenditure management—formulating, implementing, and reporting annual budgets—is a challenging task, particularly when capacities are limited and the long route of accountability is weak. Chapter 5 discusses how citizen budget initiatives can increase voice. This chapter discusses how politicians and policymakers can strengthen the compact using public expenditure management to systematically achieve three desirable outcomes that can underpin effective services: aggregate fiscal discipline, allocative efficiency and equity, and operational impact.[487]

Aggregate fiscal discipline

With no effective mechanism for resolving the competing budget claims of politicians, line ministries, and subnational governments, public expenditures will exceed available funds. The resulting unsustainable fiscal deficits can translate into high infla-tion, high interest rates, and burgeoning current account deficits. Despite the simple logic of this argument—and sometimes driven by external shocks—countries slip into macroeconomic crises that inevitably lead to belt-tightening. Countries in crisis may have no option but to curtail basic services, even if the service delivery chain normally works well. Argentina is just the most recent example (box 10.1).

Countries can instill fiscal discipline by strengthening budget formulation by the finance ministry. Constitutional or legislative restraints can rein in legislatures and ministries. Brazil and Chile have laws on fiscal responsibility that limit budget deficits. In Colombia, Peru, the Philippines, and Uruguay the constitution constrains or prohibits amendments to increase budgets. Sound public expenditure management requires reliable revenue projections and comprehensive budgets that do not hide guarantees and other contingent liabilities. When budgets are not comprehensive, the consequences can be harsh, as Thailand found in 1997 when contingent liabilities from the banking and finance sectors blindsided the government and triggered a regionwide financial crisis.

Allocative efficiency and equity

For basic services in education, health, and infrastructure to work for poor people, governments have to be involved, as chapter 2

B O X   1 0 . 1 *The impact of Argentina's crisis on health and education services*

After three years of recession, the economic and financial crisis in Argentina came to a head at the end of 2001. The social impact of the crisis has been devastating. Poverty rates have jumped 40 percent. There is growing evidence of deterioration in service quality, access, and use of social services. Roughly 12 percent of people with formal health insurance discontinued or reduced their coverage, increasing the burden on already strapped public hospitals, the traditional provider for the uninsured. Difficulties with federal transfers have led to serious shortages in medical supplies throughout the public hospital network. The pressure for maintaining funding for high-cost curative care has further cut into the already low resources allocated to primary care. Maternal and child health is likely to be at risk. Epidemiological surveillance data report an increase in some endemic diseases.

Education has been similarly hit, with salary delays and work stoppages in several provinces. During 2002 roughly a third of provinces experienced school closings of 20–80 days over a school year of 180 days. Many provinces were forced to concentrate their falling resources on wages, sharply reducing financing for school lunches, infrastructure, and other investments.

Source: World Bank staff.

Table 10.1 Fallible markets, fallible governments, or both?

| | | Government failure | |
		High	Low
Market failure	**High**	Ambiguous, hard-to-monitor situations in which government failure may swamp market failure and so public financing for efficiency or equity reasons may not work for poor people (government primary teachers fail to show up for work, public clinical care goes only to the non-poor). Public expenditures should be directed to increasing client power through demand-side subsidies, co-payments, client monitoring, provider peer monitoring, and information; strengthening voice (through decentralization, delivery arrangements that yield more information, participatory budget analysis); and supporting altruistic providers. Market and community-led delivery should be used to strengthen public institutions over time.	Market failures keep services from benefiting poor people. Depending on the nature of the market failure, public actions could range from public provision or financing (subsidies) to regulation or information disclosure that does not crowd out private responses or that at least takes them into account.
	Low	Private provision and financing with appropriate public regulation or education	Private provision with appropriate regulation, and equity-driven public interventions informed by potential private responses

makes clear. This requires sound budgeting. Good, results-oriented budget allocations are both an outcome of the long route of accountability and a source of its strength, particularly for the link between policy-makers and providers. How should governments allocate budgets to improve education and health outcomes? First, the efficiency rationale for government intervention: are there market failures due to public goods or externalities? Or is redistribution for equity the goal? Second, given the rationale, what is the appropriate instrument—public provision or financing, or regulation, or educating the public? Third, what are the fiscal costs over time, and how do their expected benefits compare with those for expenditures on other things that government should finance? In considering these issues, politicians and policymakers need to pay particular attention to what is known about the multisectoral determinants of health and education outcomes in their country (see crate 1.1). Reducing infant mortality may have as much to do with how the water ministry (clean water) or the education ministry (female literacy) gets and uses its budget as with how the health ministry does.

There are many pitfalls in considering the rationale and instruments for government interventions. Focusing on market failures alone (information asymmetry, missing insurance markets) presumes that government implementation failures are inconsequential. Where this is actually true, public provision or financing is appropriate (table 10.1). But where government failures outweigh market failures, ignoring them can lead to large public expenditures that benefit only the non-poor or to services so defective that their opportunity costs outweigh their benefits for most poor people. In difficult-to-monitor clinical care, if primary rural health clinics lack professional staff and medicines and the political environment is not pro-poor, public provision or even subsidies for private provision may not work for poor people. Better alternatives might be funding demand-side health subsidies or district hospitals where monitoring is easier and peer pressure for doctors can work. Where monitoring is easy, as in immunization campaigns, contracting for private provision may be a good solution.

Similarly, ignoring the likely private response to public interventions (such as the crowding out of private providers or household income effects of government subsidies) can lead to ineffective public expenditures. Equity-seeking public expenditures can end up helping the non-poor if analysis suggesting that services or money never reach poor people is ignored in policy design.

These questions about rationale and instruments cannot be answered without detailed information about the sector, the service, the nature and depth of market and government failures, who benefits (expenditure incidence), and private responses to public interventions. This information needs to be developed through in-depth

analytical work (in itself a public good that governments and their external partners should fund). Determining true costs and impacts for allocation decisions is not easy, particularly when self-serving line agencies have strong incentives to manipulate or withhold information from the ministry of finance. This information asymmetry can lead to perverse practices (such as line ministries back-loading costs to later years) that reduce the transparency of the budget and its alignment with overall priorities and the practicalities of what works.

In recent years several countries have approached these problems of transparency and results orientation in budget formulation through medium-term expenditure frameworks. These multiyear frameworks make tradeoffs more transparent across sectors and time and synchronize medium-term priority setting with the annual budget cycle. They offer the promise of better budget management, though early implementation suggests that realizing these gains takes quite a bit of time, effort, and parallel improvements in budget execution and reporting.[488]

Properly implemented, a medium-term expenditure framework can reduce incentives for bureaucratic gaming and reveal the true costs of the political choices being made in the budget. It can usefully address the information asymmetry between the ministry of finance and line agencies, because its forward-estimate system requires line ministries to cost their programs over the medium term—essentially a rolling three- or four-year budget. A properly functioning forward-estimate system can induce line agencies to set aside funding for recurrent costs and improve the delivery of services suffering from inadequate maintenance, such as primary schools.

As the capacity to manage grows, a medium-term expenditure framework can offer other advantages. Sector-specific expenditure frameworks can be developed and linked to the overall framework, increasing confidence that the budget is becoming more results-oriented (chapter 8 discusses this approach to health budgeting in Mali). With a multiyear framework poli-

cymakers can focus on new programs, since allocations for existing programs, decided in previous years, would only need updating. Finance ministries can more transparently require line ministries to propose cuts in ongoing activities to pay for new programs. Line ministries would have an incentive to know the least effective programs at any point in time, creating demand for systematic monitoring and impact assessment capacity and for client feedback.

For all their advantages however, medium-term expenditure frameworks are not a magic bullet. Aggregate and sectoral outcomes and capacity development reveal a mixed picture. Some applications are maturing slowly (in Albania, South Africa, Uganda), some are still coming together (Rwanda, Tanzania), and some are struggling (Bolivia, Burkina Faso, Cameroon, Ghana, Malawi).[489] In Malawi's development budget for 1996–97, health was allocated at 21 percent of the total but it received only 4 percent.[490] Implementing medium-term expenditure frameworks is difficult, perhaps taking a dozen years or more, as the experience of early adopters such as Uganda demonstrates. A solid foundation of budget execution and reporting seems key, but is also difficult to achieve. Implementing a medium-term expenditure framework can help build the basics, as can participatory budgeting initiatives discussed in chapter 5. Other success factors include carefully matching implementation to capacity, keeping budget projections and estimates realistic, distinguishing between collective ministerial responsibility in the cabinet and the interests of individual ministries, and engaging line ministries in the strategic phase prior to considering detailed estimates, when the rationale and instruments for public intervention can be carefully thought through.

Operational impact

Ultimately, even the best budget allocations are only as good as their impact on desired outcomes for poor people. After controlling for national income, comparative studies show that public spending per capita and outcomes are only weakly associated

(chapter 2). Similar changes in spending are associated with different changes in outcomes, and different changes in spending are associated with similar changes in outcomes. This is not to suggest that public funding cannot be successful—countries like Thailand have sharply reduced infant mortality rates through commitment, good policies, and spending. But it does mean that unless public expenditures are results-oriented they will be ineffective. There has been a major push in recent years to make policymakers and providers accountable not only for how they spend money but also for what they achieve—for intermediate outputs and final outcomes. Countries are using several instruments: single-sector and multisector program approaches, alignment of overall national strategies with budgets, tools for verifying where the money goes, and stronger oversight controls to reduce fraud and misuse of public funds.

Programmatic approaches. Individual investment projects can fall short of their objectives if they ignore linkages or trade-offs over time and space or with other sectors. Chapter 11 discusses sectorwide approaches as a way of enhancing development impact, building stronger donor partnerships, improving the management of sector resources, and scaling up successes. Used in countries as diverse as Bangladesh, Bolivia, Brazil, Burkina Faso, Ethiopia, Ghana, Mali, Mozambique, Pakistan, Tanzania, and Zambia, sectorwide approaches show that over time strategies and objectives are better articulated, and management information, monitoring, evaluation, and resource planning systems better established, in sectors that use such approaches than in those that do not.

Poverty reduction strategies. A country's poverty reduction strategy can link public expenditures explicitly to service delivery for the poor, build country ownership, and strengthen citizen voice through consultations with civil society. In 1999 low-income countries began preparing Poverty Reduction Strategy Papers (PRSPs) as the basis for concessional lending from the World Bank

and the International Monetary Fund and for debt relief under the enhanced Heavily Indebted Poor Countries (HIPC) Debt Initiative.[491] Many countries and donors have stressed better public expenditure management as a means of tracking pro-poor spending and increasing donor and recipient accountability for external assistance. A recent review of the pro-poor expenditure tracking capacities of budget management systems among HIPCs suggests that they have far to go.[492] While recognizing that improvements in public expenditure management will take time,[493] both domestic stakeholders and donors have highlighted the need for developing and implementing detailed plans for improvement.

Ideally, poverty strategies should be fully integrated into the budget, but this is still a new approach and success has varied. For some countries integration has been a primary goal (Albania). Tanzania and Uganda have integrated poverty strategies with their medium-term expenditure frameworks, adding focus, legitimacy, and stability to both. But other countries have assigned responsibility for preparing their poverty strategy to a ministry not directly concerned with public expenditure planning. In Ghana, it was initially assigned to the planning ministry, though more recently the planning portfolio has been folded into the finance minister's portfolio.

Public expenditure tracking surveys. In judging operational impact—the quality and quantity of service delivery, and where, how, and to what effect allocated funds are spent—public expenditure tracking surveys can follow the flow of funds through tiers of government to determine whether the funds actually reach the schools or clinics they are destined for. Tracking surveys not only highlight the uses and abuses of public funds, but also give insights into capture, cost efficiency, decentralization, and accountability.[494] Even when little financial information is available, tracking surveys can show what money is supposed to reach a community and how much actually does. Made public, this information can strengthen voice and client power relationships (box 10.2).

Financial management. Auditing helps a government hold itself accountable for the way policymakers and providers spend money. Audits have traditionally focused on basic financial controls and cash flows. This focus reflects the control culture in public finance and the long-established view that accountability for fund use supports the disciplined use of resources as intended by budgets. In recent years, however, accounting and auditing processes have been challenged to examine expenditure performance as well as conformance. The new performance orientation of audits is particularly relevant to operational efficiency concerns in budgets and suggests an expanded notion of accountability. Public financial managers now need to consider their roles as contributors to final outcomes as well as controllers.[495]

Procurement. The cost and quality of government programs are critically affected by the procurement process through which budgets are spent. Procurement inevitably encompasses an intricate set of rules and procedures, each capable of retarding or promoting transparency, contestability, accountability, and efficiency. Leakages, primarily through fraud and corruption, can mean substandard equipment and infrastructure, lack of essential medical supplies, insufficient textbooks, unnecessary low-priority goods, and poor-quality public services. Inefficient procedures create higher costs for suppliers, which are passed through as higher program costs. Improving procurement requires extensive analysis of its rules, procedures, and institutional arrangements. To support streamlining, several countries have turned to information and communications technology. Brazil, Chile, Mexico, the Philippines, and the Republic of Korea, among others, have developed strong e-procurement systems that lower costs and increase transparency, competition, and efficiency.[496]

Decentralizing to improve services

In countries big and small central governments are transferring responsibilities to lower tiers of government, motivated in part by the desire to bring politicians and policymakers closer to clients and to make services more effective. The world's two largest countries, China and India, have embraced decentralization. China's phenomenal industrial growth took place within an institutional framework of decentralization, and India's constitution was amended in 1992 to promote local government.[497] But the extent of decentralization varies considerably and is probably less than generally imagined: even in developed countries the average subnational share of expenditures was just above 30 percent in recent years (figure 10.2).

Subnational authorities can be efficient providers and regulators of local services under the right institutional incentives and with clarity about who does what—and with what.[498] But greater autonomy can also increase opportunistic behavior and create moral hazard, resulting in costs that diminish accountability and the benefits of decentralization.[499] Good design, sound management, and constant adaptation by both central and subnational authorities are needed to make decentralization work.

BOX 10.2 *The case of the missing money: public expenditure tracking surveys*

In the early 1990s the Ugandan government dramatically increased spending on primary education. But school enrollments stagnated. Could it be that the money was not reaching schools? To answer this question, a public expenditure tracking survey started collecting data in 1996 on government transfers to schools. It found that 87 percent of the nonwage resources intended for the schools was diverted to other uses. This information was made public and prompted a vigorous response from the national government, which, along with parents, put pressure on school principals to plug the leaks (see spotlight on Uganda). Follow-up studies have shown that the situation has improved.

Tracking surveys can find problems in unexpected places. A survey in Peru tracking a participatory food supplement program (Vaso de Leche, or "Glass of Milk") revealed that less than a third of each dollar transferred from the central government reached intended beneficiaries. Most of the leakage occurred below the municipal level—in the Mothers Committees and households. The results challenged the belief underlying the program that local community organizations were always more accountable than public agencies. Authorities have decided to merge all nutrition programs into a social fund that will transform Vaso de Leche into a conditional, multipurpose, cash-transfer program with stronger accountability.
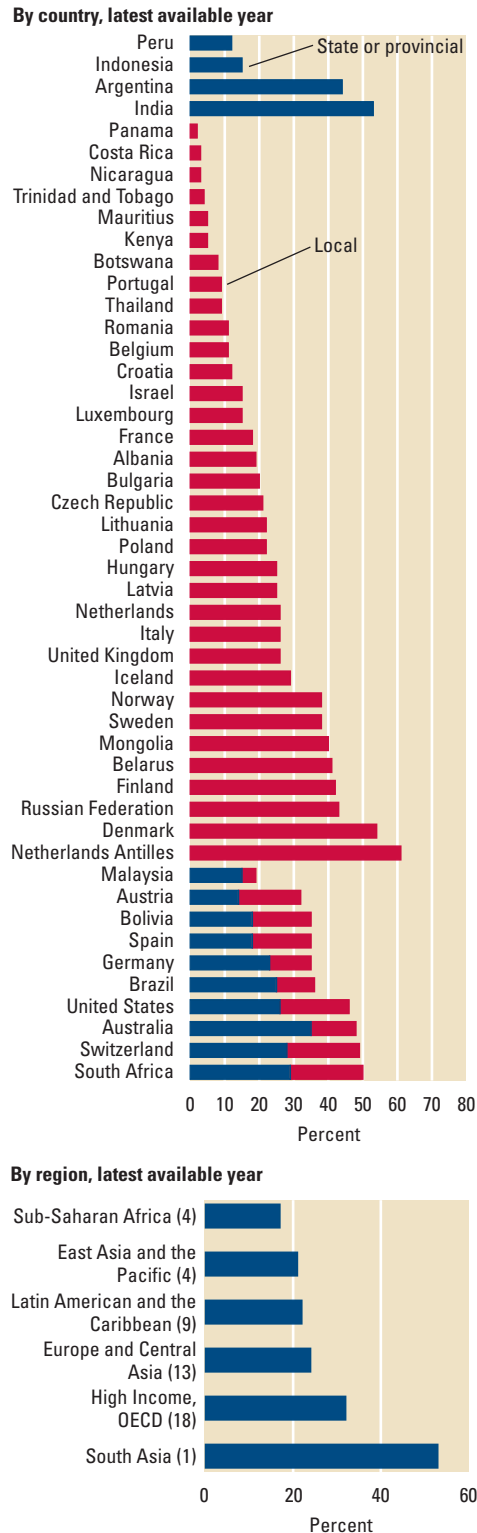
These and other tracking surveys in Chad, Ghana, Honduras, Mozambique, Papua New Guinea, Rwanda, Senegal, Tanzania, and Zambia suggest several lessons. They confirm that budget execution is a major problem and show that procedural clarity and due process are often missing. They find that poor resource management is often a result of too much discretion in resource allocation when there is limited information, weak controls, and strong vested interests. Tracking surveys reveal insights into the actual (rather than the formal) operation of schools and health clinics and allow comparisons of public, private, and nongovernmental providers. Tracking surveys are highly cost-effective if the leaks they detect are plugged. But they need an authorizing environment: unless there is a solid political commitment for more transparency, government agencies may be reluctant to open their books. The challenge is to institutionalize tracking surveys within a country's own financial control regime.

Source: World Bank staff.

Figure 10.2 Subnational shares of expenditures vary considerably

By country, latest available year

By region, latest available year

Note: Simple averages of most recent observations for countries with available data. Numbers in parentheses indicate number of countries represented. South Asia refers only to India.

Source: IMF, *Government Finance Statistics*; World Bank staff.

Decentralization and service delivery

Decentralization is not magic. Allocating more responsibilities to subnational governments does not itself transform service delivery. This depends on whether decentralization is motivated by political, fiscal, or service reform objectives.

Decentralization is often primarily a political act aimed at greater regional autonomy. Decentralization of services is a by-product (box 10.3). Indonesia decentralized responsibility for many services in 1999–2000, including schooling, as part of a larger move to greater regional autonomy. In such cases decentralization is a fact of life educators must cope with—not a deliberate educational reform. New arrangements can always create opportunities for reform, however. Using those opportunities effectively depends on two conditions. First, there must be relevant information about performance across jurisdictions so that citizens can bring justified pressure to bear on politicians and policymakers if their area is lagging. Second, there must be an environment in which local jurisdictions can experiment and evaluate new approaches.

Decentralization may also be driven by fiscal concerns to align responsibility for services with the level of government best able to manage and mobilize resources for them. One danger is that the central government uses this as an excuse to off-load expenditure responsibilities onto jurisdictions that cannot have recourse to potentially inflationary financing. While this could lead to a greater willingness to pay more local taxes (because citizens perceive a direct link between taxes and service quality), there is no reason to believe that this is automatic. Fiscally motivated decentralization is particularly worrisome where special equalization efforts for lagging regions or safety nets for poor families must be sustained by the center.

Decentralization can also be driven by a desire to move services administratively closer to the people. But success depends on how decentralization affects relationships of accountability. If decentralization just replaces the functions of the central ministry with a slightly lower tier of government (a province or state), but everything

else about service delivery remains the same, there is little reason to expect positive change. The assumption is that decentralization works by enhancing citizens' voice in a way that leads to improved services. But on both theoretical and empirical grounds this could go either way. The crucial question always is whether decentralization increases accountability relative to its alternatives. If local governments are no more vulnerable to capture than the center is, decentralization is likely to improve both efficiency and equity.[500]

The impact of decentralization on services is further complicated when, as is usually the case, political, fiscal, and administrative goals are not followed simultaneously or in a supportive sequence. Decentralization in eight Latin American countries suggests that political objectives were often the trigger, but paths diverged thereafter (box 10.4). Only some countries moved on to fiscal and administrative decentralization as primary objectives. Such variation, inevitable as countries adapt, makes it hard to predict the course of decentralization and to measure its costs and benefits.[501] Given its many paths, the record of service improvements is mixed—including some notable successes (decentralizing education in Central America, devolution in Bolivia, municipal reforms in South Africa), some reversals (in the Russian Federation and parts of Latin America), and some cases too new to assess (initiatives in Indonesia and Pakistan).[502]

BOX 10.3 *Decentralization as a political imperative: Ethiopia*

In Ethiopia decentralization has been a response to pressures from regional and ethnic groups for greater political participation. When the Ethiopian People's Revolutionary Democratic Front (EPRDF) defeated the Mengistu dictatorship in 1991, the new government faced a complex political landscape. Ethnicity was extremely politicized, and the struggle against Mengistu had been spearheaded by organizations promoting ethnic nationalism in Ethiopia's diverse population. The single-party EPRDF government needed to establish control over the entire country, legitimize its authority, and include other groups in the political system.

The 1994 constitution transformed Ethiopia into an ethnicity-based federation and decentralized administrative responsibilities to nine regions. The accompanying education reforms were laid out in the "Education and Training Policy of 1994." Regions were given responsibility for planning, designing, implementing, and monitoring the primary education curriculum and teacher training. The syllabus remained centrally controlled, with input from the regions. Previously, Amharic had been the sole language of instruction, but the new policy gave all children the right to receive primary education in their mother tongue. At least 18 languages are now being used as the medium of instruction, although Amharic remains the national language.

Politically motivated decentralization carries implications that are critical for the impact of reform. The education policies adopted along with political decentralization may well be good ideas for improving the quality of instruction and learning. But if improving quality is not a central objective of decentralizing Ethiopian education, the resulting lack of commitment to ensuring that outcome could become the most difficult obstacle to overcome.

Source: Pritchett and Farooqui (2003).

Decentralization and accountability for services

Decentralization must reach the clinic, the classroom, and local water and electricity utilities in ways that create opportunities for strengthening accountability between citizens, politicians/policymakers, and providers. Depending on its degree—deconcentration, delegation, and devolution—and its implementation, decentralization offers opportunities for strengthening different parts of the


BOX 10.4 *Many roads to decentralization: Latin America*

Decentralization in Latin America shows how objectives changed over time in each country and shaped outcomes and the path of decentralization. Where decentralization was driven mainly by political objectives (as in Ecuador, Peru, and Venezuela), the transfer of resources was often significant, but the transfer of responsibilities was more difficult to pursue. Where political decentralization was joined and driven by sophisticated but misaligned regional fiscal autonomy (as in Argentina and Brazil), cyclical economic and political crises erupted because of the inability of the center to impose fiscal discipline on subnational governments. In Colombia, though decentralization was initially driven by political motives, fiscal and administrative adjustments ran deeper, and cyclical adjustments in the fiscal and administrative systems were common.

This experience in Latin America shows that the transfer of political, fiscal, and administrative power does not necessarily occur simultaneously or in a supportive sequence. In fact, only in Bolivia's reform effort in 1994 were these powers transferred together. Chile democratized in 1990, introduced popular participation but not regional elections and devolution, and in the mid-1990s further deepened the administrative delegation that had marked its earlier military regime. Of these countries Chile may now be best placed to attempt deeper administrative and political devolution because of the growth of local capacity and the absence of the regional fiscal crises that struck many of its neighbors on their road to decentralization.

Source: Frank, Starnfeld, and Zimmerman (2003).

Figure 10.3   Decentralization and the service delivery framework
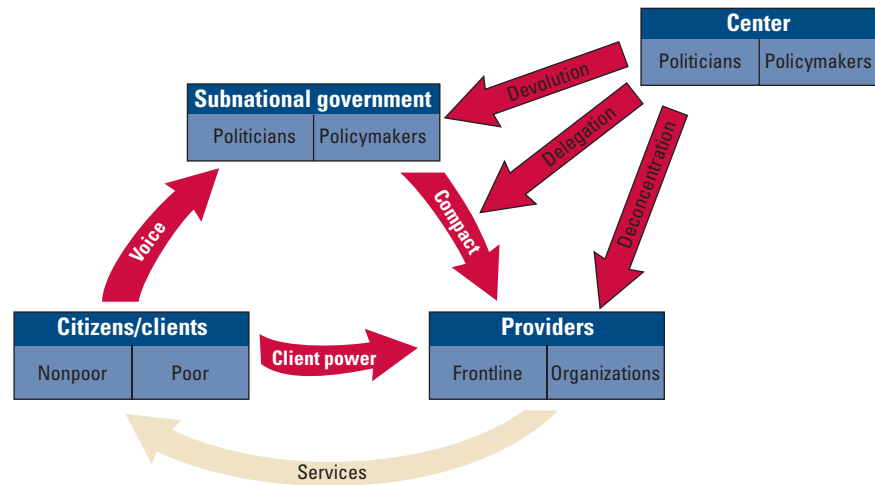
service delivery chain (figure 10.3). *Deconcentration* affects primarily the compact relationship between central policymakers and their local frontline providers and may have little influence on local voice. At the other end, *devolution* implies the handing over of greater power and resources to local politicians and therefore greater scope for strengthening local voice, their compact with local providers, and local client power. *Delegation* falls in between. The degree of decentralization thus impacts differently on the short and long routes of accountability (table 10.2). In practice, decentralization inevitably involves a mix of deconcentration, delegation, and devolution.

Particularly when local taxing and spending powers and central financing are well matched, decentralization can create checks and balances that can motivate both central and subnational governments to make local services work. But accountability may not improve, and the potential gains of decentralization may be lost, if the fiscal and other incentives underlying the center-subnational relationship are misaligned so that checks and balances do not work. A study of the transfer of responsibility for secondary schools to provinces in Argentina in 1994–98 found that while average test scores improved, the gains were much lower when schools were transferred to severely mismanaged provinces (as measured by provincial fiscal deficits).[503]

To allow decentralization to reach local classrooms, clinics, hospitals, and public works departments in a way that increases accountability and makes services work bet-

ter, three areas are key: subnational finance, the division of administrative responsibilities between center and subnational governments, and local capacity.

Getting fiscal incentives right

A subnational government will have weaker incentives to deliver cost-effective services that meet minimum standards if it can manipulate funding (from the center or from market borrowing) to shift its liabilities to the center (called a soft budget constraint).[504] Subnational liabilities can be contractual, fiscal deficits, or public goods that are underprovided. A soft budget constraint weakens accountability, creates moral hazard, and threatens macroeconomic stability by creating contingent liabilities for the center that it may find hard to refuse to pay. Underdeveloped capital markets and elections that do not penalize local politicians for cost and deficit shifting are part of the problem. A hard budget constraint strengthens accountability but requires a sound intergovernmental fiscal system. The center, having devolved responsibility and resources, is prodded by a hard budget constraint to support effective subnational management and service delivery, thereby avoiding fiscal problems and unhappy citizens.

Getting the intergovernmental fiscal system right.   Standard welfare economics suggests the efficiency and equity grounds for assigning expenditure responsibilities, revenues, and grants to lower tiers of government.[505] Service decisions and expenditures should be

Table 10.2 Decentralization is never simple
Key political, fiscal, and administrative features of decentralization and the accountability for service delivery

Degree of decentralization	Political features	Fiscal features	Administrative features
Deconcentration (minimal change)	• No elected local government • Local leadership vested in local officials, such as a governor or mayor, but appointed by and accountable to the center • Voice relationships are remote and possibly weak	• Local government is a service delivery arm of the center and has little or no discretion over how or where services are provided • Funds come from the center through individual central ministry or department budgets • No independent revenue sources	• Provider staff working at local level are employees of center, and accountable to center, usually through their ministries; weak local capacity is compensated for by central employees • Accountability remains distant: the *short route of accountability* may be weak if provider monitoring is weak and citizens may have to rely on a weak *long route* stretching to politicians at the center; a strong *compact* between policymakers and providers can compensate to some extent
Delegation (intermediate change)	• Local government may be led by locally elected politicians, but it is still accountable, fully or partially, to the center • *Voice* relationships are more local and proximate, but can be overruled by center	• Spending priorities are set centrally, as well as program norms and standards; local government has some management authority over allocation of resources to meet local circumstances • Funding is provided by the center through transfers, usually a combination of block and conditional grants • No independent revenue sources	• Providers could be employees of central or local government, but pay and employment conditions are typically set by center • Local government has some authority over hiring and location of staff, but less likely to have authority over firing • Both *long* and *short routes of accountability* potentially stronger; greater local knowledge can allow better matching and monitoring of supply with local preferences, strengthening both the *compact* and *client power*
Devolution (substantial change)	• Local government is led by locally elected politicians expected to be accountable to the local electorate • *Voice* relationships can be very strong, but also subject to capture by elites, social polarization, uninformed voting, and clientelism	• Subject to meeting nationally set minimum standards, local government can set spending priorities and determine how best to meet service obligations • Funding can come from local revenues and revenue-sharing arrangements and transfers from center • A hard budget constraint is imperative for creating incentives for accountable service delivery	• Providers are employees of local government • Local government has full discretion over salary levels, staffing numbers and allocation, and authority to hire and fire • Standards and procedures for hiring and managing staff may still be established within an overarching civil service framework covering local governments generally • Potentially strongest *long* and *short routes of accountability*, but now also more influenced by local social norms and vulnerable to local capacity constraints and politics

Note: See the glossary in chapter 3 of this Report for definitions of accountability terms (in italics).
Source: Based on Evans (2003).

devolved to the lowest tier of government that can internalize the costs and benefits of the service—the so-called subsidiarity principle. The principle suggests that subnational governments should administer basic health and education services. But setting minimum standards (for quantity, quality, and access) and financing minimum access should be central responsibilities on grounds of interjurisdictional equity. In practice, things get more complicated. Expenditures are often not assigned carefully to subnational governments.[506] Central governments delay transfers. Shared expenditure responsibilities are the trickiest to handle and can lead to free-rider problems and deficit- and cost-shifting behavior that softens the budget constraint.

To increase responsiveness to local citizens, subnational governments need a local tax instrument and the freedom to set rates.

Also important are simple, transparent, formula-based transfers from the center that are predictable over several years. If made contingent on service outputs, lump-sum grants can ensure a minimum level of service delivery for poor people, equalize fiscal capacity across jurisdictions, and create performance incentives. Ideally, expenditures, revenue assignments, and transfers should be designed jointly so that once they are set, any additional expenditure demands could be met through taxes rather than grants.[507] The more these principles are violated, the greater the informality around transfers, and the lower their predictability and stability, the softer the budget constraint gets.[508]

Getting subnational borrowing right. Capital markets, where sufficiently developed, can bolster subnational accountability.

Where markets are underdeveloped and market discipline is weak, a prior question is whether subnational governments should borrow at all. Effective fiscal decentralization should certainly precede financial decentralization to avoid giving the signal that the center is underwriting subnational debts.[509] Allowing subnational borrowing from public financial institutions can unintentionally send this signal. In Argentina, Brazil, India, and Ukraine, specialized development banks and institutions have provided a backdoor route to central subsidies when transfers would have been simpler and more transparent.

Getting subnational regulation right. Governments find it hard not to bail out lower-tier governments when financial profligacy threatens basic services, risks spreading to other jurisdictions, or threatens monetary policy or the country's credit rating. This has led to the imposition of top-down regulation, either administrative controls or rule-based debt restrictions that mimic the market. Regulation, because it is vulnerable to political bargaining, usually needs to be supplemented by checks and balances on the center itself so that its stance remains credible. In South Africa these are provided by the constitution, the constitutional court, and international capital markets.[510] Subnational bankruptcy arrangements can help. A control board (that can be invoked only by an independent court) to finance minimum, nationally set service levels can protect the center from having to step in. Where bailouts are unavoidable, the center can use the opportunity to make regulation more effective. A comprehensive fiscal monitoring and evaluation system that works consistently across jurisdictions can help greatly in implementing no-bailout and regulation strategies.

Getting administrative responsibilities right

Political and fiscal considerations generally claim far greater attention than administrative decentralization does.[511] In many instances decentralization has proceeded without explicit staffing strategies, and a central civil service typically coexists with subnational and local governments.

Though the 1992 landmark amendments to the Indian constitution require each state to create urban and rural local governments and assign functions and revenues, virtually all staff at the local level remain state employees. In contrast, Indonesia recently adopted a "big-bang" approach, moving quickly to transfer roughly 2.1 million civil servants to subnational district governments.[512] Uganda, in shifting from deconcentration to devolution in the 1990s, established district service commissions with the authority to hire and fire personnel—though in practice central policy and administrative rules have tightly controlled the process so that it has resembled delegation more than devolution. That may change as local capacities grow. Pakistan's recent three-tier devolution envisages the creation of district and subdistrict cadres: district health and education cadres have been created in some provinces, but administrative decentralization still has a long way to go.

National pay scales, rigid collective bargaining agreements, and disagreements with national labor unions can severely circumscribe the flexibility that subnational governments have in rationalizing employment, as seen in many Asian, African, and Latin American countries.[513] Centralized labor negotiations and bargaining agreements can act as unfunded mandates that undo fiscal decentralization (as in South Africa). Engaging public sector workers and unions in discussions about different aspects of decentralization can increase local flexibility and improve provider compacts. At the same time, administrative devolution needs to strike a balance between autonomy and uniformity to allow for desirable features such as interjurisdictional mobility for highly skilled staff in short supply. It is important to align the structure of the civil service with the assignment of service responsibilities to different tiers—misalignment confuses incentives, weakens accountability, and creates conflicts of interest instead of checks and balances. In practice this is not easy, and it takes time.

The twin tasks of devolving administration and building local capacity can be

daunting even under ideal conditions of budget and stakeholder support. When budgets are constrained and support is mixed, public administration reform is inevitably drawn out, falling behind political and fiscal decentralization. So the earlier the start in building local capacities, the smoother the process of decentralization is likely to be.

Building local capacity with autonomy

Decentralize or build local capacity: which first? In an ideal world subnational governments would be made fully accountable before they were given authority and autonomy. Decentralization in the absence of adequate local capacity was once considered undesirable,[514] but that view is changing as experience shows that local capacities expand best as decentralized systems mature, even though sequencing remains difficult. The challenge is to balance political, fiscal, and administrative considerations even when capacity mismatches occur. Where local institutions already exist, even informal ones, the challenge is to define their responsibilities and legal status and move the informal closer to the formal. Where local institutions do not exist, the challenge is to construct the underlying legal and political framework for new institutions.

Fostering capacity is best done in partnership between the center and subnational governments, with the center providing incentives for subnational governments to match demand-driven capacity growth with supply-side assistance and financing (box 10.5). In this partnership the functions of central staff also change, from line management to policy formulation, technical advice, and monitoring. Central staff require incentives and training to do their new jobs effectively.

Pulling the pieces together

Decentralization fails or succeeds in the interplay of its fiscal, administrative, and local capacity attributes. The center's role is crucial for all three elements and, more broadly, for the design and implementation of decentralization. When there is a soft budget constraint and the relationships of voice and client power are weak, subnational governments will have little incentive to develop local capacity and perform well, which will make local capture by elites more likely. Ultimately, the center is both regulator and facilitator of decentralization. Its challenge is to balance these roles as it makes and manages the policy framework for the public sector and for service delivery.

Making, managing, and implementing good policies

When the policy decisions of politicians and policymakers at the center of government—senior decisionmakers and veto holders in the executive, council of ministers, or cabinet—are uncoordinated, inconsistent, or badly implemented, the long route of accountability and service delivery are likely to suffer. Breakdowns in policy management can include a range of failures (box 10.6). Sure signs of breakdown? When political policy decisions are not implemented, partially implemented, or reversed.[515] A study of two African nations revealed that more than

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B O X   1 0 . 5 *Building local capacity: the role of the center*

Devolution is difficult when subnational governments lack skills and institutional capacity. The central government can provide training in top-down ways. Or it can create an enabling environment, using its finance and regulatory powers to help subnational governments define their needs (making the process demand-driven), to deploy training from many sources (local or national private sector), to learn by doing as decentralization proceeds, and to establish learning networks among jurisdictions. This second approach is more consistent with devolution and more likely to produce capacity tailored to the many cross-sector responsibilities of subnational governments. It also avoids the pitfalls of a supply-driven approach.

The center may need to provide capacity support, through both a demand-driven grant facility (for example, to help subnational governments contract local and other expertise) and a supply window (for example, mobile teams with financial management, technical, and community mobilization skills). Fiscal support through block grants or challenge funds can work on a competitive or matching basis to support local governments that achieve performance benchmarks (implementing a budgeting system, attaining service targets). Monitoring and evaluation capacity can also be facilitated by performance-based incentive grants. Monitoring efforts should feed into stronger public communication and outreach efforts so that subnational governments can benefit from better client feedback.

Successful capacity building requires a phased strategy, starting with the stabilization of core responsibilities. Next comes a transformation phase with restructuring plans based on a critical examination of service responsibilities and priorities, institutional arrangements, and financial and human resources. Finally, a consolidation phase seeks to internalize capacity growth based on constant learning by doing and adaptation. This is inevitably a drawn-out process marked by the constant need to balance greater autonomy and capacity.

Source: World Bank staff.

two-thirds of cabinet decisions were never implemented.[516] In Zambia genuine support for reforms introduced by the multiparty democratic government in the early 1990s never extended beyond a few cabinet ministers. As a result, special interest groups, who had not been consulted, slowed implementation to a crawl.[517] Such missteps are possible at each stage of the policy management process (figure 10.4).

## Getting good policies in education, health, and infrastructure

Policy management is particularly difficult in health, education, and infrastructure because outcomes such as reduced infant mortality have multiple determinants that cross sectors and jurisdictions (see crate 1.1); costs come early and impacts much later; and the spillover effects of services are

strong. Policy management in these sectors is often an outcome of well-informed bargaining between competing domestic interests, so accounting for domestic political concerns is important. By contrast, macroeconomic management tends to be the preserve of a few relatively insulated technocrats, with the central bank and finance ministry as key veto players, crises having to be dealt with expeditiously, and domestic political concerns often not included in decisionmaking.[518]

How a cabinet secretariat or presidential staff that links politicians with policymakers plays its role can be crucial to the efficacy of policy management in these sectors. Members of these staffs, which often include elite advisory groups that provide high-quality policy advice, can be vital gatekeepers. They can use contestability—or the careful evaluation of alternatives—to sharpen policy advice. In Thailand the National Economic and Social Development Board in the prime minister's office provides independent fiscal analysis of social sector initiatives and has promoted a coordinated and participatory institutional response to Thailand's HIV/AIDS crisis. Cabinet committees, consisting of subsets of ministers, their representatives, policymakers, and sometimes outside experts, can be particularly effective for intersectoral coordination and implementation and for identifying contending views and resolving them before the formal decision process.

Research on cabinet functioning suggests the conditions that favor high-quality policy management in dealing with complex multi-

Figure 10.4   The anatomy of policy mismanagement at the top
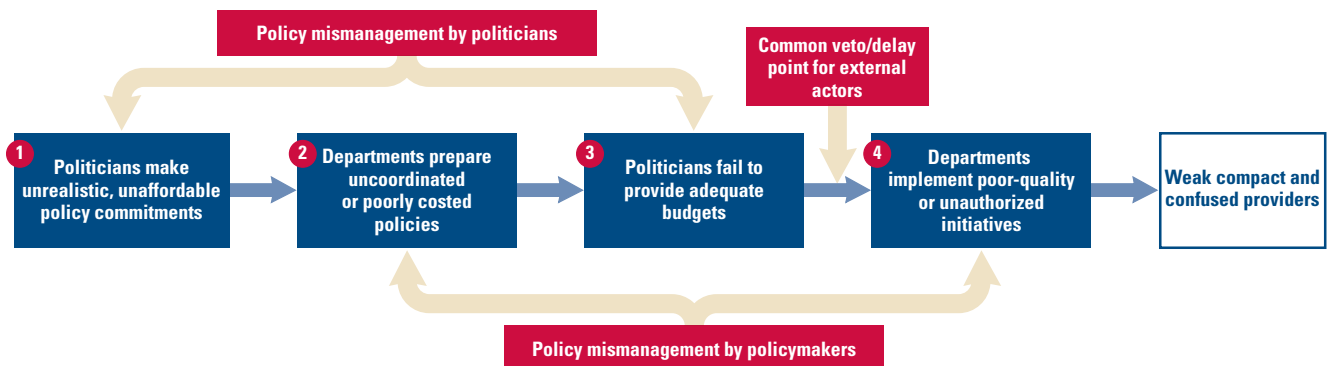
Source: Adapted from Blondel and Manning (2002).

sectoral issues: discipline (decisions are realistic and can be implemented), transparency (systematic procedures that cannot be manipulated by individual members and that emphasize collective responsibility), stability (no flip-flopping), contestability (consideration of alternatives), and structured choice (only core issues come before the cabinet).[519] Of these conditions, discipline seems most important. Practices vary. In the Netherlands all items requiring cabinet approval are specified in the rules of business, and in Finland almost every government decision requires cabinet approval. In Australia the Cabinet Expenditure Review Committee ensures collective responsibility and contestability for spending proposals—ministers have every incentive to test the new spending proposals of their colleagues so as to maximize the pool of uncommitted budget funds available for their own proposals.

More realistic fiscal forecasting and discussion rules that allow sensible tradeoffs to emerge between key service sectors may be needed to avoid overcommitment at early stages of the policy management process. A cabinet office that can negotiate feasible policy and legislative programs with line departments, analyze policy proposals, and coordinate without itself developing policy (to avoid conflicts of interest) can thereafter help ensure delivery on policy and budget proposals on these commitments. In establishing budgets, a multiyear budget framework may help ensure adequate funding and reduce budget instability if supported by politicians and the requisite implementation capacity. Communication, outreach, and consultation can forestall opposition and improve implementation plans. Finally, the compact may need to be strengthened so that neglect, incompetence, misapplication, or malfeasance does not prevent executive decisions from being implemented or cause those that are implemented to be flawed.

Making strategic choices in public administration and management

Choosing how to implement good policies is as important as making them. Countries have experimented in the past two decades with different public administration approaches to improving the performance and accountability of public officials and agencies. Analysis suggests that the basic drivers of performance are merit-based recruitment and promotion, adequate compensation, and reasonable autonomy from political interference.[520] As a result of the different approaches, the share of public employment in total employment varies widely: for the period 1997–99 it averaged 38 percent in transition economies (16 countries), 24 percent in industrial countries (20), and 21 percent in developing countries (23).[521] General government employment in education and health and in central and subnational government also varies considerably (figure 10.5). The differences reflect the different roles of the state and public administration in individual countries, institutions that have historic roots and cannot be changed overnight.

Figure 10.5 Working to keep citizens educated, healthy, and safe
General government employment, mid- to late-1990s
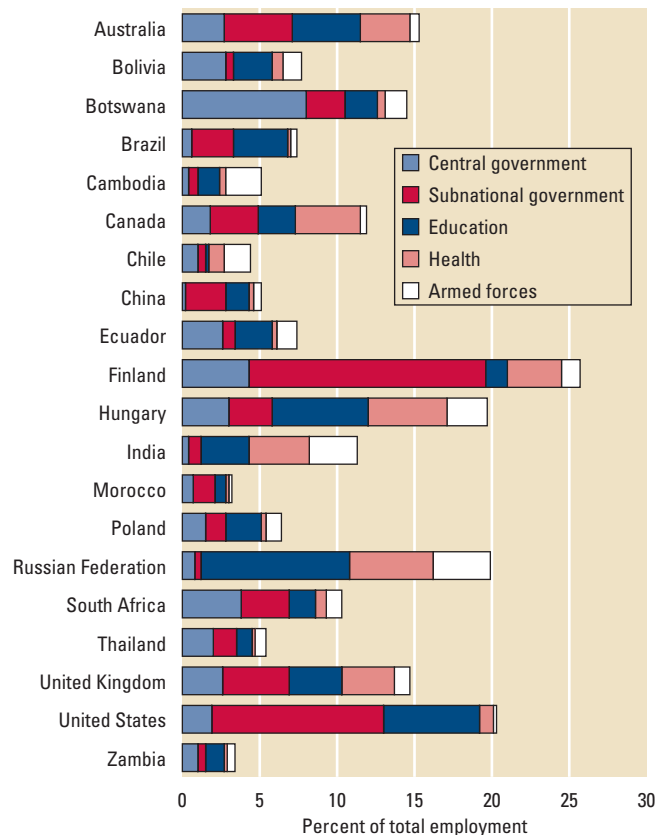
Note: General government excludes employment in state-owned enterprises. Central and subnational government totals exclude health, education, and police personnel. Armed forces excludes police.
Source: World Bank (2002e).

The New Public Management philosophy has dominated the debate on public administration reforms in recent years. Implemented principally in Australia, New Zealand, and the United Kingdom, it recognizes the government's special role in service provision, financing, or regulation, and the resulting incentive problems. It seeks to strengthen accountability by exchanging management flexibility for internal contracting among policymakers and between policymakers and providers. New Public Management also seeks to provide a more transparent accounting system and tighter, private sector–like financial management controls. In its extreme form civil servants have no tenure, and their term in office and promotion depend on successful completion of contract-specified deliverables. Experience in developing countries has been mixed, with some improvements in efficiency and uneven effects on equity.[522] In the weak institutional settings of many developing countries, New Public Management reforms may impose high transaction costs that may outweigh efficiency gains.

As the experience with New Public Management suggests, often the problem in implementing public sector reforms is not deciding on reform objectives but on how to get there. In Bolivia agencies were given management flexibility in the early 1990s, but there were no central controls to enforce accountability. Public administration problems remained.[523] The Bolivian experience highlights th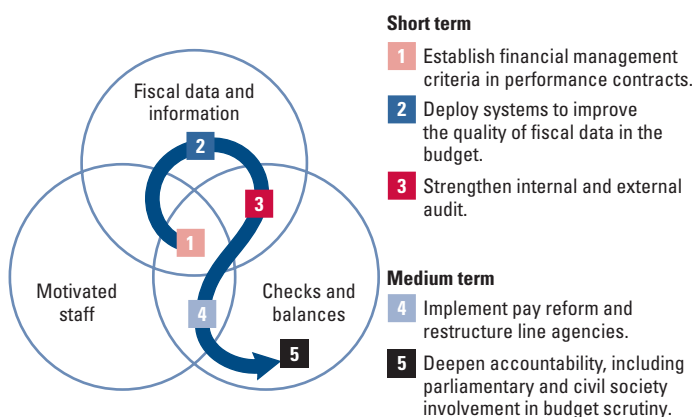e "catch-22": central controls are necessary when the policymaker-provider relationship is weak and agencies lack competence and effective internal controls. But as long as external controls are in place, line agencies lack the incentive to acquire competency and establish internal controls.

The answer? Choosing and sequencing public sector reforms carefully, in line with initial capacities, to create firmer ground for further reform. Pragmatic, incremental reforms in weak institutional environments—strategic incrementalism—can alleviate, if not fully resolve, accountability problems while creating the conditions for deeper change by modifying incentives and building capacity to respond to the next stage of reforms. Thailand is considering a "hurdle" approach to reforming its centralized budget system. Line agencies would clear a series of hurdles to qualify at each level for greater budget autonomy. In this incremental approach to budget reform, the dismantling of external controls has to be synchronized with the building of internal controls.[524] Other countries can follow a more traditional but still sequenced path of budget reforms, differentiating between short- and medium-term measures and building information channels for accountability as the reforms unfold—another form of strategic incrementalism (figure 10.6).

Formality in public sector institutions. Many aspects of government performance rest on an ingrained institutional discipline or formality. Actual behavior follows written rules, or actual budget outcomes bear a close resemblance to the legislatively agreed budget.[525] Informality emerges in weak institutional settings where incentives and procedures do not match formal rules, rewards, and procedures.[526]

This formality gap is most evident in personnel and budget problems. Teacher absenteeism in many countries exposes the stark differences between explicit rules on recruitment, promotion, pay determination, and monitoring and the actual, informal arrangement of connections and patronage that determine who gets hired and even whether they have to show up at all. Lateral entry to the civil service, intended to provide flexibility and contestability, becomes a window for patronage and nepotism when official posts

Figure 10.6   No straight roads to success: sequencing budget reforms

Short term

1 Establish financial management criteria in performance contracts.

2 Deploy systems to improve the quality of fiscal data in the budget.

3 Strengthen internal and external audit.

Medium term

4 Implement pay reform and restructure line agencies.

5 Deepen accountability, including parliamentary and civil society involvement in budget scrutiny.

Source: Girishankar (2002).

are bought and sold by politicians for private profit.[527] Checks and balances on policymakers are misused when reformers who arouse opposition are transferred capriciously.[528] In budget management as well a formal process of policy choices disciplined by budget rules can differ greatly from the informal process in which the budget is made and remade constantly during execution. As noted earlier, several African countries suffer from this formality gap in implementing their medium-term expenditure frameworks.

What are the practical implications of formality in public sector performance? The experience of countries with public management reforms suggests that the presence or absence of formality should influence the direction of reform, even if the objectives are the same. Where there is no strong tradition of merit-based civil service employment, the direction of reform has been to set up checks and balances to legally define entry to the civil service and the responsibilities of civil servants, and to build a distinct and unified corps. Security and stability of tenure and objectivity in promotion are used to protect against political interference. Where formality is the norm, the ambition has been to move in the opposite direction—to reduce the security of tenure and seniority in promotions and increase individual performance contracting, lateral entry, and rewards for results. This experience points to an important formality threshold in making reform choices.

First-stage and second-stage reforms. This threshold suggests a useful distinction between first-stage or basic reforms and second-stage or more advanced reforms (figure 10.7). First-stage reforms provide incentives to achieve or strengthen formality when the starting point is a weak institutional setting. Second-stage reforms build on a foundation of formality in stronger institutional environments (table 10.3 suggests illustrative examples of such reforms). In budget management the basics include hardening the budget constraint as a more top-down approach to budget formulation and strengthening implementation of input-oriented line item budgeting. Disseminating performance information internally and to citizens can give budget management a basic performance orientation (though well short of performance contracting). In personnel management first-stage reforms might include enhancing job security to strengthen protection from political interference.

Second-stage reforms build on a culture of following rules and offer more choices. In budget management second-stage reforms include a much stronger orientation toward results and performance auditing, building on good budget execution capacities in government. In personnel management second-stage reforms include reducing job security, harmonizing individual rewards with performance targets, and aligning broader terms and conditions with those in the private sector. But a greater contract orientation is not the only way to go. Countries such as Canada and Germany have adopted a process of continuous adaptation of their existing systems that relies on granting greater flexibility to achieve stronger results.

Curbing corruption in service delivery

Many reforms to improve public sector performance and its results orientation cut across multiple sectors. Curbing corruption is one. Service delivery is weakened by corruption, and poor people suffer its consequences more than others do.

Understanding the economic and social costs of corruption

Corruption—the abuse of public office for private gain—is a symptom of weak relationships in the service chain. Both grand

Figure 10.7   From weak basics to strong foundations in public sector institutional reforms
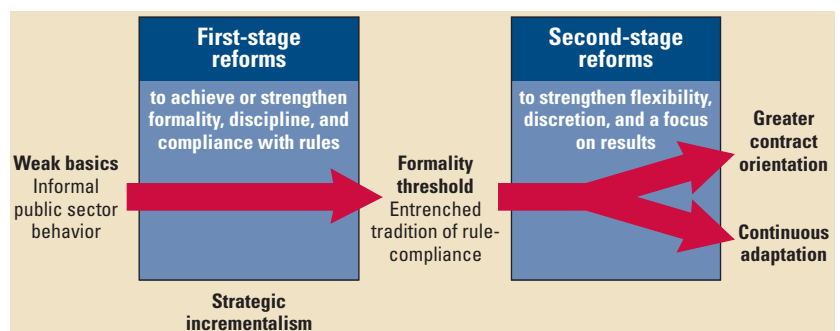
Source: Adapted from World Bank (2002e).

Table 10.3   Walk before you run

	Objective	First-stage reforms	Second-stage reforms
Budget management reforms	*Greater efficiency and impact*	Introduce input-oriented line-item budgeting with some performance information	Change budget formulation and format to link the budget to program performance and out-year plans
	Aggregate cost management	Harden budget constraints and focus on implementation and reporting	Use block or frame budgeting
	Accounting reforms	Strengthen cash accounting	Introduce double-entry bookkeeping and accrual accounting
	Auditing reforms	Strengthen traditional financial and compliance audit and introduce some performance auditing	Institutionalize performance auditing in a supreme audit institution and in internal audit
Personnel management reforms	*Career management*	Enhance job security and protection from political interference	Decrease tenure and link to continuous performance assessment
	Unity of the civil service	Create a legally defined cadre with common terms and conditions	Devolve and diversify pay arrangements to provide flexibility to employers
	Individual incentives	Apply standard merit promotion and reward rules consistently	Establish annual performance targets
	Openness	Encourage career development within a closed system and avoid nepotism	Move toward "position-based" systems and encourage lateral entry

Source: Adapted from World Bank (2002e).

corruption (involving politicians, senior officials, and state capture) and petty corruption (involving lower-level officials, administrative procedures, and routine public services) weaken services. The avenues for corruption in education, health, and infrastructure are many; they include absenteeism, patronage, construction kickbacks, procurement fraud, sale of lucrative official positions, false certification, misuse of facilities, unwarranted services (unjustified caesarian deliveries, private payments to government teachers for after-school tuition), and bribes at the point of service.[529] Bribes are the most common face of corruption for poor people, as payments to providers to evade approved procedures or to perform stated duties. Once entrenched, corruption reduces the ability and incentives of policymakers to monitor providers, of citizens to monitor politicians, and of clients to monitor providers.

Many recent studies present empirical evidence on the costs of corruption.[530] Corruption is a regressive tax, penalizing poor people more than others.[531] Poor people often pay bribes to receive basic public services in education and health, whereas richer households tend to pay bribes to receive special treatment in courts, customs, and tax authorities. Household surveys show that the poor are the least likely to know how to get redress when officials abuse their position. Transaction-intensive discretionary services that are hard to monitor offer particularly broad scope for corruption because providers have a strong information advantage over clients.

Corruption in its broader sense of the capture of public resources and decision-making affects public spending decisions. The loss of revenue, diversion of public funds, and evasion of taxes associated with such corruption mean that governments have less to spend on education, health, and infrastructure. Studies have found that corruption is negatively associated with the share of public expenditures on health and education[532] and with health and education outcomes. Politicians may prefer to spend less on ensuring that primary health and education services work and more on new construction and infrastructure, which offer greater opportunities for corruption.[533] And corruption is empirically associated with lower economic growth rates.
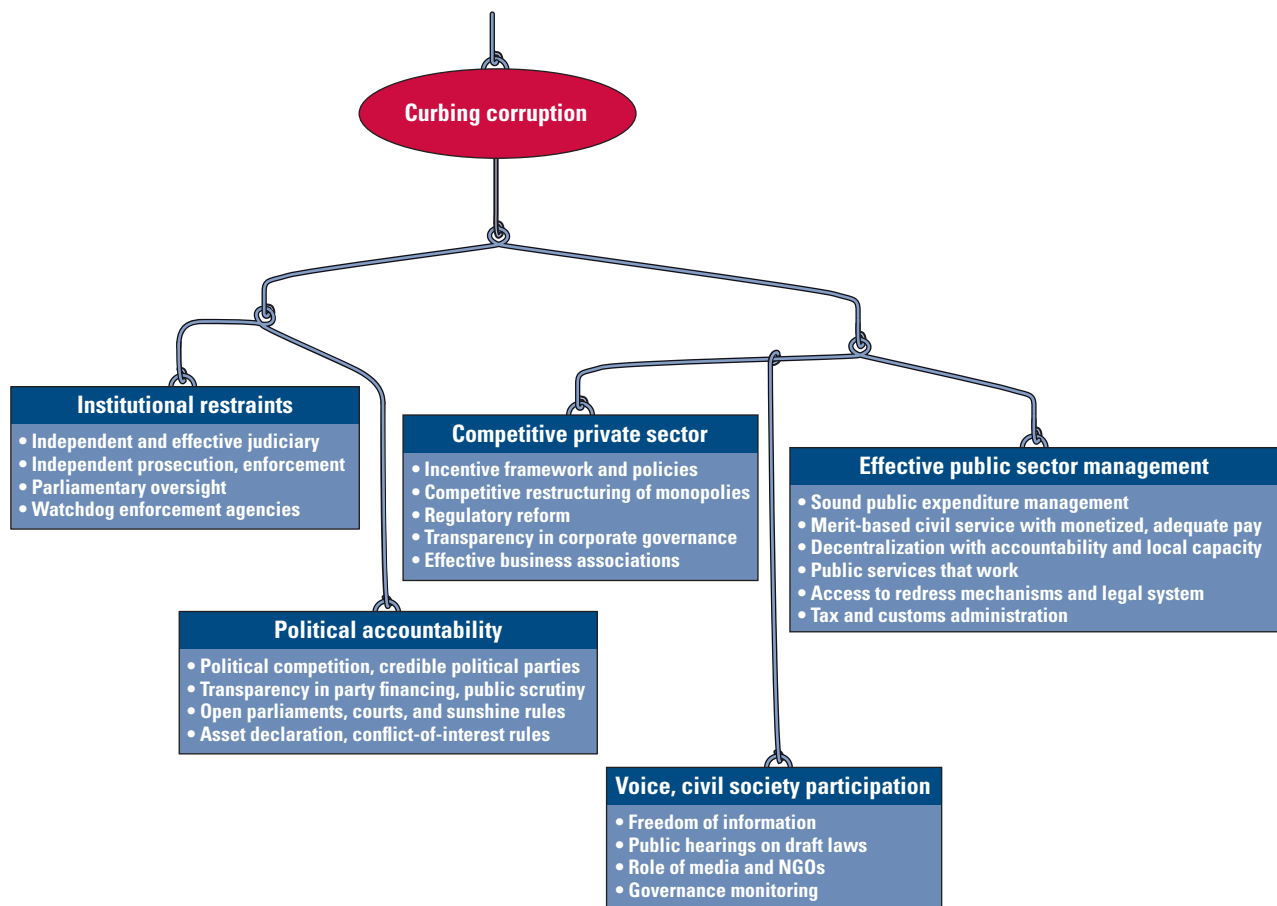
Dealing with corruption

There has been rapid growth in diagnostic tools to measure corruption, assess service delivery, and make informed judgments

about entry points for reform.[534] Diagnostic surveys, already implemented in some 20 countries, usually consist of three separate but linked instruments covering households, firms, and public officials. This allows triangulation of perspectives on the extent, incidence, locus, and causes of corruption.[535] Public expenditure tracking surveys and quantitative service delivery surveys of specific facilities can yield useful information on the contours of corruption and identify entry points for reform. Service delivery surveys can measure staff incentives and efficiency, providing information on the determinants of service quality and qualitative data on corruption. Together, they can provide a cross-check on the causes and consequences of corruption and provide information that strengthens the voice relationship and client power.

Corruption in service delivery is a symptom of an underlying systemic malaise. Dealing piecemeal with corruption risks treating the symptom and not the malaise. Curtailing corruption requires a multipronged strategy that addresses a number of concerns—political accountability, institutional restraints, citizen voice, effective media, public disclosure laws, competition, and good public sector performance (figure 10.8). A multipronged strategy is difficult anywhere, but particularly where corruption is widespread and the institutional setting is weak. Anticorruption diagnostics can shed light on the patterns and root causes of corruption, thereby helping to sort reform priorities and suggest suitable entry points. In transition economies that are building new public institutions while massively redistributing state assets, opportunities arise for both administrative corruption and state capture.[536] Where administrative corruption is high but state capture at the center is not, strengthening accountability

Figure 10.8   Many forces at play in curbing corruption in service delivery

Curbing corruption

Institutional restraints
- Independent and effective judiciary
- Independent prosecution, enforcement
- Parliamentary oversight
- Watchdog enforcement agencies

Competitive private sector
- Incentive framework and policies
- Competitive restructuring of monopolies
- Regulatory reform
- Transparency in corporate governance
- Effective business associations

Effective public sector management
- Sound public expenditure management
- Merit-based civil service with monetized, adequate pay
- Decentralization with accountability and local capacity
- Public services that work
- Access to redress mechanisms and legal system
- Tax and customs administration

Political accountability
- Political competition, credible political parties
- Transparency in party financing, public scrutiny
- Open parliaments, courts, and sunshine rules
- Asset declaration, conflict-of-interest rules

Voice, civil society participation
- Freedom of information
- Public hearings on draft laws
- Role of media and NGOs
- Governance monitoring

Source: World Bank (2000a).

within public administration and deploying expenditure tracking surveys and other tools for financial accountability might be the place to start. But where state capture at the center is high, political accountability and decentralization might be the better entry points.

An independent, well-functioning judiciary is vital for combating corruption and often offers a viable entry point. In enforcing laws and providing checks and balances on the power of policymakers and providers, courts directly strengthen voice. In many countries, however, courts are themselves a

corrupt arm of government. Even if judges are above reproach, lawyers, court clerks, and other court officials on the take can add to the web of corruption. The ingredients of reform are many—freedom of information, greater transparency and sunshine laws, self-regulation through reform-minded bar associations and law societies, updating of antiquated laws and court procedures, and the independence, competence, and integrity of judicial personnel—but they are complicated to assemble and need time to take root. Experience suggests that important progress can be made if reforms focus on incentives, institutional relationships, and information access rather than only on formal court rules, procedures, and court expansion. Anticorruption legislation that matches the enforcement capacity of the country, independent supreme audit organizations, and legislative oversight can help.

Managing transitions: overcoming reform hurdles

Public sector reforms can arouse stiff opposition from groups that benefit from existing relationships. How can this opposition be softened? And how to explain the dilemma of "considerable reform in political landscapes seeded with the potential for failure"— exemplified, for example, by contentious education reforms in Latin America.[537] There is no easy answer, but a major factor is how politicians and policymakers manage the numerous transitions in public sector and service delivery reforms, engaging with citizens and frontline providers to promote change. Experience suggests that dealing with the political economy of such transitions may be the hardest task for reformers. While each country's experience is unique, some general principles provide a starting point (box 10.7). But knowing what to push and what to hold back is an art not easy to learn or teach.

Policy managers must choose appropriately between first- and second-stage reforms. Even reforms such as implementing the budget require considerable leadership, capacity, and coordination across many parts of government. Choosing second-stage reforms in a weak institutional setting can be doubly difficult. Not only is

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BOX 10.7 *Managing the thorny politics of pro-poor service delivery reforms*

Reform means change and therefore opposition, often political. This is particularly the case for reform of basic services in which governments are involved as providers, financiers, or regulators, and for which the long route of accountability therefore comes into play.

Institutional reforms in education, health, and infrastructure service delivery are particularly complex. Multiple actors, long timetables, early costs, and late benefits create many known and unknown veto players and risks. Support for expanding access is easy to organize (new jobs, new contracts, new patronage), but improving quality is hard.

Reforms can be implemented more easily in pro-poor settings because of the consensus on social equity. Managing politics then often implies curbing unsustainable populism, promoting universal public services, and building coalitions among the poor and the middle class so that there is broad support for reforms.

But in clientelist settings consensus on reforms may be difficult to reach among politicians, policymakers, and potential veto players (government bureaucracies, business associations, labor unions, nongovernmental organizations). Vested interests and patron-client relationships may have co-opted many institutions. Reformers must then create political room by more purposefully managing the politics of reform.

Though each situation is different, experience suggests some basics:

- *Setting the terms of the debate, controlling the agenda, and taking the high road,* including getting ahead of the opposition, using information disclosure and the media to empower supporters, and seeking strategic entry points.

- *Striking sensible tradeoffs* between comprehensive and incremental reforms, seeking early wins for stakeholders, and supporting reform champions and cross-agency teams that can bring along others of like mind.

- *Welcoming policy contestability* as inevitable, but using it to mobilize stakeholders, build coalitions, and gain electoral credibility.

- *Ensuring broad, sustainable support* as early as possible, and avoiding a backlash by aiming at universal services that benefit all users, including the poor, rather than special groups.

- *Marginalizing opponents* before, during, and after implementation, particularly those with veto power, and exploiting splits in their ranks to move beyond the static arithmetic of winners and losers.

Managing the politics of reform is often a top-down technocratic process led by central design teams and lacking participation, transparency, and occasionally even legitimacy. This is usually a mistake. Without good feedback it is difficult to master changing areas of conflict. Making services work for poor people requires strengthening their voice in order to strengthen accountability. This reduces, in a positive way, the room for maneuver by reformers. Inclusive decisionmaking and implementation processes are both a means and an end in the management of the politics of pro-poor service reforms.

Sources: Grindle (forthcoming), Nelson (2000), Weyland (1997), and Olson (1971).

there likely to be significant opposition (second-stage reforms represent a greater departure from the status quo than first-stage reforms) but supporters may favor the reforms for the wrong reasons (anticipating the possibility of private gain when complex reforms fail in an informal institutional environment). So a mismatch of reforms and initial conditions can lead to the subversion of the reforms from outside and inside.

Even if reformers recognize the need to start with first-stage reforms, there is the problem of reform traction.[538] Embarking on reform is less of a challenge where traction is high—reformers have considerable leverage in society and politics, are good communicators who have sold their vision to the majority of the population, and the institutions to be reformed are amenable to change and salvageable. But in settings where traction is low, reformers must deal with their slippery grip on reforms, which can make it hard to shape the implementation of even first-stage reforms.

How then should reformers in low-traction settings initiate and implement reforms? The answers, clearly country-specific, go beyond the simple principles enunciated in box 10.7. Above all, initiating reforms in low-traction settings is a matter of opportunity and patience. To take advantage of opportunities as they arise, reformers need to build alliances with key stakeholders in advance. They need to encourage diversity and experimentation and to learn quickly and systematically from the results. And they need to create their own opportunities; building on what traction does exist in their settings.

Evaluating and learning

Monitoring and evaluation give meaning to the accountability relationships between service clients, policymakers, and providers. Traditionally, governments have associated monitoring and evaluation with individual areas of the core public sector—the audit system, discussion of audited financial statements by the legislature—but these have tended to remain unconnected and myopic. What has been missing is the feedback on outcomes and consequences of actions at each stage of the service delivery chain con-

necting policymakers, providers, and clients. A results-based monitoring and evaluation system that joins information from more traditional monitoring efforts with information from the service delivery framework can provide guidance on the institutional reforms needed to improve service delivery. It can be particularly useful to embed an evaluation regime within a poverty reduction strategy so that it is possible to see what the strategy is doing for services for poor people.

The technology of monitoring and evaluation is widely known and usually specific to the service and delivery mechanism.[539] What is more important to focus on are the underlying incentives for monitoring and evaluation, and how demand for information can be made to drive the supply. Three issues stand out: the institutional framework for monitoring and evaluation, the role of systematic program assessment and its links back into policymaking, and the importance of dissemination.

Creating a new information system that results in greater transparency, accountability, and visibility will alter political power equations. It can challenge conventional wisdom on program performance, drive new resource allocation decisions, and call into question the leadership of those responsible. Box 10.8 highlights the importance of understanding the institutional and political dimensions of a results-based monitoring and evaluation system and how demand for monitoring and evaluation should drive the supply, rather than the other way around. Efforts to improve statistical systems, for example, have often focused on fixing supply problems by strengthening national statistical systems to collect, process, and disseminate data rather than on understanding the sources of demand. This has led in some cases to an oversupply of information: in Tanzania, for example, health information systems abound, but it is still difficult to obtain accurate estimates of service delivery coverage.

Without some understanding of how information is used, those who collect it may see the process as time consuming and unrewarding, leading to poor compliance and low quality. As decentralization proceeds in many countries, it is important to

- Are champions of results-based monitoring and evaluation evident within the country?
- What reforms are underway or planned to which a results-based monitoring and evaluation initiative might be linked?
- Who will use results-based monitoring and evaluation information to assess service delivery performance?
- What management framework within the government will oversee the introduction and operation of a results-based monitoring and evaluation system?
- Are there links between budget and resource allocation procedures and existing monitoring and evaluation information?
- Who regularly collects and analyzes monitoring and evaluation information to assess government performance, either inside or outside the government?
- Where can local capacity be found in public management, surveying, evaluation, and data management to support the supply of and the demand for results-based monitoring and evaluation?
- Are there proposed or existing donor-supported initiatives, such as a PRSP, to which a results-based monitoring and evaluation initiative might be linked?

Source: Based on Kusek, Rist, and White (2003).

build decentralized monitoring and evaluation capacity so that central and local systems are complementary.

As emphasized elsewhere in this Report, systematic program evaluation can be a powerful tool for showing what works and what does not. Given the complexity of public sector reforms and the difficulty of choosing entry points and appropriate sequencing, governments are constantly trying new policy and program approaches. Some of them work well, many produce mediocre results, and many fail. But unless there is systematic evaluation of reforms, there is no way to be sure that they worked because of the policy or program or because of other reasons.[540] And unless the results play a major part in the design of subsequent delivery mechanisms, there is no way to be sure that governments can succeed when they decide to scale up.

Finally, as chapter 5 and the rest of the Report emphasize, wide dissemination of the results of monitoring and evaluation activities is crucial to improvements in service delivery. If not widely disseminated inside and outside government through mechanisms tailored to specific audiences, the results of monitoring and evaluation activities may not live up to their potential for improving service delivery.

170,000 community health agents reaching 80 million Brazilians

One of Brazil's poorest states, Ceará reduced infant mortality dramatically in the late 1980s and 1990s. A major effort of the local government motivated health workers, municipalities, local communities, and families to work for better health.

In the 1980s the socioeconomic indicators in Ceará, a state of about 7 million people in northeast Brazil, were among the worst in the country. The infant mortality rate was around 100 per 1,000 live births. Fewer than 30 percent of municipalities had a nurse. And essential health services reached only 20–40 percent of the population. In 1986 the state government began a massive effort to reduce infant deaths. It succeeded. By 2001 infant mortality was down to 25 per 1,000 live births.

Sending health workers to poor households

The Ceará state government began in 1987 to recruit, train, and deploy community health agents. By the early 1990s health agents were visiting 850,000 families a month, the first public service to regularly reach nearly all local communities.

The monthly family visits and family records improved oral rehydration therapy, breastfeeding, immunization, antenatal care, and growth monitoring—as well as treatment of pneumonia, diarrhea, and other diseases.

By 2001 more than 170,000 community health agents covered 80 million Brazilians (figure 1). In 1994 the teams of community
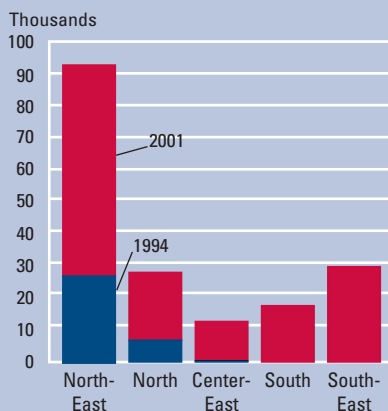
health agents were gradually expanded to include a doctor, a nurse, a nurse's aid, and five to six community health agents for every 800 families.

This Family Health Program was based on the success of the São Paulo, Porto Alegre, and Niterói municipalities with "family physicians." It added follow-up of at-risk families and home care for chronic diseases to the existing services. The family physicians and nurses' aides also provide curative care and referrals to hospitals. By 2002, 150,000 Family Health teams were reaching 45 million people.

Health outcomes, 1987–2001

Some of the decreases in infant mortality and malnutrition can be attributed to the increased coverage of immunization, oral rehydration therapy, and breastfeeding (figure 2). Socioeconomic inequalities in coverage were also reduced, and the greatest improvements were made among the poorest of the population.[541] Output measures—such as immunization, oral rehydration therapy, breastfeeding, and child weighing—have also improved.

Anecdotal evidence points to impacts in other states. Implementing the Family Health Program in the town of Camaragibe brought infant mortality down from 65 per 1,000 live births in 1993 to 17 at the end of

the 1990s, and in Palmas the incidence of diarrhea fell by half, with antenatal care coverage doubling between 1997 and 1998.[542]

Balancing decentralization with a results orientation

Mobilizing actors

Using matching funds to motivate municipalities to implement new programs, Ceará state policymakers struck a balance between decentralizing responsibilities to the municipalities and keeping a results focus through state control over key aspects of the program.
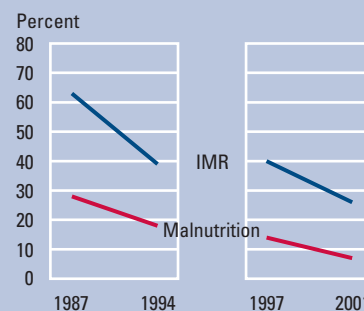
Strategies were also developed to strengthen community leverage over health providers and to strengthen community voice. The widely publicized selection of a large number of community health agents from the communities helped to "socialize" the program. Community organizations were involved in the second round of assessments for the Municipal Seal of Approval—a program to give incentives to municipalities to improve outcomes (box 1).

Financing

Several financing mechanisms covered annual program costs of roughly $1.50 per beneficiary. In line with the 1988 constitution and 2001 health funding laws, municipalities can retain tax revenues but must spend 25 percent on education and 10 percent on health. The salaries of community health agents ($60 a month), and the costs of supervision and drugs are paid directly by the state. Municipalities are required to cover only the salaries of nurse-supervisors ($300 a month), but many voluntarily support other costs.

The national government offers matching block grants to municipalities for education and health as an incentive to implement priority programs. The grants for minimum basic health care amount to 10

Figure 1 The number of community health agents increased dramatically

Thousands

Source: Brazil Ministry of Health (2001).

Figure 2 Changes in health and nutrition indicators in Ceará 1987–94 and 1997–2001

Percent

Source: 1987 to 1994 from Victora and others (2000a); 1997 to 2001 from Fuentes and Niimi (2002).

B O X   1   *The Ceará Municipal Seal of Approval*

In 1990 Brazil enacted the Statute for Children and Adolescents, one of the world's most advanced laws on child rights, introducing local rights councils and guardianship councils to help define, implement, and monitor public policies for children.

In 1997 Ceará introduced Municipal Seals of Approval with support from UNICEF. The seals were awarded to municipalities based on performance indicators of child survival and development and on administrative management of health, education, and child protection.

No monetary award is attached to the seals, but the municipality may display the seal on official stationary and in health centers, schools, and other official services. Mayors, showing interest in the seal, like being viewed as "child friendly" and good managers.

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reals per person per year, 2,400 reals per health agent per year for municipalities implementing the Community Health Worker Program, and 28,000 to 54,000 reals per year per team when the municipalities implement the Family Health Program.

Monitoring and information dissemination
To encourage municipalities to participate, Ceará state officials tried to create a strong "image" program. Citizens were informed of its benefits, and they lobbied mayors to join the program. Implementation was phased in, beginning with municipalities that demonstrated interest and readiness, stimulating competition among municipalities.

Innovative social mobilization strategies expanded public awareness of the Seal of Approval and broadened understanding of the social indicators needed for certification. These included compact discs to guide radio coverage, elections of "child mayors," and scorecards of municipal indicators. The Seal of Approval required that municipalities have better-than-average health indicators for the group in which the municipality was classified, based on socioeconomic criteria. Color-coded maps facilitated monitoring and recorded the evolution of indicators.

Enforcement through hiring and firing
Although the program was decentralized to municipalities, a special team attached to the state governor had control over the hiring and firing of the community health workers, and over a special fund created for the program.

Many community health agents were recruited from the community through a high-profile selection process that contributed to a sense of ownership and empowered communities to demand better services from the mayors. Candidates not selected become public monitors of the performance of the community health agents.