

**Accountability in the Provision of Social Services: A Framework for
African Research**

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1. Introduction

Globally, there appears to be surprisingly little relationship between government expenditure on basic services and the actual level of service delivery. This suggests that there are potentially severe problems in getting good value for money which are better tackled in some countries than in others. How do recipients of a service get good value from providers? For most services the market provides a simple and highly effective solution: services are bought by consumers in conditions of competition among suppliers. If a particular supplier fails to provide good value customers transfer to other suppliers. Basic social services are concentrated in activities which for various reasons cannot be well-provided through this normal market mechanism. They are merit goods: for example, parents without education may not sufficiently value schooling for their children. They generate external benefits: for example, many illnesses are contagious. Further, there is an egalitarian case for a minimum level of social provision of basic services above that which would be achieved through the market. Because the market cannot be relied on to provide these services, market provision is usually supplemented, or even replaced entirely, by non-market provision. The three main forms of non-market provision have been government, charities, and self-help groups. Although government provision is universal, in some societies charities are very substantial providers, and there have been major examples of self-help, for example the Harambe schools in Kenya.

These non-market processes all need to solve two distinct types of problem. One is the overarching issue of the total resources to be devoted to the activity and the allocation of those resources across service-providing units. The other is the production issue of how to maximize the output from given inputs within each unit. Each of these issues necessarily involve problems of *agency*. Since the predominant source of finance is not the clients or the service, there is an almost inevitable separation between the people who are the beneficiaries and the people who meet the costs. Hence, whoever takes the allocation decisions cannot have fully internalized these costs and benefits. It will be taken by politicians and civil servants when the provider is government, by those who meet the costs when the provider is a charity, and by some sub-group of the community in the case of self-help. The production decision will always be taken by the people employed in the service providing unit. Their direct personal interest need not coincide with either beneficiaries or those who meet the costs and may indeed radically conflict with those interests.

The agency problem is by no means the only determinant of basic service provision. Provision might be inadequate because workers lack the skills to perform adequately, because the society is too poor to provide the needed level of complementary inputs, or because users and potential users lack the knowledge or motivation to use the services properly. These are all real and substantial obstacles to satisfactory levels of health care and educational attainment, but they are beyond the scope of the present paper which is confined to how these agency problems can be addressed. An excellent coverage of the whole field of basic service delivery, including agency problems, is the *World Development Report, 2004: Making Basic Services Work for Poor People*. Nevertheless, the agency problems which are the focus of this paper are important. If they go

sufficiently wrong then provision cannot be adequate regardless of other circumstances. This in turn can feed back onto the overarching resource constraint. If donors or governments themselves see that the agency problems are severe, the finance for provision will be reduced. Hence, what might superficially look like a lack of finance might have at its roots a failure to tackle the agency problem.

The agency problem arises because of a divergence between the underlying interests of the decision takers on the one hand and those who receive the benefits and bear the costs on the other. The solution to the problem is to change the interests of the decision takers so that their decisions are aligned with the true social costs and benefits. Interests can be changed either through adding rewards and penalties that are linked to desired outcomes, or by changing the underlying motivation of the decision takers so that they place greater weight on the social consequences of their decisions. The phrase *agency problem* is not intelligible outside the narrow confine of professional economics and so in the rest of the paper I will use the term *accountability* which is a closely related concept.

A system of accountability for the provision of basic social services has two components. One component aligns the interests of workers in the service delivery units with social costs and benefits so that they maximize the productivity of the inputs under their control. The other component aligns the interests of the budgetary decision takers with social costs and benefits, so that the scale and allocation of financial resources is socially optimal. In addition to their budgetary role, these decision takers are responsible for the design of the first component that aligns the interests of workers. Thus, accountability in the provision of public services can usefully be decomposed into a system for holding the service providing agency to account, and a system for holding the government to account. Besley and Ghatak (2006) provide a very useful survey of these issues and discuss pertinence to Africa.

2. The Principal-Agent Framework for Analysis

Over the last thirty years economists have developed the principal-agent model as a framework for analyzing accountability. The model can be applied to many different contexts and provides an essential organizing tool.

The starting point of the principal-agent framework is that the principal is dependent upon the agent for the attainment of some objective. The principal may be a parent who wants his child to be well-taught, and the agent the school teacher whose effort determines the quality of teaching. Or the principal may be a politician who is keen to get improvements in health care in his constituency, and the agent the doctor running the clinic in the constituency. Or, turning the role of the politician around, the politician may be the agent who is in charge of allocating a budget, and the principal may be the citizen who is affected by these decisions. If the agent shares precisely the same interests and concerns as the principal there is no agency problem: the agent will always do his best to fulfil the objectives of the principal. Such coincident interests are sometimes termed *congruent*. Congruent interests are relatively unlikely: usually, agents will have their own distinct interests. School teachers may prefer not to turn up to school each day, and

doctors may prefer to remain on the public payroll but spend their time practicing privately. Where the preferences of the agent diverge from those of the principal they are sometimes termed *dissonant*. This creates the scope for *moral hazard*: in the absence of appropriate incentives the agent will maximize his own interests, not those of the principal.

The next step in the principal-agent framework is that although the principal is dependent upon an agent whose interests diverge from his own, he the principal is not powerless. The principal pays the agent for his work and has some scope to make his payments conditional. The scope for conditioning payment may vary enormously. At one extreme the principal may be able to inflict large penalties as well as enormous rewards: the politician can have the doctor fired or promoted. At the other extreme, the power to reward and punish may be very limited: the teacher can be rewarded by the parent with small gifts.

The third step in the principal-agent framework is that the principal is not able fully to observe what the agent does. Since the agent obviously knows what he does, the agent has an informational advantage. Hence, this is referred to as *asymmetric information*. The typical information structure assumed in modelling is that the principal can only observe the output produced by the agent, not the input of effort chosen by the agent. An important distinction in the quality of information available to the principal is between that which is merely observable by the principal and that which is also *verifiable* to a third party. To be legally enforceable an agreement must rely upon information which is not merely observable to the principal and the agent but is also verifiable.

The fourth step is that although output is affected by the effort of the agent, it is also affected by random shocks. Random shocks have two important consequences. One is that the effort level of the agent can only be inferred imperfectly from the observed output. The other is that the outcome is risky. This risk has to be borne, either by the principal or the agent, or spread between them. It is assumed that the agent is more risk averse than the principal – for simplicity, the principal can be treated as risk-neutral. The risk aversion is a consequence of diminishing marginal utility. For example, the utility of the worker might be modelled as:

$$U = \ln y - e$$

Where y = income

e = effort

Setting incentive effects aside it would therefore be more efficient for the principal to bear the risk. However, because effort can only be inferred from outcomes, any reward system in which the principal bears all the risk provides no incentive for the agent to deviate from his own interests and so fails to resolve the problem posed by moral hazard. Risk aversion is only one way of creating a trade-off between using high-powered incentives and reducing the overall wage bill. The same trade-off arises even with risk-neutrality if workers face 'wealth constraints', as is indeed likely in the context of Africa.

The choice of incentive system may also be constrained by restrictions on the range of the incentives that can be offered: for example, even if a wage employee performs badly the employer may be constrained to making positive wage payments.

The solution to the principal-agent problem is the design of a permissible incentive system for the agent triggered by verifiable information that accepts the minimum inefficiency in risk-bearing that is necessary to provide the agent with the incentive to implement the interests of the principal. In the language of principal-agent theory, the optimal contract satisfies both an *incentive compatibility constraint*, meaning that the worker is induced to choose high effort, and a *participation constraint*, meaning that the worker accepts the contract. The concept of accountability can thus be decomposed into verifiable observation of performance and a system of rewards-penalties linked to the information so generated. In combination these two constitute an incentive system.

This framework can be applied to the accountability of service providing units such as schools and clinics.

3. The Accountability of Service Providing Agencies

The politician who wants expenditure on service provision to provide good services, the clients of the service, and the taxpayers who finance it, all face the same agency problem: the service providers are agents whether the principal is viewed as the politician, the clients, or the taxpayers.

By nature of their rationale for being provided through a non-market process, the provision of these services generates a public benefit. A consequence is that workers in these activities can potentially derive job satisfaction above-and-above their earnings from this intrinsic benevolence. Thus, the motivation of workers in these activities might differ from that of workers in the market economy. Indeed, even in the market economy it is not reasonable to assume that workers cannot get direct satisfaction from performing their jobs well. There is a long tradition in sociology of worker identification with the goals of the enterprise, first applied in economics by Frey (see for example, Frey and Jegen, 2001). Akerlof and Kranton (2006) provide a highly useful survey, showing that part of worker motivation is intrinsic to the activity performed and discuss how organizations typically build a culture that encourages such motivation. If this is true of market activities it is potentially much more the case in non-market activities. Motivation therefore becomes a building block in the analysis of accountability in service provision alongside incentives. We first consider various aspects of motivation and then turn to incentives although, as we will see, the two are inter-dependent.

In the extreme case in which monopoly suppliers have neither incentives nor intrinsic motivation the outcome of non-market provision is that the workforce captures the expenditure provided by the government and itself consumes it as rents. If the government responds to these rents by an offsetting reduction in overt salaries, then the capture of expenditure by the workforce becomes necessary to avoid being under-remunerated and so in effect is recognized as legitimate. Note that while a necessary part

of a solution may well be higher salaries, an increase in salaries not complemented by other changes would in this context have no effect on performance, merely restoring the rents for public sector workers.

3.1 Motivation

Differences in intrinsic motivation

Human beings have a range of motivations and these affect worker performance in service delivery activities. Even in the market economy work is usually motivated partly by a desire to perform well for its own sake. Akerlof and Kranton (2006) extend the basic principal-agent model to incorporate such motivation. They argue that people have a sense of their own identity, fitting themselves into social categories. For example, a mechanic is likely to feel that part of his identity is *being a mechanic*, that is belonging to the social category, mechanic. In turn, there is a shared sense - some *ideal type* - of what a mechanic should be. For example, intrinsic to the ideal of being a mechanic is knowing how to mend machinery. Finally, and critically, along with the acquisition of the identity 'mechanic', the worker internalizes *norms* that give him utility from being like the ideal type. Thus, the worker who sees himself as a mechanic would feel unhappy if he was unable to repair a machine. However, not all workers whose job it is to repair machinery choose to identify themselves as a 'mechanic'. They could instead, for example, see themselves as 'wage slaves' exploited by their company. With such a self-image they would consciously reject the norms implied by an identity of 'mechanic' and internalize a counter-culture with norms of resistance. Expressing this in notation, let the worker self-identify with either of two social categories, c . If he self-identifies as an 'insider', $c = N$, then he internalizes the norms of being a 'mechanic'. If he self-identifies as an 'outsider', $c = O$, then he internalizes the norms of resistance to exploitation.

The utility of the worker now depends not only upon his salary and work effort but also upon his social category:

$$U = \ln y - e + I_c - t_c | e^*(c) - e |$$

The additional terms compared with the previous specification of worker utility have the following interpretation. I_c is the utility the worker gets from self-identification into category c . $e^*(c)$ is the ideal level of effort that the worker sees as consistent with the norms associated with his self-identity. Thus, if the worker self-identifies as 'mechanic' the norm to which he will hold himself is a higher level of effort than if he self-identifies as an exploited wage slave. The term $| e^*(c) - e |$ thus describes any difference between the actual chosen level of effort, e , and this ideal level. Finally, t_c is the disutility that the worker gets conditional upon whether his chosen effort departs from his ideal. Thus, a worker who identified as a 'mechanic' would get some disutility from slacking, while a worker who identified as exploited would get some disutility from working hard. In both cases these utility effects are over-and-above the direct effect of effort on utility as represented by $-e$.

The first result that follows from this revision of worker utility is that the solution to the principal-agent problem, that is the optimal contract, now depends upon which category of worker the principal has employed as his agent. If the worker self-identifies as an insider the bonus paid for a good outcome will be lower than previously, whereas if the worker self-identifies as an outsider it will need to be higher than previously.

Now consider the application of this analysis to public services. Some of the features that make health care and education suited to non-market provision also make them likely to be intrinsically satisfying to their workers: the activities are socially valuable. For example, while it is both possible and normal for the workers in a bank to derive intrinsic utility from performing their tasks well, it is far easier to get intrinsic satisfaction from curing or teaching children. Hence, a higher proportion of recruits into these activities should be predisposed to being 'insiders', and it should also be cheaper to inculcate, maintain, and deepen 'insider' norms once workers have been recruited. Hence, the preferences of workers in the non-market service sector should on average be less dissonant than in the market economy. One implication for the incentive system is that the wage *level* should be lower overall than in the market economy because I_c will be larger. Another implication is that it can be *lower-powered*, that is offering smaller rewards for effort than in the market economy, because t_c will be large and itself driving workers to high effort. These tendencies are reinforced by the greater intrinsic difficulty of observing performance in the non-market activities: again, this is one reason why their appropriate mode of provision is non-market. Because performance is hard to observe it is comparatively hard to induce high effort through monetary incentives, while because the activities are intrinsically worthwhile it is comparatively easy to induce high effort through intrinsic motivation. Hence, employers in the non-market sector should rely differentially on intrinsic motivation rather than monetary incentives.

However, lower-powered incentives will themselves feed back upon the types of people who apply as recruits. Two very different types of applicant will self-select into an incentive system that remunerates the activity below the market rate and also has incentives that are less powerful than the rest of the market. One is the atypically dedicated, who derive particular pleasure from conferring the public benefits generated by working in the activity. This is, of course, precisely the matching process that is desired. The other is the atypically lazy, who derive particular pleasure from not working hard and so would fare badly in a work environment in which much of the remuneration depended upon effort. An implication of these self-selection effects is that the dispersion of *applicants* with respect to attitude to effort is liable to be wider in the non-market sector than in the market sector.

A possible indicator of attitudes to work, revealed only after recruitment, is whether the worker chooses to join a union. Since unions tend to define their role as oppositional to the goals of the management of the organization, they are likely to be more congenial to those with outsider norms than to those with insider norms. For example, in a study of Indian schools, Kingdon (2006) finds that controlling for many other characteristics, within the same school those teachers who are members of unions have significantly and

substantially lower productivity than those who are not, with productivity measured by student performance in national examinations.

Because of the wider dispersion in worker attitudes within the non-market sector it is therefore likely, although not inevitable, that the optimal expenditure by the employer upon screening at recruitment should be higher. It is not inevitable because the proportion of lazy applicants may in any case be too low to worry about. This in turn depends upon the relative frequencies of the lazy and dedicated types within the society. These attitudes are learnt from parents, peers, schooling, religion, and the media. Their distribution over the population may differ markedly between societies and within the same society over time. The recruitment procedures and incentive system that are appropriate for non-market activities can thus be expected to differ between societies and to change as society changes.

While there are likely to be systematic differences in the degree of intrinsic motivation between the market and the non-market sector, there is enormous variation in the nature of the activity within the non-market sector. Evidently, the purpose of the organization differs radically among the myriad of organizations that constitute the non-market sector. Corresponding to these differences in organizational purpose, there are differences among potential recruits in which mission would give the greatest intrinsic utility. Some people want to teach handicapped children, others want to teach talented students, others want to treat the sick, and so forth. Indeed, even within a narrowly defined category of purpose there can be substantial differences between organizations in how they go about it: there are nuanced differences in mission. For example, schools can place more or less emphasis upon discipline, parental involvement, sport, music and so forth. Differences in mission between organizations with the same overall purpose are referred to in the management science literature as differences in *organizational culture*. They appear to account for the remarkably high failure rate of mergers between organizations: cultures can clash and this can reduce worker effort even if the organizations fit together well in other respects. While most studies of mergers have concerned organizations in the market sector, recent evidence finds that there is a similarly high failure rate in mergers between schools in the non-market sector. Hence, having a wide variety of missions among organizations with the same purpose may raise productivity overall in the non-market sector, as long as it is combined with good matching between these different missions of organizations and the different desired missions of workers. Besley and Ghatak (2003) argue that a strategy of increasing variety in missions combined with improved matching of workers to these missions offers the greatest scope for enhancing productivity in the non-market sector. Consistent with this hypothesis, Bloom et al. (2006) show that when the government of Cambodia contracted out management of some public health services to NGOs, performance significantly improved.

Although the two components of this strategy are complementary, their attainment requires quite distinct designs. Variety in organizational mission requires that non-market organizations be independent of centralized control in respect of a wide range of aspects of how they are run. For example, in primary schools the headmaster or the governing board of the school would need to have the freedom to pursue radically different

strategies. Attempts to define and enforce national standards of practice are likely to be the enemy of variety. The matching of workers to missions requires a distinctive flow of information in the labour market, and may also require a distinctive approach to professional training.

A good African example of the scope for differentiation of mission among organizations with the same overall purpose is the comparison of health clinics run by religious missions with those run by the state, by Reinikka and Svensson (2005). They find that worker performance is considerably higher in the mission clinics. In effect, the existence of the mission clinics within the system of health provision provides an enhanced opportunity for those workers with a religious disposition to provide dedicated service. Of course, in principle, these same workers might also be outstandingly dedicated working within secular organizations. However, the process of socialization discussed below suggests that there are likely to be agglomeration economies in enabling likeminded workers to group together.

A good African example of the failure of the present matching process and the scope for improvement is the placement of student nurses in Ethiopia (Lindelov *et al.*, 2005). Ethiopia is unusual in having a very high degree of centralized control: upon completing their training nurses are allocated to clinics without reference to their preferences, the rationale being to ensure that sufficient nurses go to rural areas. However, because most of the nurses sent to rural areas would rather work elsewhere, there is a high rate of quitting from rural clinics. Lindelov *et al.* show, however, that there is a wide dispersion in the preferences of student nurses for the location in which they would be willing to work. Were the Ethiopian authorities to combine freedom of choice with a small overall wage premium in favour of rural areas sufficient nurses would volunteer for rural locations and the subsequent rate of quitting would be likely to be much lower.

Socialization

Selection according to differences in intrinsic motivation endogenizes motivation at the level of the organization even if the motivations of individual workers are pre-determined. However, a further important implication is that norms are learnt during employment in an organization, mostly from peers but also from employers. In the market sector there are many celebrated examples of firms with successful strategies of inculcating insider norms in employees, but Akerlof and Kranton (2006) use the non-market example of workers in the military as their core instance of such a process.

Workers face peer pressure to internalize prevailing norms and these norms may set motivational attitudes. Norms may have an effect similar to the role of reputation in preventing or perpetuating corruption. If, for example, the norm is to be dedicated, workers who shirk may be shamed. Conversely, where the norm is to shirk, workers who shirk may be seen as collegial. Thus, there can be high and low-level equilibria for worker motivation. For example, Lindelov *et al.* (2005) find that among Ethiopian student nurses an initial intrinsic motivation towards self-sacrifice is gradually eroded by work experience and consequent exposure to working nurses who are more selfish.

Because there is pressure to conform to peer norms, socialization will also feed back upon worker self-selection. Dedicated workers will tend not to apply to join peer groups where the norm is selfishness, and lazy workers will tend not to apply to join peer groups where the norm is dedication. This may tend to produce an unusually wide dispersion in the quality of organizations within the non-market sector. In the market sector tendencies to dispersion are limited because the least efficient organizations are subject to either takeover or bankruptcy. Since by definition there is no such process in the non-market sector, there may be a need for centralized public intervention to simulate it. There is an evident tension between the need for such a non-market mechanism of control and the need to permit and encourage variety. In principle the two objectives can be reconciled as long as the service-providing agencies are judged by broad outcomes rather than by their process of production. However, in practice evaluations are liable to focus on whatever aspects are most readily observed, and some of these are likely to be processes rather than outcomes. Another approach to reconciliation is therefore to focus evaluation only on the enforcement of *minimum* standards, permitting variety subject to the attainment of this minimum.

3.2 Monitoring

The principal-agent problem arises because the principal can only imperfectly observe agent performance. How observable an agent is depends in part upon intrinsic differences between activities. However, it is also sensitive to the design of the monitoring system, and upon the choice of effort put into it.

Who monitors what, when?

In a well-functioning system, scrutiny, or checks and balances, works in multiple ways simultaneously. Partly, scrutiny is designed to achieve honesty, and partly it is designed to achieve efficiency. Current discussions of 'good governance' tend to conflate governance with honesty, which is clearly insufficient. A second distinction is between systems designed for *ex ante* scrutiny, which is basically about how decisions get authorized, and those designed for *ex post* scrutiny, which is about evaluation. A third distinction concerns who is performing the scrutiny: some top-level authority, citizens or their representatives, peer groups, or the worker himself, disciplined by the insider norms discussed above. The four types of distinction are brought together in Table 1 which gives examples of each of the sixteen resulting mechanisms of scrutiny.

A well-functioning system of public accountability has all of these mechanisms. However, the balance between them can vary according to the needs and opportunities of each situation. The schema provides a check-list against which an actual system can be evaluated for gaps and strengths.

Table 1: A Classification of Monitoring

Purpose and Timing of scrutiny	Top-down	Bottom-up	Peer Group	Internalized
Honesty: ex ante	International competitive tendering required for public investment projects	Civil society scrutiny of public spending in Chad through the <i>College</i>	Ethical norms set by an association of doctors	Opportunities for corruption resisted due to integrity
Honesty: ex post	Audit by Auditor General	Exposure of public corruption in the media	Peer group disciplinary processes in professions	Guilt and regret induce confession and restitution
Efficiency: ex ante	Cost-benefit analysis of proposed projects	Parliamentary approval of budget, and PRSP consultations	Presentation of spending plans by ministers in cabinet	Pride in skill induces high effort
Efficiency: Ex post	Evaluation of completed projects	Comparison of benchmarked performance of service delivery in media	Comparison of examination results among headmasters	Failure induces an effort to learn from mistakes

If there is more than one principal, monitoring is a public good. In this case all these mechanisms are subject to the standard collective action problem: there is an incentive to free-ride. The problem is most severe with bottom-up scrutiny, since this requires citizens to organize together, and least severe with internalized norms and top-down scrutiny.

Endogenizing observation

The essence of the principal-agent problem is that the principal faces difficulties in observing agent performance. Each of the mechanisms depicted in Table 1 is liable to face this problem of limited information, but the problems are likely to differ as between the mechanisms of scrutiny. This may make different mechanisms complementary. Simply closing off a single possibility for moral hazard may merely shift opportunism to the next best option. Analogous to the O-ring theory of production, accountability may be as effective as its weakest link and so benefit from a coordinated effort to raise standards.

It might seem that self-scrutiny through internalized norms would benefit from full information. However, although people know what they themselves do, they are not

necessarily able to evaluate it impartially. People have a considerable capacity for self-delusion and tend systematically to rate their performance high than is warranted by objective measures.

Service delivery depends upon the professional skill, most notably of teachers, nurses and doctors. Because such professions are defined by specialist knowledge, peers within a profession are likely to have the least cost access to information on agent performance. This suggests that accountability through peer pressure may be particularly important for service delivery. However, where professional associations are monopolies they have evident incentives to cover up for their members. Encouraging multiple professional associations for the same profession may provide more discipline because each has a greater need to defend its reputation than if the profession is organized into a monopsony. Even this may go wrong if instead it induces a race to the bottom: this might occur if workers in the profession observe that some associations are less demanding than others but the information available to other channels of scrutiny is too inadequate for such differences to be known.

Bottom-up monitoring faces the most severe free-rider problem and so even low costs of monitoring can frustrate it. There is thus a case for government or non-government efforts to disseminate information on agent performance to the public. A celebrated study of such an effort is the evaluation by Reinikka and Svenson (2004, 2005a) of the dissemination to schools of information on money released by the Ugandan Ministry of Finance for them. They show that the information massively increased the amount of money actually reaching the schools. This initiative was perhaps the inspiration for the decision by the Nigerian Ministry of Finance in 2004 to publish in the daily newspapers its monthly releases to state governors of money intended for state budgets. On the first day of publication there was a huge spike in newspaper circulation, showing the frustrated appetite for information that would facilitate bottom-up scrutiny. This important initiative could potentially be evaluated to see whether it translated into changes in state-level budgets. Note that in the service-providing agency was in this case itself the victim of mismanagement further up the bureaucratic chain: the money went missing *before it reached the schools*. Bottom-up scrutiny was nevertheless effective, presumably because it put pressure on headmasters to demand that district education officers disgorge money, and in turn they had to put pressure further up the system.

A simple example of an initiative to spend on top-down scrutiny was the creation of a procurement unit in the Nigerian Presidency in 2004 which introduced competitive tendering for all federal investment projects. This is a simple form of *ex ante* scrutiny, predominantly related to honesty. Once it was introduced some already-awarded projects were recalled and the average cost of these projects fell by around 40% as a result of competitive tendering.

Yardstick competition

Even though competition within the non-market sector does not drive inefficient organizations into bankruptcy, it may still provide a discipline through enhancing the

ability of principals to observe agent performance. If different agencies compete to supply the same service their relative performance constitutes a useful measure, a process termed *yardstick competition*. Such a measure addresses efficiency rather than honesty. There are three distinct steps. The first is organizing service delivery in such a way that different agencies have sufficient autonomy for performance to vary significantly due to their own decisions. The second is to gather quantitative information at the agency level that enables a comparison of performance to be made. The third is to disseminate that information to the pertinent principals. For example, school league tables by value-added in examination performance can be constructed and shared with parents.

An important area for yardstick competition is the relative performance of different state-level governments. Partly because many people and firms can easily relocate between states, yardstick competition generates some powerful incentives for overall improvement. This has indeed been a powerful driver of policy improvement in India. The most important potential application in Africa is Nigeria which is by far the largest federally-structured society. During 2006/7 the Federal Government is introducing league tables of various dimensions of state performance and this initiative could potentially be evaluated to see whether it generates competitive improvement analogous to that in India.

Yardstick competition can also be generated by allowing private providers alongside the public sector. A potential disadvantage is that the private providers might 'cream' clients, leaving the public sector with the most difficult and costly provision but draining it of revenues. The defence against creaming is appropriate design of the financial incentives provided by government.

Expenditure on monitoring

A different way in which monitoring can be endogenized is by making it a budgetary decision. Since the limited observability of agent behaviour only arises because information is costly, it follows that expenditure on the acquisition of information can be a choice variable. Chauvet et al, (2006) show that the performance of development projects is improved by good supervision, and that expenditure on monitoring is a substitute for congruence of interests. Thus, the more dissonant are interests the higher should be monitoring expenditures.

Monitoring may, however, conflict with the public service ethic. Since there is a correspondence between the degree of congruence of interests and the appropriate intensity of monitoring, an increase in monitoring inadvertently signals a reduction in trust on the part of the principal. Perceived mistrust may be self-fulfilling, undermining accepted norms of congruent conduct.

A study of performance in Indian schools by Kingdon (2006) finds a result which probably reflects such a demotivating effect of monitoring. She finds that where the headmaster self-rates himself as particularly powerful overall school performance as assessed by student results in national examinations is significantly worse. While there are other possible interpretations for the result it is consistent with the power of the

headmaster inadvertently signalling a lack of trust in staff and thereby demotivating them.

Incomplete monitoring

Often public service activities are characterized by some outcomes that are more readily measurable than others. By focusing upon those outcomes that are readily measurable, principals can inadvertently induce a substitution of effort from other outcomes which may nevertheless be important. Sometimes, however, the less measurable outcomes can nevertheless be observed and assessed by qualitative evaluations. An effective monitoring system may need to combine quantitative and qualitative information. Some evidence suggests that the two types of information lead to very different types of accountability.

3.3 Incentives

Incentives and risk aversion

Incentives combined with imperfect observation of performance increase the risks faced by employees and, since these risks have to be compensated to continue to satisfy the participation constraint, they increase the overall hiring cost incurred by the principal. The severity of this problem is increased the greater the degree of risk aversion. Since evidence suggests that at low incomes people tend to be more risk averse, in low-income societies the cost of using incentives will tend to be greater. This creates some presumption that other means of achieving performance are likely to be relatively more effective.

Incentives and monitoring

The issue of incentives and accountability only arises where the interests of those whose choices determine service delivery are not fully congruent with the interests of the society. Further, incentives are more effective the greater is the precision of monitoring.

Although many aspects of performance are difficult to observe in non-market activities, sometimes it is possible to link incentives directly to performance in such a way that observation is unnecessary. A good African example is the study by Chaudhury et al. (2005) of how incentives can be used to reduce the major problem of teacher absenteeism. Wage levels are ineffective, but if teachers are provided with a free midday meal served at the school they can only take advantage of this perk if they are present at the school at midday. This in turn lowers the cost to them of performing their teaching duties and correspondingly raises the cost of using this time for other activities.

Since through choice and matching public service activities are potentially able to attract workers with fairly congruent interests, and since performance of these activities is often hard to observe, it seems likely that the appropriate power of incentives in the public service sector is quite low relative to market activities.

High powered incentives may also undermine motivation. As noted above, the monitoring needed to complement high-powered incentives may inadvertently signal mistrust on the part of management and thereby dissuade workers from identifying as ‘insiders’. Further, by introducing inequalities among workers, high-powered incentives intrinsically conflict with an egalitarian ethic of public service. Workers are more likely to accept a common mission if everyone is paid similar pay. This may be a more severe problem with top-down accountability, which intrinsically alters management-employee relationships. Other forms of accountability, through peers and users, may not conflict with self-scrutiny and indeed could potentially complement it. For example, evidence that users are satisfied and peers are impressed could increase the sense of self-esteem from identifying as an ‘insider’. Finally, high-powered incentives will tend to attract recruits who are particularly motivated by considerations of self-interest, so that there will be less peer pressure for the norm of intrinsic value to public service.

A celebrated example of how incentives can undermine norms is the introduction of fines which were designed to reinforce a rule that parents should not arrive at school late with their children. Once the rule was supplemented by a fine there was a significant increase in the incidence of parents arriving late. Inadvertently, the fine had weakened the moral pressure to abide by the rule since parents could now tell themselves that as long as they paid the fine being late was acceptable. Similarly, if workers are paid for overtime needed during crisis periods they may find it more morally acceptable to refuse to do extra work at such times.

Incentives and ownership

Most public service activities can be supplied by not-for-profit non-government organizations, and some can be supplied by for-profit firms. Ownership can be thought of as the right of being the residual claimant on the surplus of the firm. Hence, the conventional efficiency criterion is that ownership should reside with whoever controls the decision that is most critical to this residual claim: if investment is critical then capital rather than workers should own the firm. However, Besley and Ghatak (2003) suggest that this is not a very helpful principle for public service delivery. A more important one is that whoever values the output of the service most should be the owner. Thus, if there are indeed differentiated missions, NGO ownership, with each NGO taking ownership of the agency most closely aligned with its mission, may give a stronger interest to meet goals than the less differentiated interest of government ownership.

Incentives and teams

Some of the empirical literature on the use of incentives in schools suggests that they are most effective when offered to teams rather than to individuals. Possibly this is because, when incentives are team-based, they do not undermine public-service motivation in the same way as individual incentives. However, this is an area in which the theory has not caught up with the empirical evidence.

4. Political Accountability

Politicians are responsible for large issues of resource allocation, and also for the design of the system of accountability in which service providing agencies operate. They in turn are held to account by citizens. That second process of accountability is the subject of this section.

Political leadership appears to matter. One way of investigating this is to compare some dimension of government performance before-and-after the death-in-office of leaders. The study by Jones and Olken (2005) who measured performance by economic growth found that in developed countries such leadership change had no effect whereas in Africa it had a larger effect than elsewhere. Potentially, such a study could be done for a wide variety of performance measures related to basic service delivery. Another way of measuring the importance of the political system is to study service delivery in an area which is culturally homogenous but straddles a political boundary. Service provision is then compared on the two sides of the boundary. A useful survey of this approach, which has been applied in various parts of Africa, is Posner (2006).

Citizen power through voting

Most academic attention has been devoted to citizen power through voting. In effect, voters face a principal-agent problem in which the government is the agent of voters. Similar issues arise in this principal-agent problem: there are so many principals that there is a huge free-rider problem. Indeed, it is difficult to build an economic model in which people both to vote. One alternative to the 'instrumental' approach (voters support candidates who are likely to further their own interests) is the 'expressive' approach (voters get direct satisfaction from aligning with someone of their own identity).

The literature on political accountability distinguishes between issues on which the electorate is in broad agreement, termed *valance* issues, and those on which it is divided. Each can pose a problem of political accountability. For the valance issues the key concern is about the tension between the interests of the representative elector and the interests of the politician. Given that information is incomplete, to what extent is the electoral winning strategy actually that which meets the preferences of electors? For the issues on which electoral preferences differ, the concern is how preferences are aggregated by the voting system. Although African citizens evidently do have different preferences regarding the provision of social services, probably the key issues are valance issues – the potential divergence between the interests of citizens and those of politicians.

On valance issues to key issue is that voters have only limited information on the likely performance of candidates. The concept of limited information includes the difficulties voters may face in interpreting such data as are available. For example, Besley and Burgess (2002) show that for India voter education increases the ability of voters to get performance out of candidates.

Even with good information, voting as a discipline on politicians faces the problem that citizens will be concerned about several different dimensions of political choice, of which service delivery is only one. The power of voting to exert pressure on service performance is thus constrained by the importance that voters attach to this issue relative to others. Bratton (2006) analyses the Afrobarometer surveys specifically to assess the salience of service delivery issues. He finds that while voters obviously care about health and education, they rank these considerably below the core economic issues of employment, poverty, and stability. Similarly, citizen assessment of basic service delivery influences their overall degree of satisfaction with democracy, but less so than these core issues. An implication is that even when problems of poor information are overcome, voting is not likely to be a very strong discipline on service delivery. The Afrobarometer surveys cover 21 African countries and provide time series on a range of citizen attitudes towards service provision. Although the individual responses to Afrobarometer are confidential, there may be some potential for analyzing these surveys using district-level aggregation in conjunction with voting outcomes and socio-economic characteristics.

Motivation: two types of politician

Just as the motivation of public service employees is an important issue, with a wide range of possible outcomes, so the performance of politicians might reflect differences in their intrinsic motivation to further social wellbeing. The key point of much of Besley's work is that the problem for voters is to distinguish between well-motivated and badly-motivated politicians (they may also differ in competence). He explores under what circumstances voters will succeed in distinguishing. In general, the more are economic outcomes subject to circumstances beyond the control of politicians, and the worse is citizen information, the higher will be the rate of selection error. This rate of error in turn feeds back upon the types of people who put themselves forward for political office. The better are the chances that badly-intentioned candidates will be successful the more likely are they to come forward. Hence, political performance is determined by the type of politician, which is in turn determined by the relative success rates of good and bad candidates.

A variant on this theme that might be particularly useful in the African context is those differences in intrinsic motivation that shape the willingness to use unscrupulous means to get elected. I will refer to these techniques as patronage, although they may cover a wide range of malpractice such as bribery and intimidation of voters, through to falsification of election results. Evidently, these techniques give those candidates who are willing to resort to them an electoral advantage over honest candidates the extent of which depends upon the effectiveness of checks and balances. Patronage techniques potentially have important consequences if, as seems likely, dishonesty in election campaigning is correlated with other aspects of dishonesty, notably conduct while in office. Thus, if the patronage candidates are also those whose motivations are most dissonant from the true interests of citizens, patronage systematically disadvantages those potential candidates who are well-motivated. This in turn discourages honest, well-motivated citizens from putting themselves forward as candidates and so the pool of

candidates becomes skewed towards bad-type politicians. This further increases the likelihood that governments will be led by ill-motivated politicians. A final twist might be that bad-type politicians in power introduce costs that particularly fall on good-type candidates: think of this as *candidate intimidation*. High levels of campaign expenditure which need to be matched create the prospect of large losses for losing candidates, and opposition candidates might be intimidated by violence prior to elections and by the abuse of legal procedures after them. While these measures potentially disadvantage all opposition candidates, they may be particularly effective against those opponents who are believed to be honest: dishonest opponents are amenable to being co-opted into the patronage system and so can reduce these costs. As before, the damaging effects of candidate intimidation are due to deterrence of good-type candidates which thereby worsens the pool from which voters can select.

Wantchekon (2003) has conducted a remarkable voter experiment in Benin in which different political candidates were persuaded to run patronage campaigns or public goods campaigns. Consistent with the above hypotheses, he finds that the patronage-based campaign messages were significantly more successful in attracting electoral support. A variant investigated by Vicente, (2006), is that voters literally sell their vote, by accepting a bribe. His field experiments were conducted in Sao Tome and Cap Verde.

Thus, in the typical African setting politicians may indeed find that the most cost-effective way of attracting votes is to offer strong incentives to a narrow group of electors rather than deliver good public services to everyone. However, if politicians opt for patronage, they face a credibility problem with their client supporters. Why should a supporter believe that the politician will continue to provide patronage after the election? If the continued patronage is not in the interests of the politician there is little point in the client supporting him: any benefits that the client might get accrue before the election. The politician needs some 'commitment technology' which guarantees continuing benefits to his supporters as long as he remains in power. Robinson et al. (2006) argue that the reason why public sector employment is so inflated in resource-rich countries is that it provides just this 'commitment technology'. Creating employment is a mechanism for credible commitment because it is difficult but not impossible to reverse. If the politician loses his supporters are likely to lose their jobs, but if he wins they are likely to keep them.

This argument has a particularly unfortunate corollary, analogous to the patronage versus public goods trade-off of Collier and Hoeffler (2006). The role of public employment in this analysis is as a reward for support. The politician wishes to maximize his support by employing as many people as possible. However, he only has limited finance from resource rents. Hence, he needs to set the wage as low as possible so as to maximize the jobs that are available for reward. But if wages are low the value of the employment offer to the client is correspondingly diminished. The way out of this conundrum for the politician is to reduce the requirements placed on the employee for effort. The less demanding is the job in terms of effort, the more rewarding it is for a given level of salary. Since the politician finds it more vote-effective to use the public sector for job rewards to clients than for public service delivery to the nation, he maximizes by

minimizing the requirement of effort. This produces the apparent paradox of very high levels of employment with very low levels of service delivery. The regime of low effort is not inadvertent, it is an integral part of a particular political strategy. This links the design of the accountability system for service-providing agencies to the incentives facing politicians.

Political accountability through checks and balances

Politicians are not only accountable to voters. In a mature democracy they are also accountable to the courts if they breach due process. Electoral competition determines how power is acquired, but it might place only weak constraints upon how power is used, and various non-electoral checks and balances, not only the courts but the media, might be more important. Collier and Hoeffler (2006) find that in resource-rich countries checks and balances are particularly effective in enhancing growth, whereas electoral competition is significantly dysfunctional. Their explanation is that without checks and balances the resource rents get diverted into private localized patronage because it is more cost-effective in winning elections than the provision of national public goods. Private patronage, being selective, can be used strategically both to buy the influential and to garner votes where they are most needed. This would predict that even, and perhaps especially, with electoral competition, in the absence of checks and balances politicians will assign a low priority to the public goods such as service delivery. Since large resource rents enable governments to tax very lightly and so avoid provoking citizens into the scrutiny, although resource-rich countries need particularly strong checks and balances, they typically get the opposite. Both the relationship between checks and balances on the political process and service delivery, and the determinants of checks and balances, have yet to be explored on African data.

Ethnic politics in service delivery

Africa is the most ethnically diverse region and this is likely to have some consequences for service delivery. For a useful general survey of ethnic diversity see Alesina and La Ferrara (2005). Ethnic diversity appears to have five types of pertinent effect. First, diversity tends to reduce trust and this in turn makes collective action more difficult. For example, Miguel and Gugerty (2005) show that in Kenya school boards that are ethnically diverse perform less well than those which are not. Second, diversity can introduce patronage networks into public sector promotions that privilege the ethnic group that is locally powerful. For example, Collier and Garg (1999) show that in Ghana public sector employees get a wage premium of around 25% controlling for skill levels, if they are in the locally-dominant ethnic group. Third, diversity appears to make democracy more important. Collier (2000, 2001) finds that dictatorships are particularly dysfunctional in the context of diversity, probably because being based on a single ethnic group they are narrowly based and so have an incentive to redistribute at the expense of national growth. Fourth, ethnicity might be problematic even in democracies because it exposes the society to identity politics, with many votes pre-committed according to allegiance. Besley (2006) shows that the greater the proportion of votes that are pre-committed, the lower the incentive of politicians to perform in accordance with voter

interests. Fifth, ethnic groups may differ in their preferences for public goods, and so ethnic diversity may generate a wider dispersion of voter preferences. A possible response to this is political decentralization which both permits different groups to choose different priorities and reduces the diversity of the decision-taking unit and so makes collective action easier.

5. An Agenda for Research

First consider possible research on service-providing agencies. Research to date has clearly cast doubt upon the apparently obvious remedy of raising salary levels and linking them more closely to performance. Basic services are not well-suited to high-powered incentives. However, neither theory nor empirical studies have advanced to the point at which there is a well-attested dominant practical solution to the acute current problem of poor performance. Rather, both point to likely directions for experiment in terms of ownership, motivation, monitoring, and incentives.

Ownership issues have been hotly contested in Africa: should public activities be privatized? In the domain of basic service delivery private for-profit delivery might often be problematic. However, government ownership may be less effective than if ownership is vested more broadly, using a variety of non-government or local government entities. Motivation may be much more important than has conventionally been acknowledged: because basic services are intrinsically worthwhile, there is plenty of scope for self-motivation with employees identifying with the goals of the organization. This has implications for pre-employment training, initial recruitment, and in-service management practices. Increased monitoring may be valuable given that performance is currently not well-observed. However, top-down monitoring may undermine motivation. Peer pressure and bottom-up monitoring might be more effective than top down monitoring if the specific problems associated with these forms of accountability can be overcome.

The area is ripe for the variations in the design of accountability in service delivery to be evaluated using the current techniques of differences-in-differences. The ideal approach is a randomized experiment that is tracked by a baseline survey prior to the intervention and a follow-up survey. However, even where randomization is not possible rigorous evaluation can still be possible as long as there is a baseline survey through the technique of constructing a matched control group. The first step is that the researcher needs to become familiar with impending variation in service delivery. For example, an NGO may be planning to phase in some change in its provision, or some local governments may be planning to adopt a new strategy. Having compiled a list of such forthcoming natural experiments, the researcher can then focus on one which is both particularly feasible and potentially important. By discussing the benefits of rigorous evaluation with the agency implementing the change it may sometimes be possible to change the design, for example by introducing randomization into the phasing and doing a baseline survey ahead of the change. Retrospective evaluation of a change is also sometimes possible, but it depends upon the outcome that the change is designed to affect being properly recorded prior to the change.

Research on political accountability also depends upon evaluating variation. Variation can occasionally be achieved through the experimental approach: the work of Wantchekon demonstrates what is possible with sufficient enterprise on the part of the researcher. Even without researcher-initiated experiments, there is potential to research natural experiments that arise from changes in boundaries, changes in voting practices, and suchlike. The starting point for research is again to prepare an inventory of past and prospective changes in political design and from this list select those which are both feasible and likely to be important.

In addition to voting, citizen attitudes are interesting phenomena to explain. The interconnections between citizen attitudes, voting, and objective socio-economic conditions are as yet unexplored in African conditions. While it is not possible to link such data at the level of the individual person, it may be possible to link them at the level of the district.

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