

LAC Service Delivery: Assessing Two Decades of Change

chapter 3

The last two decades have seen some radical transformations in state organization and structure and in the relationship between the state, its citizens, and markets. The spread of democracy, state decentralization, a redefined state role, and increased activity by non-governmental actors represent important transformations that create opportunities for change in accountability relationships between policy makers, provider organizations, front-line providers, and citizens.

This chapter seeks to explore the influence that these various changes have had on the delivery of services to poor people in Latin America. We review the evidence on how key accountability relationships were transformed during this period and the influence such transformations had on service delivery. First, we look at changes in the relationships between policy makers and public and private service providers. Next, we review changes in the relationships between clients and providers that have sought to increase “client power.” Finally, we consider changes in the relationships between citizens and policy makers and their impact on overall state accountability. In doing so, we will seek to highlight the many connections between these accountability relationships and identify remaining bottlenecks to improve service delivery systems in Latin America.

This chapter draws on available studies and assessments of specific country and sector service delivery experiences. The growing emphasis on conducting systematic evaluations of policies and programs among both academics and development practitioners provides us with a good empirical basis for our review. Nevertheless, important knowledge gaps remain (for some types of services, groups of countries, and service delivery approaches). In our

assessment, we have made an effort to recognize and identify such gaps in the two decades of change in service delivery approaches in Latin America.

Reforming the Compact

Latin America has long been characterized by a general tendency for its states to be “weak” and “unequal,” specifically when delivering key public goods (especially in terms of macroeconomic stability and universal guarantees of property rights and of citizenship) and provisioning quality basic economic and social services to all (De Ferranti et al. 2004). Where public goods are inadequately provided, wealthier groups either resort to private mechanisms (for example, with private security or holding savings abroad to deal with macroeconomic instability) or actually benefit from weaknesses (for example, by influencing justice systems through private influence). Where basic goods are underprovided, it is typically the poor who are served last and where quality is low, richer groups have greater means to opt out in favor of privately provided services. To a great extent, such weakness has been associated with badly functioning state bureaucracies in charge of service delivery—even though the underlying causes of such deficient functioning have typically been linked to the social and political structures within which such bureaucracies operate. Thus, a key aspect to improving service delivery is associated with the incentives and capacity of the policy makers to establish effective compacts—broad, long-term accountability relationships—with the organizations (state and nonstate) in charge of service provision.

The last two decades have seen many attempts at reforming the state’s internal organization, its structure, and its roles in

Latin America. Some of these attempts had the specific purpose of improving state service delivery effectiveness, while others responded to different policy goals (such as the state decentralization process). In this section we review the most important of these reforms, searching for empirical evidence on whether and how they improved service delivery. First we discuss the efforts to reform government bureaucracies. Next, we explore the effects of administrative decentralization that is part of the multifaceted state decentralization process that LAC countries have been implementing. Finally, we look at a broad range of initiatives that innovated service delivery by establishing stronger, more performance-based compacts with actors outside the mainstream state bureaucracies.

LAC government bureaucracies remain generally weak, ineffective, and largely unaccountable for results

A mix of reforms emerged in the region over the last two decades, whereby governments have sought to modernize and adapt

their structures and administrative systems¹ and introduce new public management approaches. Many countries significantly improved capacities for core economic management (see box 3.1). However, the effects of the modernization efforts on improving service delivery have been limited to date. Implementing fundamental reforms of government bureaucracies to make them more results-oriented has proven to be a long, arduous path rife with political and technical difficulties.

Initial public sector reform efforts focused nearly exclusively on fiscal adjustment objectives and the broad redefinition of the state's roles. Attention gradually shifted to modernization of core government functions, such as macroeconomic planning, financial management, and tax administration. By the end of the 1990s, state institutional reform was squarely on the region's development agenda.

These reform efforts tended to emphasize improvements in internal processes and instruments. Aided with technological advances in the 1990s, integrated financial management systems have become popularized as potent instruments for strengthening government financial management (especially expenditure control during the budget execution stage and ex post reporting). Integrated financial management system reforms are sometimes seen as building blocks or as a catalyst for broader institutional reforms of the public expenditure management systems; better information can contribute to developing better institutions that facilitate better decisions and eventually, better outcomes.

The introduction of these improvements in many countries has been among the most successful reform efforts in the region's public administration realm in the 1990s. As seen in Guatemala's reform (see box 3.2), it is possible to use such systems in a way to derive immediate service improvement impacts (Dorotinsky and Matsuda 2001). Overall, the contribution of the region's financial management reforms has been to establish better input control as a fundamental building block of good public administration.²

LAC countries have also begun developing the technical foundations for performance-

BOX 3.1 *Macro vs. Sectoral Reforms*

Centralized approaches to strengthening core economic management functions have been relatively effective, and many countries now boast professional central banks and finance ministries aided by competent technocrats and information technology (IT)-based systems to better manage public monies. Why was this reform apparently more successful than others, especially those in service delivery? We suggest two reasons why this domain was different from that of most front-line service delivery programs:

1. First, the huge costs of macroeconomic mismanagement in the 1980s shaped political will and practical learning to make changes in core government management functions.
2. Second, macro policy is an area that can be effectively run by small cadres at the national level. Moreover, once the populist macro policy's failures as a redistribution instrument became manifest, it became an area that offered relatively few patronage opportunities and thus is more easily delegated to technocrats.

By contrast, large service delivery domains are intrinsically transaction-intensive and involve discretionary decisions by front-line bureaucrats that are difficult to monitor and control centrally. It is this combination that makes it particularly prone to clientelistic abuse and thus challenging to reform (World Bank 2003a; Pritchett and Woolcock 2002). Widespread citizen discontent with government performance has somehow failed to translate into a strong drive for results-oriented public sector reforms. This contrasts with the evolution of reform efforts in OECD countries, where fiscal pressures led not only to the general movement toward tighter fiscal policy and expenditure control (Atkinson and van den Noord 2001), but also to a greater expenditure efficiency focus (for example, an emphasis on "value for money") and consequently to deep public sector management reforms. We might then speculate that either the public sector bureaucracy's politics or culture has to change for fiscal pressure to translate into concerted efforts to improve service delivery institutions.

BOX 3.2 *Public Financial Management Reform in Guatemala*

At one point or another, most countries in the region have attempted to reform their financial management systems (normally budgeting, treasury, accounting, and debt management) to make public expenditure more effective and efficient. The Guatemala Integrated Financial Management System (IFMS) stands out as one of the most successful. Emerging from three decades of civil war, Guatemala had a desperate need not only to improve service delivery, but also to restore confidence in the public sector's integrity and efficiency.

Some examples that illustrate Guatemala's success and its potential impact on the coverage of public sector services are:

- Elimination of the "floating debt" that arose from inadequate budgetary controls, which used to lead the Ministry of Finance to devote virtually the full first quarter of the year to paying commitments from the previous year. It turned out that many of these commitments were not legitimate. Close to \$100 million was saved through the controls implemented as part of the IFMS.
- By decentralizing purchases through the IFMS, control of the procurement processes was improved and arrears with suppliers were eliminated. This reduced the cost of certain wholesale purchases for hospitals and schools by 10 to 70 percent.
- As part of the IFMS deployment, payments are electronic and checks are no longer issued to suppliers, with the exception of teachers' salaries. Once these begin to be paid electronically, an estimated savings of \$2.5 million per year will be achieved simply by eliminating the use of physical checks.
- As a complement to the IFMS, the project is deploying an online procurement system ("Guatecompras"), which has been widely praised both inside and outside the country. It is expected that in the medium run, up to a 20 percent savings in public sector purchases will be achieved through increased transparency and more effective competition.
- Legislators, private citizens, NGOs, and other stakeholders can access proposed and executed national budgets at several computer sites in Guatemala and through the Internet (www.siafsag.gob.gt).
- Physical and financial indicators are now included in the budget to better measure performance and promote a result-oriented focus, and line ministries have timely and accurate information to improve physical programming and service provision.
- At the municipal level, the project is also implementing IFMS platforms that share the national system's functionality at a smaller scale. These systems will also generate substantial savings that can be directed to improving municipal government service delivery.

By themselves, back-office systems such as the Guatemala IFMS cannot directly affect the quality of final public service delivery; however, they can help increase coverage by reducing input costs, be it through improved procurement practices, speedier payments to suppliers, or reduced corruption opportunities. In addition, they provide real-time financial information that can be critical for making policy decisions in all sectors.

based budgeting and management with the use of performance indicators and the introduction of program evaluations. Several countries, including Bolivia, Brazil, Chile, Colombia, Mexico, and Peru, have embarked on efforts to develop a results-oriented management framework even though, with the possible exception of Chile, no country has yet developed a fully functioning performance management system. Often these efforts have suffered wavering political commitments by different governments. In some cases, the work done so far appears to be mostly technocratic exercises with limited links to actual government decision-making and management processes.

Arguably the most important public sector reform from the viewpoint of improving service delivery, especially in the labor-intensive social sectors, is personnel management reform. After the emphasis on public sector retrenchment in the fiscal adjustment context, the second half of the 1990s saw the emergence of civil service professionalization, or the establishment of a merit-based civil service, as a commonly-agreed-on priority in a number of countries. Yet deep reform of the

civil service systems has proven politically difficult and technically intractable. Most countries in the region have yet to establish professional "Weberian" bureaucracies, which many analysts see as a necessary precursor to introducing modern managerial approaches (Shepherd 2003). Far from introducing performance-oriented personnel management practices as a necessary complement to strengthening the public sector's service delivery capacity, several countries in the region are still struggling to keep the aggregate wage bill under control and lack sufficient capacities to control deployment and attendance, let alone performance, of their public servants. In very few cases, this has reached the level of failed states (see box 3.3).

Aside from the technical and fiscal complexities (for example, how to resolve the well-known dilemma of controlling the aggregate wage bill for sound fiscal policy on the one hand and paying individual civil servants competitive salaries on the other), civil service reforms are riddled with political difficulties. Introduction of a merit-based civil service is difficult because stakeholders in the political system actively resist

BOX 3.3 *Haiti: Public Service Delivery in a Failed State*

Haiti's characterization as a failed state, or one that has been failing over decades, does not waive the rules of improving public service provision. However, it does make their application far more difficult. The state's service provision role is minimal (for example, private schools provide over 80 percent of education), ministries manage much of their budgets through "current accounts" for which there is no accountability, and public office has been used to reward partisan loyalists. Over the past decade, the shrinking group of donors still operating in the country looked increasingly to NGOs to implement their programs, or they managed their own funds, or if they channeled monies through the government, often short-circuited the highly inefficient "normal" processes. Not surprisingly, public sector human resource quality, quantity, and distribution were totally inconsistent with service provision needs. Most staff was located in Port-au-Prince; a United Nations Development Programme survey indicated that 68 percent had only a primary or secondary education, and even offices with technically qualified personnel had too few of them to carry out their mandates. The near civil war leading to President Aristide's departure was accompanied by the exodus of many of the more qualified government staff, leaving an enormous gap at the upper and middle-management levels. Salaries and operating budgets, while never adequate, are now at an all-time low.

Assuming that the current transitional government and an eventual elected one can maintain an adequate level of civil order, aided by the presence of a UN secu-

urity force, they will be dependent on donor resources to finance anything beyond their operating budget and possibly even a fair share of that. In this situation, the two highest priorities are to regain control over expenditures through the introduction of an improved budgetary process and to find ways to run or oversee service delivery and other basic government functions with the depleted human resource base. Here donors face a common dilemma in an extreme form—whether to emphasize execution of their own programs through whatever means possible (such as by using NGO executors, hiring the most qualified Haitians to backstop their efforts, or finding ways to short-circuit less-efficient government procedures) or to sacrifice some advances there in the interests of building public sector capacity. Should they decide to focus some efforts on capacity building, they will have to tailor them to the realities of existing organizational and human resource capabilities. New procedures will have to be simple, but effective, less reliant on technology than in other national settings, and capable of use by the "average" employee, not just the upper level staff. A mix of implementation modalities will be inevitable, including the use of NGOs and the private sector, but they should strive for an integrated rather than an either-or approach. Salary subsidies or similar arrangements to attract more qualified staff should be used with caution as the few benefiting from them will not be sufficient to run the government, and the more basic problem will be how to provide incentives for the ordinary state workers.

it. Civil service unions are often opposed to change initiatives that are designed to improve their performance incentives and thus also affect their entrenched (and usually legally sanctioned) privileges and benefits. Unions typically oppose these measures, especially those geared toward fiscal adjustment purposes (which result in job losses), better internal controls (which result in reduced room for opportunistic behavior), and managerial flexibility (which can result in both job losses and greater performance exigency). In Brazil, for example, the 1998 administrative reform was introduced with the aim of introducing greater flexibility to public sector personnel man-

agement and to introduce greater performance orientation. However, the reform has stalled partly due to strong union pressure (Rinne 2001). In Chile, union opposition has been cited as one of the reasons for relatively limited progress in civil service reform aimed also at introducing greater flexibility in the public sector personnel management regime (Egaña 2003).

Union opposition to performance-enhancing reforms tends to be particularly problematic in social sectors. For example, teachers unions typically negotiate for job security (as well as, obviously, for better wages) and against results-based quality assessment systems and local control.³ In countries ranging from Bolivia, Costa Rica, the Dominican Republic, Peru and Venezuela, just to name a few examples, unions opposed reform measures to strengthen meritocracy and teachers' accountability for learning outcomes or to introduce private provisions so as to generate competitive pressure for public providers and offer "exit" options to parents (Gray Molina, Pérez de Rada, and Yeñez 1999; Maceira and Murillo 2001). It is also true that teacher unions—or at least factions within unions—have sometimes been reform advocates and governments have worked with them for quality and efficiency improving reforms, for example, in Minas Gerais (Grindle and Mason 2004).⁴ When explicitly involved in the reform process, responsible unions can play a positive role in defining the content of performance-oriented teacher service reforms and facilitate their implementation, as was the case in Chile over the 1990s (Crouch 2004).⁵

Besides the frequent opposition from public sector unions, the most obvious culprits for lack of civil service reform are the continued prevalence of clientelism and the politicization of public administrations. In much of Latin America, provision of public jobs has been a major instrument both for achieving or maintaining national level support and/or an instrument for the clientelistic exchange of local level favors. This problem has been diagnosed in Bolivia, for example, where the peculiarity of the political system creates permanent and strong incentives for political parties to divvy up

the public sector as a currency of political exchange to maintain minimum conditions for governing (World Bank 2000b). Bolivia's case may be extreme in some sense, but it is hardly unique. In Mexico, with a more developed pool of professional human resources, politicization has reigned in the administration of public sector personnel (Garibaldi n.d.). It is also seen in the only recently changed tradition of use of teaching jobs as a means of patronage in Colombia (Angell et al. 2001). Public utilities are a further example of a patronage system of job provision and cheap, if low quality, services (Foster 2003). Overall, in a context where job granting remains a preferred mechanism to reward political clienteles, there is a serious challenge to design effective incentive systems that motivate front-line workers involved in service delivery.⁶ Furthermore, often union resistance to performance-enhancing reforms is a defensive move against such practices.

Effective social service delivery depends critically on the quality and dedication of teachers, doctors, and nurses. Yet, organized resistance by unions and informality sustained by patronage and clientelism severely limit reformers' options for using explicit incentive mechanisms for enhancing their performance orientations (for example, performance-based pay). In addition, in most countries in the region, paying the large number of social sector workers adequately remains a significant challenge given national fiscal realities. A long-term solution seems to depend on somehow encouraging greater professionalization of the social sector workers (especially teachers). But in the short run, it may be possible to find promising alternatives in greater reliance on "social control" mechanisms, such as community vigilance of family health workers in the Brazilian state of Ceará (Tendler 1997) or school director elections as practiced in several Brazilian states.

The consequences of the lack of civil service reform go beyond continued general weaknesses in public administration. They can also undermine institutional innovations in specific sector reforms by depriving the public sector of technically competent

personnel inculcated in the ethos of rule-bound integrity (for example, teachers who show up at classrooms every day to teach) or of personnel management flexibility to take advantage of incentives for improved organizational performance. The latter type of problem is well illustrated by the difficulties that public health sector reforms faced in seeking to improve the incentive framework for efficiency and responsiveness (see box 3.4).

Overall, the evidence suggests that the historical weaknesses of Latin American state bureaucracies still limit the effectiveness of conventional public sector delivery. State modernization reforms have upgraded governments' institutional capacities considerably—at least in some areas of public administration systems—and it is likely that such upgrading will have substantial effects over the longer term. But very few countries

BOX 3.4 *Lack of Civil Service Reform as a Health Reform Bottleneck*

A main thrust of LAC health sector reforms has been to organizationally separate the three key health system's functions: regulation, financing, and service provision. In particular, purchaser-provider split reforms have been introduced in many LAC countries with the objective of improving the public health sector's efficiency and responsiveness incentive framework. Under integrated systems, the central authority has the simultaneous missions of maximizing the impact of its resources on the population, of financing the system, and of ensuring financial sustainability of its own providers. Historically, that combination of missions created incentives for the state to focus on ensuring a stable revenue flow for its own providers, rather than on examining the impact on the population. Chile provides the earliest case of these reforms with the creation of the National Health Fund (FONASA) in 1981. After significant legal, managerial, and financial reforms, there is almost complete separation of purchasing and provision in Chile's public health sector. Colombia is the other paradigmatic case; in the mid-1990s, it initiated an ambitious health insurance reform that implied a clear and nationwide separation of functions. Efforts at establishing public hospital autonomy were widespread, but

limited in scope and effects (World Bank 2001b; World Bank 2002b; Over and Watanabe 2003; World Bank 2003c).

For these reforms to be successful in enabling public sector performance change requires significant flexibility in resource management and allocation by service providers. In other words, reform implementation requires that public providers be increasingly able to adapt their service production functions and cost structures to the continuous evolution of price signals determined by the new payment mechanisms. There is increasing evidence of the difficulties in implementing the purchaser-provider split (Baeza 1996). For example, the slow pace of the reforms in Costa Rica and Chile—two countries with relatively effective public administrations—is due to a great extent to the management rigidity in all production factors at the provider level, particularly in the lack of flexibility in managing human resources. Indeed, international experience (England 1998) increasingly suggests that purchaser-provider split reforms are facing serious constraints due to the difficulties in reforming civil servant regulations in the public health sector and the resulting rigidity in managing production factors and modifying cost structures by public providers.

have been able to move decisively toward developing a results-oriented public administration or achieve significant depoliticization of the state apparatus. We interpret this as being due to a combination of the intrinsically long-term nature of institutional change and the persistence of countervailing forces from groups, from patronage-oriented political groups to unions, that benefit from existing arrangements. The implication is, however, that service delivery quality by state agencies remains a serious bottleneck, particularly for those services (for example, education and health) for which personnel practices are crucial and in countries where resistance by interest groups is the strongest.

Service delivery function decentralization was attempted in country after country with heterogeneous results

Over the last two decades, most countries in the region have gone through a process of decentralizing service delivery responsibilities. Practically all countries have undertaken some form of decentralization of their primary and secondary education system, which involved the transfer of decision-making powers to actors within or, more likely, outside the ministry of education's bureaucratic structure. In many countries, the water industry was transformed from a single national provider under the central government's control, to a highly decentralized structure with service being delegated to hundreds of new municipal utilities.⁷ Local and regional governments were also charged with growing responsibilities for public health facilities and programs. Decentralization also took place in the transport sector, with municipalities and regional governments becoming increasingly involved in tertiary and secondary road management. Over time, some countries also delegated responsibilities for social assistance programs to subnational governments.

These reassignments of responsibilities followed many paths and approaches,⁸ but in few, if any, cases was administrative decentralization driven primarily by the

goal of improving the service delivery efficiency. More typically, decentralization of service delivery responsibilities was largely determined by the design and outcomes of both political and fiscal decentralization processes. In all cases, however, the decentralization of service delivery responsibilities to local governments⁹ has resulted in a reform of the compact between governments and service providers whereby the latter are increasingly under the supervision of subnational governments, as well as new compact relationships between the national government that still sets overall sectoral policies and the subnational governments charged with service delivery.

Whether these changes result in better services depends crucially on local bureaucracies being able to function more effectively than the national ones. The key is for local governments to have the combination of resources, authority, and incentives needed to do so (World Bank 1999). This can also be seen from the perspective of the tradeoff between increased information at lower government levels and the influence of local power structures and practices (Bardhan and Mookherjee 2000a, 2000b). In the Latin American context, there is a strong history of the power of local strongmen and of the importance of unequal local social structures. However, there is also a significant variety of experiences, including in terms of the democratization and decentralization responses. The evidence essentially points in the direction of mixed results: decentralization's impact on service delivery varies significantly between countries and sectors or geographic areas within countries. Critical to explaining the results are local political conditions and the country- and sector-specific policy frameworks under which decentralized service delivery operates.

Design issues. In many cases, the overall frameworks under which responsibilities were decentralized in most countries and for most services have created overlaps and gaps, inadequate or insufficient authorities and resources, and few (enforceable) mechanisms to promote local government performance orientation. Most countries had many difficulties in establishing well func-

tioning compacts between government levels to ensure the necessary incentives for effective service delivery to the poor.¹⁰

In many cases, blurred responsibilities have both made the tasks of newly empowered local governments complex as well as created too many opportunities for individual governments to essentially avoid becoming accountable for results vis-à-vis their citizens. In the case of health services, for example, in most cases decisions on human resources (for example, salaries and civil service rules) remained centralized or in the hands of regional governments imposing restrictions on municipal management autonomy (Bossert 2000). In those countries (such as Bolivia and Colombia) that distributed responsibilities for education services among three government levels, room was created for strategic behavior for each government level to seek to expand their power or budgets, and inconsistencies in the assignment of responsibilities and resources made it extremely difficult for local actors to “manage” schools in practice. Similarly, the arrangement to have national regulatory agencies oversee the performance of subnational water utilities (for example, in Bolivia, Colombia, and Peru) has not functioned very effectively due to differing sector policy goals between national and subnational governments, and even conflicting jurisdictions that undermine the regulatory agency’s authority.¹¹

Superimposing decentralization over other sector reforms is another source of inconsistency. For example, many countries now have legal contradictions between policies promoting community-based approaches to rural water and sanitation services and decentralization laws. This is the case, for example, in Honduras, where a recently passed water sector law provides legal recognition and a mandate to community water committees to provide services, while the decentralization law gives municipal governments the same responsibility. As a result, paradoxically, rural water and sanitation decentralization may actually result in centralization of decision-making power by transferring legal responsibility and authority away from the hands of rural communities to local governments.

Fiscal transfers remain the principal financing source for a large number of local governments, creating the potential for strong accountability lines toward the center. In reality, though, the establishment of clear, transparent compacts linked to service delivery outcomes is the exception rather than the rule. In Argentina, for example, the absence of a clear “compact” between the national level and the provinces (that is, little or no specification of targets and objectives and the use of general transfers that are not tied to any particular efficiency indicator) implied that decentralization’s effects on education quality and coverage vary a lot across provinces, depending on provincial management (Galiani and Schargrodsky 2002). This raises both efficiency and equity concerns. For water and sanitation, notwithstanding extensive decentralization, central government often retains a role in financing services, whether through budget transfers or credit lines for major investments. This financing relationship potentially provides an additional mechanism for increasing the accountability of local service providers, since access to resources could potentially be conditioned on absolute performance thresholds or ranking against utilities in other jurisdictions. However, it is striking how little use has been made of this instrument in practice, with the majority of municipalities in the region receiving fiscal transfers without any accountability requirement against the resources spent.¹²

Nevertheless, there are good examples of arrangements where strong intergovernmental compacts coexist with large fiscal transfers. In Chile, for example, the education delivery responsibility was transferred to municipalities through specific agreements that defined explicitly the responsibilities, rights, and obligations of the new providers and linked central resources to the number of students attending class. As illustrated by the case of Brazil’s FUNDEF, an innovative financing mechanism that collects resources from state and municipal governments in a single fund and redistributes them according to the amount of students enrolled, thus ensuring spending minimum levels in all states and municipalities,

when the compact between the center and subnational governments is strengthened, there is great potential to generate improvements in educational achievement outcomes and enrollment, in particular in poor areas (World Bank 2003b).

Local responses. While the characteristics of the overall fiscal, administrative, and political frameworks under which decentralization takes place are clearly influential on service delivery opportunities for local decisions and actions, it is increasingly apparent that localities respond differently to such frameworks, emphasizing the role of local political systems and local social organization's characteristics and strengths.

The experience across municipalities in Bolivia is of interest here, particularly since they appear to be characterized by relatively weak state capabilities and embedded patronage politics (World Bank 2000b). Popular participation was intended as a national reform to shift resources and control to municipalities and legalize local level civil society groups, of which campesinos' syndicates were the most important in many parts of the country. While the changes brought benefits, on average, (Faguet 2000) the dynamics of change depended on the variable local social context. In some parts of the country, notably in some of the Cochabamba valleys, where there was a relatively strong social mobilization tradition (that is, greater agency capacities of the poor), the legal changes in the direction of greater openness appear to be bringing initial benefits in the form of better public action. In the traditional sierra city of Sucre, by contrast, a traditionally more closed political culture and a stronger elite may have caused the decentralizing reforms to primarily increase the local elite's power (Gray Molina 2002; Calderon and Szmuckler 2004; Blackburn 2001).

But beyond these broad, albeit powerful, structural forces, it is the combination of many factors that appears to be behind successful local service delivery reform. For example, Bogotá city engaged in a comprehensive reform program of the local education system, improving learning and teaching outcomes. A variety of

factors contributed to this success: local electoral competition as motivation to pursue reform; the fact that education reforms included both private and public schools; close parental oversight; control over human resources on the municipality's behalf; and a new incentive framework that the central government established (capitation grants instead of cost-driven central transfers). All these factors combined provided local politicians with both the incentives and the ability to move toward results-based management. In other words, changes along the various accountability relations (that is, not only or even primarily in the intergovernmental compact) made the observed results possible—a recurrent theme in our analysis.

The experience of LAC countries suggests that effective decentralization opportunities systematically differ between types of services. In contrast to the education sector's mixed cross-country and in-country evidence, there is surprisingly little evidence that local elections have created any significant pressure to improve municipal water services. Only a minority of small and medium-size cities in Latin America have undergone major reforms of their water utilities.¹³ It is only a matter of speculation as to why local level political incentives implicitly appear to be less in favor of reforms in the water than in the education sector. What is clear, though, is that asymmetric decentralization results by sector are related to the influence of size. In the water sector, a serious but unanticipated decentralization consequence has been the loss of scale economies in service provision, as well as the dispersion of scarce human resources with the capacity to manage and maintain water systems. In commercial terms, the client base for many smaller municipalities is entirely composed of low-income residential customers, making it difficult to achieve financial viability. This type of scale factor appears to be of much less importance in the case of education, for example. Nevertheless, scale may also be a limiting factor for some aspects of education service provision, such as curriculum design or evaluation systems, which tend to remain the central government's responsibility.

More importantly, while small scale may not be a serious bottleneck at any particular point in time, it may reduce flexibility to react to changing conditions over time: for example, by limiting the capacity of system administrators to change resource allocation decisions in response to demographic shifts. Of course, these challenges do not necessarily call for centralization. Rather, they emphasize the importance of arrangements for intermunicipal cooperation.

It is probably fair to say that the fruits of decentralization are still not fully harvested. In some cases (countries and sectors), some important changes (for example, in financing arrangements to improve accountability for results) are called for as a precondition to create a better enabling environment for local delivery of services, and several countries are already moving in that direction, Colombia being the most recent example. In other cases, more time may be needed to allow local governments and local politics to play out as reformers hoped. In all cases, however, central governments are faced with the need to provide incentives and implement mechanisms to promote and facilitate needed actions on the part of sub-national entities: central governments have a central role (monitoring results, providing incentives, and even intervening when service delivery fails) in making decentralization work for service delivery outcomes.

Establishing compacts with agencies or actors outside the mainstream state apparatus has overall produced good (short-run) results

LAC governments have sought alternative and often innovative ways to avoid the deep difficulties of reforming bureaucracies (central and local) to improve service delivery outcomes. Many of these alternative ways involve a combination of contracting out services to private firms and NGOs and relying on alternative bureaucratic structures that bypass more traditional hard-to-reform ones. Overall, these efforts produced positive results in terms of improving service delivery outcomes. Below is a brief review of the assessments available for some experiences, followed by

a discussion of this approach's limits on improving service delivery.

Contracting out service delivery. Contracting out services to private operators, whether through long-term concessions or outright asset sales, is most advanced in the infrastructure sectors. Prior to 1980, utilities in most Latin American countries were organized as publicly owned and operated national (or state level) monopolies. Politicians exerted their control over the sector via the appointment (and dismissal) of utility managers, and by providing subsidies to support unsustainable enterprises. In return, utilities provided jobs, kept tariffs down, and allocated investments and public works contracts on a political criteria basis. The consequences of this regime were spiraling costs, low service quality, and a shortage of resources to fund badly needed service coverage expansions. From the early 1990s onwards, there was a widespread movement to try and replace the "clientilistic" service provision model. The reforms stressed the need to provide a clear institutional separation between the roles of policy maker, regulator, and service provider. Service provision would be delegated to the private sector to ensure that services were run on commercial principles, and providers were free to pursue service delivery objectives. In other words, the contracting out provision to private firms implied that in the case of utilities, many bottlenecks in the health sector from inadequate progress in implementing civil service reforms (see box 3.4) would not materialize.

The reforms implied a substantial increase in private sector participation. A recent survey of private sector participation in Latin American infrastructure during the 1990s found that there had been more than 200 concessions for water, electricity distribution, and basic telephony services (Guasch 2004). However, the scope for private participation proved to vary substantially across sectors; by the year 2000, over 90 percent of telephone customers, 50 percent of electricity customers, and 15 percent of water customers in urban areas in Latin America received their service from private operators. There is substantial evidence that private

sector participation has led to significant improvements in the performance of utilities, particularly as regards connections, labor productivity, and service continuity.¹⁴ The increased coverage of electricity, water, and sewerage services primarily benefited lower income groups, while the surge in telephone penetration primarily benefited the middle classes (McKenzie and Mookherjee 2002). There is similar positive evidence regarding water sector coverage.¹⁵ While coverage and efficiency effects were generally favorable, price effects were more varied, often depending on initial conditions (De Ferranti et al. 2004).

An essential aspect of these reforms was the creation of a regulatory agency for utilities (with the key function of insulating service providers from political interference, so that decisions can be taken on the basis of long-term public interest). At present, Latin America has more than 30 national level regulatory agencies for the water, electricity, and telecommunications sectors. Regulators for subnational jurisdictions have also sprung up in federal countries such as Argentina and Brazil, and for the water sector in countries such as Ecuador and Honduras. In many cases, sectoral legislation incorporates several mechanisms designed to safeguard regulatory autonomy, in particular by establishing clear criteria for regulator selection and removal¹⁶ and making regulators financially self-sufficient via sector levies.

Similar, large-scale experiences of contracting out private concessions are less common for social services. The Bogotá school concessions program (which created 18,000 new school places) is an important example of how private management of public schools could work if used more extensively. The municipal education department constructs new, state-of-the-art schools in low-income areas that are each able to accommodate between 800 and 1,200 students. A public procurement process offers the opportunity to manage the school; bidders (good-quality private educational institutions) are evaluated on their proposed management plans. Concessionaries are obliged to provide educational services to poor children and in return

receive remuneration from the department on a per-student basis. While the contract establishes clear standards that must be upheld, the concessionaire has full autonomy over school management and is evaluated solely on results. Concessionaries have already produced striking management improvement results: they allocate, on average, 55 percent of the per capita remuneration to human resources, well below the 90 percent allocation by public schools.

More common is the practice of contracting out the delivery of social services to NGOs. In their efforts to improve efficiency and reduce costs, a growing number of ministries of health in Central America began to purchase primary health care services from NGOs—usually private, non-profit entities—to provide coverage in delimited geographic areas (Fiedler 2002). Through a formal, competitive process, El Salvador, Honduras, Nicaragua, and Panama awarded contracts to NGOs to provide coverage to remote (often indigenous) populations with little or no access to care, in return for a fixed, annual capitulation payment. In most cases, the NGOs provide care using a network of itinerant teams, usually complemented with community-based paramedics. The NGOs are generally required to visit designated villages or to provide care at specified delivery sites a minimum number of times per year.

These innovations started out as relatively small-scale experiments. In some cases—Nicaragua, for instance—they have not been regarded as successful, and their scale and financing were reduced. In other cases, both the clientele and authorities enthusiastically endorsed this approach, and its scope has gradually grown. In Panama, for example, NGO provider teams now cover about 95,000 people, and current plans call for expanding the program to nearly 10 percent of the population in the next few years. With the longest history of contracting out to NGOs among Central American countries and of purchasing a greater variety of services than its neighbors, Guatemala has contracts with approximately 90 NGOs that provide services to more than three million people, about 30 percent of the national population. Impact

evaluation studies show better results under this approach than under the more traditional public sector delivery model (La Forgia et al. 2004).

In terms of education, the largest case of contracting out is the Fe y Alegría schools that operate in 14 Latin American countries and cover approximately one million students. An evaluation of the program's operations in nine countries indicates that schools integrated into Fe y Alegría outperform traditional public schools, with lower repetition, dropout, and higher overall progress rates in school and higher overall retention rates, on average (Patrinos 2002; Swope, Latorre, and Celedón 1998).

The national Fe y Alegría office in each country oversees the education quality given and offers training to its teachers and center directors, administers the educational centers, and coordinates activities in such a way that it becomes a local area development strategy. Fe y Alegría, for example, developed many strategies to reduce grade repetition and school dropout rates during the first years of schooling for children coming from the most disadvantaged areas. Critical to Fe y Alegría's success are its parent-centered strategies. These are based on an open school environment that promotes effective parental involvement in the learning process, community involvement in school management, and student-centered strategies that depend on an interactive teaching method and recognize a variety of learning styles. The dynamic at play in this case is strongly associated with the altruistic and "empowerment"-oriented approach that characterizes Fe y Alegría. In other words, the effects of contracting out appear to be closely related to the contractor's nature.

Bypassing unreformed bureaucracies. When the nature of the services or the political/historical conditions do not permit governments to contract them out to either private operators or NGOs, the near impossibility of a governmentwide civil service reform resurfaces as a major bottleneck to improving service delivery. In this context, a number of governments in the region have adopted, to different extents, targeted

approaches to public sector reform on an agency-by-agency basis. This approach has shown promise of relatively quick success, including a handful of well-known examples of impressive organizational turnarounds. Probably the best contemporary case is a set of semiautonomous agencies created in Peru in the 1990s. Instead of trying to reform the whole government machinery, Peru created a series of "autonomous" agencies in key areas related to sustenance of the market-oriented reform and targeted poverty and social programs. These agencies included the revenue administration agencies, regulatory agencies, and social program agencies [Comisión para la Formalización de la Propiedad Informal (COFOPRI) and Fondo de Compensación y Desarrollo Social (FONCODES)]. The agencies tended to be staffed with competent professionals who were generally better paid than civil servants in the core ministries and operated with a degree of autonomy from governmentwide rules governing personnel and financial management. In some cases (for example, COFOPRI), they also experimented with various ways of involving stakeholders in decision making as a means of improving accountability (see Cantuarias and Delgado 2004).

Although the approach of creating such efficiency enclaves is more common in areas such as revenue administration and regulation (see box 3.5), the model has also been applied widely for the provision of specific social infrastructure services through social funds. These funds were first launched as "social compensation" programs to soften the impact of structural adjustment policies on the poor through the construction of small-scale infrastructure projects targeted to poor communities in accordance with local priorities.

Perhaps the most significant innovation that social funds have brought about has been their role as means of investing in basic infrastructure. Whereas traditional delivery lines—namely, the line ministries—tended to be relatively inefficient and focused on infrastructure in capital cities (perhaps due to political pressures, to greater visibility of problems, or simply because of economies of scale and of agglomeration), social funds, on the other

BOX 3.5 *Executive Agencies in Jamaica*

After taking various administrative reform approaches over the years, Jamaica introduced the creation of executive agencies (EA) as part of a broad public sector modernization program. While previous initiatives attempted some redesign as part of civil service reform, the system was still subject to central controls over resource inputs and did not address performance management. EA, which are characterized by organizational separation, offered Jamaica a way to improve public sector functioning and enhance service delivery.

In creating the EA, Jamaica incorporated essential features of new public management. It also made significant legislative and institutional changes to eliminate impediments arising from traditional central control over allocation of financial and human resources in line departments. One such feature was to make the EA chief executive officers (CEOs) directly responsible to their portfolio ministers, with incentives to produce specific outputs (that is, rewards and sanctions were given to the CEOs for good and bad performance,

respectively). Delegating authority to the CEO to manage the financial and human resources needed to produce results was a major achievement of the reform. The CEOs could “hire, fire, and discipline” their employees; enabling them to maintain control over the allocation of most inputs.

The Executive Agencies Act (EAA) provisions that Parliament passed in 2002 incorporate a strategic planning process to assess each agency during its restructuring, including its future organizational structure, staffing, and remuneration requirements. Since then, EA developed new performance indicators and the agencies are now evaluated regularly. All agencies have prepared citizens’ charters as agreements with their clients on the agencies’ performance. Some have incorporated customer satisfaction components among their key indicators and have reported satisfactory levels in follow-up customer surveys. The EA improved operational efficiencies and was able to charge reasonable user fees, in cases where consumers are “identifiable” and it is efficient and equitable to do so.

hand, were able to channel investments into poorer, hitherto unreached rural areas and to do so at lower costs and greater speeds than the line ministries. An important reason for this efficiency is that the funds contract with third parties to implement the works, which brings performance-based incentives into play. Likewise, their staff tends to be recruited competitively, with employment contracts more along the lines of those offered to private sector employees. There is considerable evidence that social funds have been effective in expanding service delivery. They have also benefited from relatively careful evaluation (Rawlings et al. 2004) that often showed positive effects in outcomes for the poor, with lower operating costs than for most comparative programs.

Social funds essentially created a new, shorter route of accountability between the providers of small infrastructure investment, on the one hand, and local communities, on the other.¹⁷ The relationship between the fund and the communities it served was generally stronger than had been

the case with traditional government agencies or local governments, especially in centralized regimes or in societies characterized by the presence of local strongmen. Social funds’ new accountability arrangements have allowed communities to express their needs (including making choices among a variety of sectors) and to stay informed regarding investment decisions and works progress. Rules often furthered that accountability by establishing social control mechanisms, as part of supervision—in other words, communities had to sign off before contractors were paid.

Several “bureaucracy avoiding” accountability mechanisms operating in the case of social funds can be found in conditional cash transfer (CCT) programs. In the recent past, CCT programs¹⁸ have become a popular social assistance approach as they have been shown to generate important gains regarding both the provision of immediate assistance and longer-term human capital development impacts (Rawlings and Rubio 2003). Through provision of cash grants directly to poor households, conditional on human development-related activities such as children’s school or clinic attendance, CCT programs allow central governments to have a direct relationship with the target population, at least in terms of beneficiary selection, without the intermediation of local authorities or without having to use local service providers to reach the target population to deliver social assistance.¹⁹ Indeed, the central government commonly administers CCT programs directly, including identifying beneficiaries and verifying compliance and delivery of cash transfers. Making these functions operate in an efficient way (that is, having a well-designed and -maintained objective targeting system, making payments in time to large numbers of poor families dispersed throughout the country, and so on), depends crucially on the existence of a relatively small but technically solid and politically protected central bureaucracy—something that most line agencies in the same country have failed to achieve.

Limits to alternative compacts. The common denominator of these various innovations is the bypassing of well-established

traditional state bureaucracies (central and local) in favor of compacts either with private for- and not-for-profit actors or with “elite” state agencies or units for which performance-based management is feasible (or easier) to establish. There are many, mostly well-documented successful examples of such initiatives. At the same time, far from being a silver bullet to service delivery reform, bypassing state bureaucracies also raises a series of broader (mostly longer-term) common concerns.

First, in most cases, success of these approaches depends on the consolidation of an “efficiency enclave”—for example, the social fund, the regulatory agency, or the CCT program management unit. Even though enclave agencies may be a good, second-best solution in some contexts, they are hardly foolproof (Laking 2002). Of particular concern is the potential lack of institutional sustainability as often an enclave agency’s short-term performance is sustained with exceptional political support and government commitment (often by the presidents themselves) and, thus, are vulnerable to waning commitments that accompany change of governments or shifts in the political environment. More generally, the question as to how and why such enclaves are spared the typical clientelistic force that weakens the quality of public sector employment remains unanswered. What type of political calculation led political leaders to provide special administrative procedures and practices to a selected few agencies? It is possible to speculate that such approaches are motivated by an idiosyncratic need to ensure the effective implementation of high priority policies or initiatives (for example, establishing credibility of a privatization reform by creating an independent regulatory agency or creating an effective social program for social containment reasons). In some cases, the donors’ role may be equally important as a source of pressure and/or encouragement for such approaches.

Second, even when key agency sustainability is not an issue, there may be negative consequences of such islands of efficiency operating in the context of an unreformed public sector. The arms-length relations

between the government and these enclave agencies and the latter’s exemptions from many public sector regulations have sometimes led to loss of effective central control, and, at times, corresponding opportunistic behaviors. Some enclave agencies have engaged in irresponsible or reckless financial activities (for example, excessive borrowing or overspending) or in patronage-driven personnel practices.

Similarly, some CCT program critics argue that, while they represent a creative approach to providing social assistance, they constitute an “end-run” around the more difficult task of reforming inefficient public education and health services. There are concerns that without greater attention to the provision of quality services, CCT program conditionalities run the risk of mandating the poor’s use of low quality services, tying them to ineffective service providers.²⁰ These supply-side concerns have led to calls for renewed attention to the basic task of providing accessible, high-quality health and education services in poor areas. A related concern involves the local government’s role. Although administrative arrangements vary considerably across programs, CCT programs (especially those with highly centralized administration such as Colombia and Mexico) have been accused of undermining local governments’ effectiveness by bypassing their authority. This concern has particular resonance in countries where democratically elected local governments are in their infancy and where central governments have a long tradition of clientelism and paternalism. Strong centralization also limits the program’s ability to address beneficiaries’ needs and build in local response mechanisms for basic operational tasks such as targeting, verifying compliance with conditions, or addressing beneficiaries’ concerns. It may also limit the program’s ability to effectively coordinate with health and education service providers.²¹

These concerns have also led analysts to ask under what conditions will the “outsourcing” of functions create opportunities for strengthening mainstream government agencies in charge of policy making. For example, contracting out health services to

NGOs in Central America implies new types of activities by ministries of health that require the development of new capabilities, such as the ability to manage a competitive bidding process and to oversee, monitor, and evaluate contract compliance. Indeed, the development of these purchasing arrangements is seen as an opportunity to develop these skills via learning-by-doing. To date, perhaps with the exception of Guatemala, such changes have not materialized (Fiedler 2002).

Similarly, many project documents and charters from the mid-1990s suggested that social funds would play a role only temporarily in the delivery of small infrastructure services, until the line ministries were strengthened and better able to perform these functions themselves—when it was assumed that they would turn the functions back to the line ministries. For a number of reasons (including the funds' administrative efficiency which made them attractive to governments and donors), in most cases this transfer did not materialize. Governments in many countries began using social funds as the de facto and, at least in the case of Honduras, official principal agencies for small-scale social and economic infrastructure. It remains an open question whether such specialization is in the end effective in enabling sector ministries to concentrate their functions on policy-making and regulatory aspects—a stated goal of the movement to institutionalize the role of social funds.²²

Third, there is a broader issue on the difficulty of balancing autonomy (for example, of social funds, CCT units, or regulatory agencies) and ultimate accountability. The many successes throughout the region of such approaches cannot obscure the real danger of capture by clientelistic politicians or by private suppliers and concessions; even enclaves are embedded in sociopolitical systems. For example, analyses of the major Mexican Social Fund scheme of Pronasol (or Solidaridad) document how it was systematically used for clientelistic purposes (Diaz-Cayeros et al. 2002; Molinar and Weldon 1994). For the Peruvian Social Fund of FONCODES, while Paxson and Schady (2002) documented its success in terms of pro-poor targeting, Schady (2000)

shows that President Fujimori specifically targeted it using political criteria (targeting potential swing areas near election time). Similarly, case study work by Tandler (2000) in the northeast of Brazil documents, in the cases analyzed, how “demand-driven” initiatives were often captured, including on the supply side, by private companies that offered communities particular products that they could deliver and then suggested forming local committees to give the stamp of participation.²³

Problems of capture have also been identified in the regulation of contracts with the private sector, which remains a major challenge, notwithstanding substantial advances in creating legal frameworks and regulatory institutions. Key problems are the difficulty of ensuring an arm's length relationship between the regulator and the executive branch and the challenge of balancing investor and consumer interests in societies with a limited tradition of consumer organization and participation (see the next section). Newly privatized companies become part of new distributional coalitions, where large conglomerates play an important role in contributing to a perception of concentration of power and profits. A series of Latino Barometro polls, for example, find that a growing proportion of those questioned disagreed with the statement that privatization had been beneficial for their countries. Many critics are concerned with how fairly privatization's benefits have been distributed among different stakeholders and, in particular, the extent to which the state and private investors may have benefited at the expense of consumers and workers. This phenomenon can be attributed partly to biases in the original design of privatization transactions that tended to emphasize fiscal concerns over social and economic considerations. It probably also reflects deficiencies in the ongoing regulatory process, which has not always been successful in transferring efficiency gains into lower tariffs for customers. Indeed, the challenge of developing an effective counterweight in noncompetitive sectors has been difficult due to classical problems of regulatory capture and the common interest of governments and privatized utilities in high profits.

As the previous review indicates, when public bureaucracies don't work well, short-circuiting them by contracting out services to private firms and NGOs or setting up parallel, more independent agencies in charge of service delivery is showing some good results, at least in the short run. There are many indications, however, that in the longer run both their sustainability and full effectiveness depend on whether the rest of the state apparatus improves its capacity and becomes more performance-oriented.

All in all, to initiate and sustain good, effective service delivery compacts (within or outside the state), at a minimum, requires the basic commitment and support of policy makers. As the examples reviewed in this section show, LAC countries have been successful in developing such compacts, particularly when they transferred management responsibilities outside the mainstream state bureaucracy. Nonetheless, many questions remain as to the political incentives at play to explain the genesis, sustainability, and capacity to scale up (or out) of such innovations. We speculate that the overall success of compact reforms is related to broader efforts to enhance both client power and citizen voice.

Enhancing Client Power

When clients have power over providers, a shorter, more direct form (that is, less dependent on actions and performance of other actors) of accountability for results may arise. Over the last two decades, many Latin American countries have explored different ways of enhancing client power. In some cases, this entailed giving individuals the power of choosing which organization they get their services from, with the expectation that this will create better (market-like) incentives to providers. In other cases, it involved giving clients a direct (collective) role in service management, with the expectation that such involvement should result in stronger control over the actions of front-line providers and a corresponding positive change in the quality of services provided.

Unlike most of the changes discussed in the previous section, these transformations had service delivery improvement as a pri-

mary objective. As a result, many of these experiments have benefited from evaluations that seek to identify their success in achieving service delivery objectives. We will first review the experience with client choice and next with client participation in the management of services.

In the limited areas in which it has been implemented, giving individuals a choice over which organization they get services from has generated powerful pressures for results on front-line providers

The introduction of choice as a mechanism to promote client power over service providers has been a powerful one, albeit of restricted coverage. In the infrastructure sector, the 1990s reforms resulted in the gradual introduction of competition for electricity only (in the case of a relatively small number of large industrial consumers) and for long distance and cellular telephony. In the water sector, competition has been limited to bidding out concession contracts. However, even there, the extent of competition has been quite limited due to the relatively small number of multinationals active in the sector (Foster 2002). Relatively little attention has been paid to the competition that arises from small-scale independent providers of water services, such as water tankers and secondary water retailers, particularly in underserved peri-urban areas (Solo 2003).²⁴

In education services, two key experiences with choice are those of Colombia and Chile (see box 3.6). In the first half of the 1990s, Colombia introduced a secondary education targeted voucher program, which involved approximately one-fifth of the country's municipalities and close to 2,000 private schools. The main objective was to increase the number of poor students transitioning from primary to secondary education. Chile, on the other hand, represents a unique case in the sense that a nationwide system of "quasi-vouchers" directed to all municipal schools and nonfee-charging private schools was established with the main objective of promoting competition among schools.

BOX 3.6 Higher Education Competition: Chile's Reforms in the 1980s

Chile's higher education reforms of the 1980s, instituted under the military government, were the most radical reforms of higher education undertaken in Latin America. Those reforms sought to increase learning and enrollment while decreasing public spending on higher education. These reforms successfully expanded schooling access, though their immediate effect on schooling quality has been unclear.

Competition between school types.

In Chile's initiative for diversification, separate tiers were created for universities, Professional Institutions, and Centers for Technical Education. In Chile's deregulation effort, private institutions were created and allowed to operate with minimal oversight. In the 1980s, 40 private universities, 78 private Professional Institutes, and 61 private Centers for Technical Education were created. In its decentralization

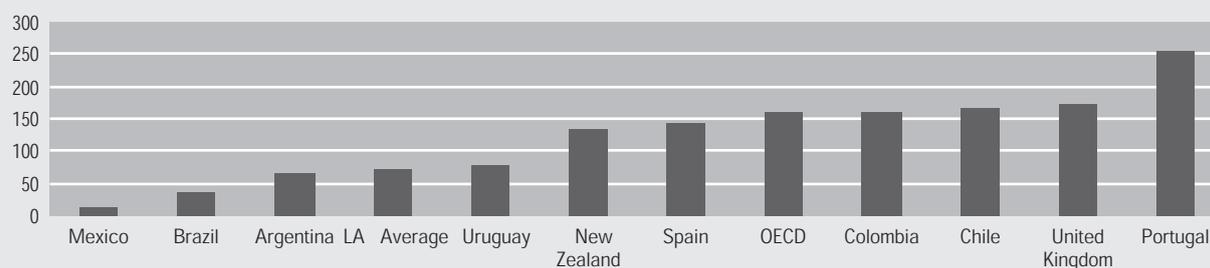
effort, Chile's two oldest public universities were subdivided into 16 new universities, including pedagogical institutions. Overall, the purpose of these reforms was to offer students more choices and to force educational institutions to innovate in competing for students.

Competition for funds. Chile decreased public expenditure on higher education, but sought to increase funds from private sources (that is, charging tuitions) to compensate for the lower spending. The government also redesigned a small portion of its spending in order to allocate some funds based on quality and need, while addressing credit market constraints that could cause students to underinvest in their own human capital.

Outcomes. Between 1983 and 2001, enrollment in higher education rose from

about 200,000 students in 1983 to about 475,000 students in 2001. Also, the number of Master's students increased from about 1,500 students in 1982 to 8,000 students in 2000; the number of doctoral students increased in similar proportion. Box Figure 1 shows that this increase was more than double the mean increase for Latin America, and slightly above the mean increase for OECD countries. The immediate effect on quality of schooling, however, was unclear. Partly due to the enrollment of many lower-achieving students, learning may have decreased in the short run. In 1999, to address concerns about quality of education, national accreditation commissions began setting program standards and recognizing programs that met those standards.

Increase in Tertiary Education Coverage, 1980–97 (percent)



In the health sector, once again Chile and Colombia introduced paradigmatic reforms that put competition and choice at the center. In the 1980 context of a complete overhaul of its social security system, Chile reformed its social health insurance system, introducing private-public competition for mandatory health insurance. The reform allowed all formal workers, independent of their income level, to choose between a private health insurer (ISAPRES) and the public national health fund (FONASA) for mandatory health insurance coverage. The reform, however, mandated that public subsidies would be given only to FONASA beneficiaries irrespective of the income and risk characteristics of those opting for ISAPRES. In 1994, Colombia also introduced a radical social health insurance reform that, as in the Chilean case, promoted competition among

insurers, but also introduced demand-side premium subsidization for the poor. Colombia also introduced an explicit benefit package and a risk/income equalization fund, both important instruments to reduce the market segmentation incentives on a risk basis.

Overall, the results of competition have been very positive in all sectors where it has been tried. In infrastructure services, introducing competition in cellular telephony reduced charges and catalyzed a major coverage expansion. The number of cellular lines in service grew 500-fold during the 1990s (at a 57 percent annual average growth rate), to the point where, by the year 2000, cellular telephone penetration had overtaken fixed line coverage in countries as diverse as Bolivia, Chile, Guatemala, Mexico, and Venezuela. As a result of competi-

tion, cellular call charges fell between 30 and 50 percent in Bolivia, Peru, and Venezuela, largely as a result of the introduction of the “calling party pays” system. Similarly, long distance telephony liberalization drove down international calling costs by 50 percent in Chile, Colombia, Mexico, and Peru, and by more than 70 percent in El Salvador and Guatemala. Even in noncompetitive sectors, the move toward cost-reflective charges (see box 3.7), combined with the establishment of customer complaints channels, have begun to make consumers more demanding about the quality of service they receive.

The Colombia education voucher experience was thoroughly evaluated (Angrist and others 2002, 2004). Results indicate that in the participating municipalities, the program provided an effective way to increase educational attainment and achievement (college-entrance test scores) for the poor students benefiting from the vouchers. Critical were the sound criteria in the selection of the participating municipalities and schools and the application of effective targeting mechanisms, with the use of performance incentives for participating schools and beneficiaries. Despite its positive results, the lack of the government’s commitment, the teacher union’s opposition, and administrative difficulties (disbursement delays and program monitoring burden) led to the program being discontinued as a national initiative in 1997. Nevertheless, some local governments continued implementing similar approaches without national support. Beyond the idiosyncrasies of the factors leading to the demise of this particular experience, the message appears to be that, unless the ultimate beneficiaries of the increased choice have sufficient voice (that is, they are sufficiently empowered) to defend their gains from those whose interests such schemes affect, sustainability may be a serious bottleneck.

The Chile “education voucher” experience generated a range of evaluation studies centered on the relative performance of public and private schools. Overall, with the introduction of the per-student subsidy, enrollment increased considerably in the private voucher schools (from 14 percent in

BOX 3.7 *User Fees*

An integral element of the 1990s infrastructure reform process was to ensure that utility tariffs reflected accurately the full economic costs of service provision. Cost-reflective tariffs are needed to safeguard service providers’ financial sustainability and hence, political independence. This principle had varying implications according to the sector and locality, and it is difficult to generalize about the experience. Indeed, a recent study found that out of 10 privatization cases studied, prices rose in five and fell in the other five (McKenzie and Mookherjee 2002).

The same study shows that in most cases, welfare losses arising from higher utility tariffs that the reform triggered are more than compensated for by the welfare gains associated with expanding access to services (McKenzie and Mookherjee 2002). The reason is that the budget share allocated to the utilities is relatively low, and hence tariff increases in the cases studied (Argentina, Bolivia, and Nicaragua) accounted for less than 1 percent of household budgets, while the gains from access can be greater than 10 percent of budgets for the poorest families, as households are able to abandon more expensive substitutes to utility services. In many countries, the reform of service tariffs did not adequately evaluate the extent to which cost-reflective tariffs would be affordable to the poorest clients, or investigate appropriate compensating mechanisms.

Traditional cross-subsidy schemes are often poorly designed, failing to target subsidy resources effectively to the poor. In La Paz, Bolivia, for example, the average water consumption of a low-income household is around 5 cubic meters per month, and the average consumption for a higher income household is around 25 cubic meters per month, showing a clear differentiation. However, the water utility provides a subsidized rate on the first 30 cubic meters per month, so that higher income households obtain the largest subsidy benefit. Even in countries like Chile and Colombia, which have developed more sophisticated individual or geographical means for targeting systems for water subsidies, significant deficiencies remain. Gomez Lobo and Contreras (2000) show that about 65 percent of these subsidy resources go to households in the top 70 percent of the income distribution, while 55 to 75 percent of the beneficiaries come from the top 70 percent of the income distribution.

The accumulated evidence suggests that the transition toward cost-reflective user charges needs to include a strategy to evaluate and safeguard affordability of a subsistence basket of utility services to the poorest households. In some circumstances, it may be much more important from a social perspective to focus scarce subsidy resources on reducing access costs for the unconnected, rather than reducing prices for those who already have access to the service.

1980 to 32 percent in 1990), which, controlling for socioeconomic status, perform better than municipal schools (Carciofi, Cetrángolo, and Larrañaga 1996; McEwan and Carnoy 2000), pointing to positive effects of competition on the private schools’ performance. However, it is generally recognized (McEwan and Carnoy 1999, 2000; Hsieh and Urquiola 2003) that a lack of incentives and municipal sector capacity to compete,²⁵ a lack of clear information on relative school performance, and some “cream-skimming” among private schools hampered competition among private and municipal schools.

In the 1990s, further municipal autonomy constraints (for example, the 1991 teacher statute) and centrally driven interventions in favor of the poorest/weakest

municipal schools complicated even more the working of competition between municipal and private schools.²⁶ On the other hand, dissemination of standardized school scores (SIMCE scores), increased administrative and pedagogical municipal school autonomy; introduction of school cofinancing and improved monitoring of student attendance improved the voucher system's operation. The studies centered on the 1990s generally confirm that private subsidized schools perform better than municipal schools (Sapelli and Vial 2002) and have improved their performance due to strong incentives to compete (decision-making autonomy, reliance on the voucher or parent cofinancing, and so on), therefore concluding that competition and choice were helpful in improving private schools' quality and efficiency (Gallego 2002). However, competition's impact on municipal schools' performance remains more controversial, with some studies (Gallego 2002) finding that improved municipal performance was largely due to competition, while others (Schiefelbein and Schiefelbein 2000; Cox and González 1998) assert that it was due to the central compensatory programs.

Turning to the health sector, social health insurance reform in Chile resulted in a significant increase of both private health insurance coverage and private provision of health services. At the same time, it also resulted in a severe segmentation of the risk pool, with the high-income and low-risk groups concentrating in the private (ISAPRE) system and the low-income and high-risk concentrating in the public one (FONASA).²⁷ The Colombian reform, on the other hand, is expected to address a key factor that determined income market segmentation in the Chilean case through the introduction of subsidized insurance premiums for the poor. Preliminary evaluations of the Colombian reform (Bossert et al. 2003) indicate an increase in service utilization and coverage for the population at large. However, the evaluations do not distinguish clearly the specific effects on the poor, nor the extent to which reforms improved the financial protection of households.

In general, the evaluation results from the experiences of expanded choice are

encouraging. Nevertheless, this should not obscure the fact that, as illustrated in the cases discussed above, the conditions for choice to work (particularly for the poor) are not minor. On the demand side, the existence of highly unequal economic and social conditions in most countries in the region require active public policies to compensate for extensive informational asymmetries (for example, on the quality of education services as in Chile in the 1990s) and differences in purchasing power and needs (for example, by introducing income/risk equalization mechanisms for health insurance in Colombia). Without such compensatory actions, increased social stratification becomes a significant danger. On the supply side, the presence of independent providers operating in a competitive environment is, naturally, key to the proper functioning of a model based on choice. Both the existence of structural bottlenecks to competition (for example, in the case of many utilities or in schooling in dispersed rural areas) and the social desire to ensure minimum quality standards (for example, safe water or predetermined learning goals) are satisfied throughout the country require, again, the need for government intervention in service delivery, or most likely, in regulation.

Client participation in the management and operation of services has also shown good results for services that allow a relatively small production scale

Client participation in service management is the second way that client power operates. The experiences with community-run schools, health clinics, and rural water systems in a diverse group of countries provide the empirical basis to assess the power of client participation in service delivery. Overall, the evidence suggests that direct client involvement in the management of services can yield positive results when the services involved allow a relatively small production scale and rather simple management challenges.

The experience of community-run schools in El Salvador and Nicaragua provides solid evidence on the benefits of a participation

approach to client power. Each school is required to establish an elected council—composed only of parents in El Salvador and of parents, teachers, and the school director in Nicaragua. The school must also sign a special agreement with the Ministry of Education under which the latter decentralizes to the councils the management of all funds, allowing them to manage all teachers, take care of operating and maintenance costs, and even make academic decisions. “Client power” is therefore expressed through active participation in school management. In addition, in Nicaragua, client power also finds a way through the system of national, departmental, and local education councils set up to ensure broad participation at all levels.

The key aspect of this model is the control that parents have over teacher management decisions—exactly the aspect that has proven the most controversial and hard to reform in state-managed school systems. In Nicaragua, school-based decisions on teacher management are shown to have a positive impact on test scores (King and Ozler 1998). In El Salvador, enrollment in the rural areas increased massively following *Educación con Participación de la Comunidad (EDUCO)*, and it has been shown that school-based decisions on teacher management have a positive impact on class attendance (Jiménez and Sawada 1998).

The El Salvador and Nicaragua cases are the most thoroughly evaluated experiments with community-run schools, but there are a growing number of such experiences in Central America (for example, Guatemala and Honduras) and elsewhere in the region. For example, the much referred to experience of the Brazilian state of Minas Gerais with community councils and elected school principals (Guedes et al. 1997) is one of many examples of a growing trend toward school-based management experiences in Brazil (see Aglaé de Medeiros Machado 2002). Overall, the evidence is rather strong in the sense that decentralizing responsibilities to the school, particularly in the teacher management area, makes it possible to maximize the use of local information and accountability mechanisms. It is likely that, given the peculiarities of the edu-

cational process (proximity to the final users, continuity in the provision of the service), the scope for user participation will be particularly important in that sector.

In contrast, the evidence on effective experiments with community-run health centers is rather limited. One interesting example is that of local health administration committees (CLAS) in Peru. These are private, nonprofit community associations built around a health center or post (Cotlear 2000). The CLAS prepare local health plans that become the basis for a contract with health authorities. The contracts are designed to finance outputs rather than inputs, and the CLAS are held accountable for reaching specific targets (derived from the plans) and for the use of funds. The CLAS are given flexibility in the use of resources relative to state-run centers. While there is no systematic evaluation of the approach's impact, the data do show an improvement in health indicators (for example, lower waiting time in CLAS centers).

There are a number of factors that seem to conspire against community participation in health centers compared to that in school management. First, in most cases users of health services have a very intensive (when sick), but much less frequent, relationship with providers than parents of children have with schools. In that sense, solving the collective action problem involved in community-run services is likely to be more difficult in health. Second, informational asymmetries tend to be very large in the case of health services. As a result, the opportunities for health professionals capturing control under community-run schemes is likely to be higher than in the case of schools. Overall, these factors may help explain the observed differences in the popularity of the approach between the two sectors.

Unlike the case of health centers, community committees (*juntas de agua potable*) and cooperatives throughout Latin America have successfully managed rural water and sanitation services. Over the years, as coverage levels increased in rural communities, it became impractical and expensive for centralized service delivery agencies (usually located in the Ministry of Health, Public Works, or

Urban Development) to take charge of operating and maintaining water systems spread across the country. Overall, the community-management approach has proven to be highly successful for rural water services.

Approaches to community-based service delivery have evolved from water systems constructed by a national agency and subsequently “handed-over” to communities for management, to more demand-responsive approaches where the community participates in all phases of the project cycle and shares in the investment costs of projects. Chile provides a good example of the first approach (Alvestegui and Sara 2003), which, while generating impressive results in terms of coverage,²⁸ may have led to insufficient community attention to finding lower cost solutions and to investing in system rehabilitation or expansion. Community participation advantages are perhaps felt more strongly in the latter approach, followed in countries such as Bolivia and Ecuador; this approach aims to ensure communities obtain a system for which they have the financial willingness and technical capacity to maintain it (World Bank 2002c).

The details of the service-specific authorizing environment—in particular how flexible and consistent are the rules and constraints under which community groups need to operate and the nature and enforceability of accountability relations to the authorities delegating powers—can be very influential in the outcomes of the experiences of community-run services.

In the case of community-run schools in Central America, for example, both in El Salvador and Nicaragua the recorded successes are, in part, linked to the existence of a solid “compact” linking the school with the Ministry, which seeks to ensure the fulfillment of coverage, efficiency, and equity targets. A weak (or weakly enforced) “compact,” on the other hand, implies that school autonomy and strong parent involvement in financial and administrative matters could produce, for instance, cases where teachers are unfairly fired or to cases of mishandling of funds. There is, in fact, some preliminary evidence from El Salvador showing that as the Ministry weakened its control of schools, such cases began to

appear. Similarly, the fact that ministries of education in Guatemala and Honduras had less capabilities to enforce “school compacts” than their counterparts in El Salvador and Nicaragua may be the principal reason for the difficulties experienced in their community-run schools.²⁹

The overall authorizing environment is also crucial when elements of community-run services coexist with nonparticipatory mechanisms. As the experience with water supply programs in rural areas (Gran et al. 1997) showed in some cases, even though communities took educated decisions based on the participatory program in question, since the construction of the systems continued to be the responsibility of a “nonreformed” state agency, there was no way they could ensure that the works be conducted according to plan. In other words, demand-orientation must take place consistently in all the stages of the provision process (financing, production, delivery, and so on) otherwise the “weaker” link of the chain ends up dominating the rest.

Beyond establishing the authorizing environment, central governments can develop complementary mechanisms to support the operation of community groups. In many ways, social funds are evolving in that direction. The latest generation of funds is becoming a mechanism that both empowers communities and local governments and channels national preferences (such as a poverty targeting emphasis) in the form of incentives to local actors. Community participation is now viewed as an end in and of itself—almost on par with the goal of increasing access to basic infrastructure—and funds have incorporated not just new rules of the game (that is, in the operations manuals), but also specific training geared to strengthen community capacities for planning and implementation.³⁰ Similarly, the experience with rural water and sanitation projects indicates the importance of providing appropriate community outreach, organization, and training programs to complement hardware investments. The approach has required centralized agencies to transform their roles from service providers to facilitators. A new set of intermediaries, usually specialized NGOs and small contracting

firms, have emerged to provide assistance to communities in formulating their demands, building capacity, and implementing projects, while the central government provides the normative framework, access to funding, and technical oversight.

Both the opportunity for and ultimate results of client-participation schemes appear to be context-dependent: national and local political conditions, community organization traditions, and the strength of front-line providers (for example, teacher unions) matter in explaining outcomes. For example, both the El Salvador and Nicaragua education experiences started after a civil war and, therefore, were also part of a pacification and democratization attempt. They were initially implemented on a subnational scale to be extended to different extents. This not only reminds us of the idiosyncrasies behind these cases, but also that the political climate may have been particularly welcoming to such initiatives given the need to consolidate democracy to which such participation was functional.³¹ In fact, the EDUCO experience grew out of community efforts during the civil war: it was a case where a relatively weak national state took advantage of relatively strong communities (rather than a strong state empowering weak communities) to respond to growing social needs in the postwar scenario.

Sustainability can be an issue when relying too much on community-based management mechanisms. Community-based schools, for example, are often quite isolated from the state's overall institutional structure (including the absence of links with the intermediate and local government levels) and have developed at the margin of the teacher unions; in this context, they are particularly vulnerable to political change.³² Similarly, the CLAS experience in Peru indicates that while communities received them with great sympathy, they encountered significant resistance in a state bureaucracy that resented the implied loss of control (Cotlear 2000).

Client power relationships are affected by the incentives, motivation, and behavior of front-line workers. These relationships are particularly embedded in the local sociocultural conditions, the behavior patterns, and collective expectations produced

BOX 3.8 *The Role of Community Participation and Cultural Adaptation in Service Delivery*

Malnutrition in Honduras dropped rapidly through the 1980s, but progress stalled in 1990. The Ministry of Health required public health centers to detect low growth (stunting) among children, then to use stunting as a criterion for distributing health services. By 1994, the Ministry concluded that the program needed closer community ties to maximize impact and designed the Comprehensive Attention to Childhood in the Community program (AIN-C) for that purpose. AIN-C targets all children less than two years of age in poor communities. Volunteer monitors meet with mothers monthly and plot the infant's growth progress on a simple bar chart. In AIN-C, it is communities that request the program before it begins operations, decide how many monitors will operate, and select the monitors. The monitors give quarterly reports to the community with focus on communal obstacles to good health, such as contaminated water or a lack of shared childcare. They negotiate with mothers about specific needed practices to improve a child's nutrition and decide whether to reach mothers by house-to-house visits, neighborhood sessions, communitywide events, or other means.

AIN-C has been shown to increase breastfeeding to children under six months of age, improve provision of oral rehydration solution to children with diarrhea, expand the giving of vaccines to infants, and spread other preventative health measures. AIN-C

has about one-ninth the cost of the first facility-based program and has had far more extensive reach than that program had.

Community participation also implies the potential to incorporate adaptation of service delivery to local culture. One clear example comes from a maternal and child health project in the Paruro (Cusco) Province in Peru where an effort was made to improve the number of women from rural areas who attended the clinic for childbirth. Findings from earlier interventions highlighted that women from remote rural areas were unwilling to leave their children for an extended period, found the clinic cold, and felt uncomfortable using formal Western birthing procedures. The project established a "waiting house" where women nearing childbirth could be lodged and fed in a house close to the clinic, installed extra heating in the birthing room, and provided an alternative bed to the standard Western "birthing table." The result was a dramatic rise in medically attended births and a sharp fall in postnatal mortality of both babies and mothers. The practices have also been followed by many other health centers in rural areas in Peru with the same dramatic results. This is a clear demonstration of how attention to cultural issues can provide great advances in fighting poverty—in this case on the health dimensions—and in the general development effectiveness of projects and programs.

by unequal group-based relations. This can be of particular importance where there is greater social distance between front-line workers and their "clients," as with indigenous students and nonindigenous teachers. The ways in which poor groups interact with front-line providers will be a function of both the larger social context and histories of mobilization and engagement. At the same time, when communities are offered sufficient support, client power can contribute to changing the local balance of power, whether this is through increased parental influence in EDUCO schools in El Salvador, the introduction of culturally appropriate practices to birthing and postnatal care in Quechua areas in Cusco, Peru, (see box 3.8, above), or the provision of the

CCT grants to mothers, which combined with the election of mothers' local representatives to serve as conduits between beneficiary families and the CCT program, introduced changes in empowerment dynamics that are playing out in households and communities throughout the region (Adato 2000; and Adato et al. 2000).

The evidence reviewed indicates that client participation can compensate for the weakness of long-route mechanisms. Ultimately, however, the effects and sustainability of such client power mechanisms are dependent on both the existence of capacities (agency) among the poor and minimum state capacities to initiate and regulate their implementation. When and if the conditions to initiate such approaches exist, a virtuous circle may be generated whereby client participation continues to generate capacity-building opportunities for the social organizations of the poor and disadvantaged and of individuals and families—factors that should contribute to making the state more accountable overall to citizens.

Overall, the evidence strongly suggests that taking decisions away from public bureaucracies (central or local, old or new) into the hands of individual or group of beneficiaries is proving to be a powerful idea. The growing number of evaluation studies available shows solid results regarding the benefits of initiatives oriented to enhance client power (through choice and direct management control of front-line service providers), even though the spread (in terms of the number of services and number of people that benefit from them) of such approaches is still not too wide. The evidence also suggests that client power as service delivery mechanisms is also influenced by the overall strength of state accountability: weak overall state accountability is likely to undermine service delivery improvements that are achieved through enhanced client power.

Enhancing State Accountability to Citizens

Ultimately, the extent to which the state is accountable to citizens (particularly poor ones) constitutes the key factor in deter-

mining whether service delivery systems work for people. To be sure, whether or not policy makers face the incentives to address the needs and preferences of citizens (that is, whether they are accountable for results) is fundamental when it comes to carrying forward and implementing the reforms to the compact between policy makers and providers discussed above. And even if the client-power alternatives discussed above require less “hands-on” involvement by state agents in the actual delivery of services, whether and how such reforms are implemented and supported over time is clearly influenced, once again, by the nature and intensity of the accountability relationship linking policy makers and different groups of citizens. Said differently, politics, political institutions, and citizen voice constitute fundamental determinants of whether services work for people—particularly poor ones.

In this section we review the evidence on how some fundamental political and social transformations in Latin American countries over the last two decades have affected state accountability for service delivery. Indeed, the sharp expansion of electoral democracy and constitutional rule (and the associated expansion in freedom of expression and association) is one of the most striking transformations that took place in Latin American over the last two decades. How these changes affected state accountability is the subject of this section.

Despite the widespread democratization process at the national and local levels, many bottlenecks remain to the full operation of mechanisms of state accountability

Universal suffrage came late to Latin America compared with the United States or Europe, excluding poorer groups for longer, via literacy, wealth, or gender (De Ferranti et al. 2004). But suffrage has now been universal for several decades and certainly so for the latest democratic transitions. Arguably, LAC is better placed than the other developing regions to take advantage of the so-called long route to accountability—citizens

pressuring politicians, and politicians and policy makers pressuring providers—because, on average, democracy is better established in the region. Democracy would be expected to be of particular importance for service delivery in Latin America in light of the ineffectiveness of most of the region's authoritarian regimes to deliver broad-based services. For a number of reasons, East Asian-style developmental states that were effective both at promoting development and in including most of the population in the growth process were not a notable feature of Latin American development. This can be attributed to a range of factors, including the lack of external threats that were forces for state-building in East Asia (and earlier in Europe) and greater social cleavages in Latin America that made national institution-building more difficult and reduced the responsiveness of elite-dominated governments to poorer groups. There were partial exceptions,³³ but even these cases fall far short of development action by authoritarian states in East Asia, from predemocratic Korea to Vietnam in the recent period.

The ineffectiveness of the authoritarian regimes has naturally heightened general expectations of democratization to bring about major improvements in inclusive governance. However, an overview of the record suggests that the democracy wave of the 1980s and 1990s has not yet ushered in a significant transformation of service delivery. To be sure (as discussed above), there has been a marked expansion of social services in the last two decades that reflects at least partly the response of governments to citizen demands. This pattern is confirmed by the growing empirical literature seeking to establish causal relationships between political regimes and economic and social outcomes (see box 3.9, below). But electoral democracy alone has been less effective in situations where what was required to improve service delivery to the poor involved tackling vested interests (for example, in reforming higher education financing or reforming “truncated” social insurance systems),³⁴ reducing state “capture” by powerful firms, organizations, or individuals, or resolving distributional conflicts. The

political accountability mechanisms prevailing in Latin American democracies do not appear to be strong enough to make the achievement of effective service delivery to all citizens a central goal of government actions.

Indeed, there is a seeming consensus among political scientists that the democratic regimes that have been established in Latin America present serious institutional bottlenecks, particularly in relation to the development of adequate and effective mechanisms of accountability (for example, O'Donnell 1993, 1994, 1996; Shifter 1997; Schedler, Diamond, and Plattner 1999; Smulovitz and Peruzzotti 2000). Latin American democracies have been referred to as “delegative” rather than “representative” (O'Donnell 1994), “thin” (Evans 2002), “illiberal” (Zakaria 1997), and “insufficient” (Méndez 2000), and characterized by “citizenship of low intensity” (O'Donnell 2001).

In part, those bottlenecks are generic and not specific to Latin America. Representative democracy requires the existence

BOX 3.9 *Does Democracy Lead to More Social Spending?*

Building on a previous set of studies looking at the relationship between democracy and economic growth, there is a growing literature that analyzes empirically the question of whether democracies value more social services than authoritarian regimes do. Using data on coverage of key education and health services and democracy indicators (for example, the degree of competitiveness of political participation to the degree of constraints on the chief executive), Lake and Baum (2001) find that increases in the democracy level are positively related to levels of public services both in cross-section and time series analyses. They also find that the effects of regime changes (that is, democratization) on the level of public service provision were both rapid and disproportionate. Baum and Lake (2003) find that democracy is associated with higher life expectancy and education levels, which explain higher economic growth rates.

Using data from countries in Africa, Asia, and Latin America, Brown (1999) finds that democracy (measured both as a dichotomous and a continuous variable) has a strong influence on primary school enroll-

ment rates. With data for Latin American countries in the 1973–97 period, Kaufman and Segura-Ubierno (2001) find no effect of “domestic politics” (whether a country is democratic or not and whether government's support base is strongly linked to unions) on aggregate social spending levels. They do find, however, that democratic governments spend more on health and education, while “popularly elected” governments protect expenditures on pensions and other transfers that tend to benefit their support base. Using data from 17 Latin American countries between 1980 and 1992, Brown and Hunter (1999) find that in times of economic crisis, democracies tend to protect social spending relative to nondemocracies.

In one of the few country level analyses available, Brown (2002) explores education spending trends in Brazil and links them to electoral competition patterns. He finds that increasing electoral competition in Brazil has been associated with an increasing share of the federal budget allocated to education and a shift from university to primary education spending.

of institutional mechanisms that bridge the gap between citizens and their political representatives—accountability mechanisms that ensure that public officials are answerable for their actions. Elections constitute the primary form of political accountability even though they are recognized as rather restrictive and limited, among other reasons, given that citizens only get one shot to punish or reward politicians for numerous decisions and actions (Przeworski et al. 1999; Keefer and Khemani 2003). National elections are a rather crude mechanism for citizens to enforce policy makers' responsibilities for the delivery of specific services.

But there are reasons specific to Latin America that may help explain why the latest wave of democratization has not yet delivered on the promise of radically enhanced political accountabilities. The functioning of democracy in Latin American countries appears to be deeply influenced by the depth and resilience of clientelistic structures, whereby politicians generally draw support from relatively narrow, geographically defined constituencies to which they provide tangible material goods (that is, patronage) in exchange for electoral support. An additional feature of Latin American political history is a pattern of "corporatism," in which governments brought working class or peasant movements into national, institutionalized patronage-based systems, as in the case of Mexico with the PRI, Argentina with Peronism, and to a certain extent, in Bolivia with the MNR and Brazil under Getulio Vargas (De Ferranti et al. 2004).

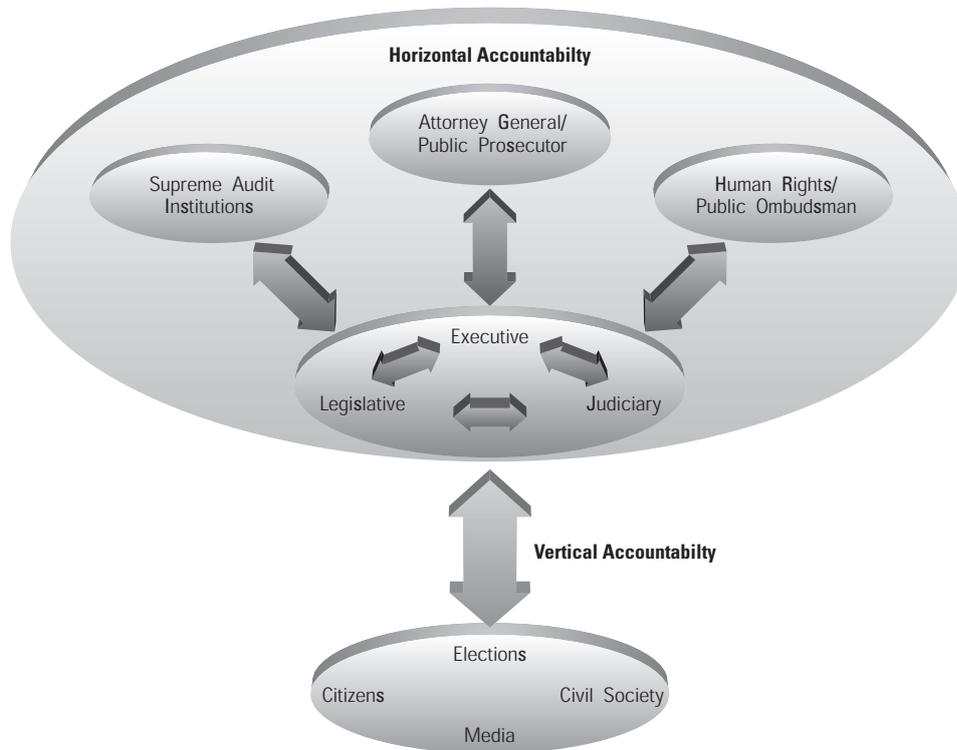
In many cases, clientelism and corporatism had a direct negative impact on public sector service delivery systems,³⁵ making difficult the implementation of reforms in state bureaucracies or the transfer of power to alternative service providers (private sector firms, NGOs, or communities). At the same time, clientelism and corporatism have also worked against the development of programmatic (idea-based) parties that was an important part of the political evolution of most European countries and the United States (Shefter 1994). One consequence has been that most Latin American countries have faced democratic consolida-

tion and market-oriented reforms in the 1980s and 1990s with relatively weak institutions for the articulation, aggregation, and negotiation of the interests of poorer groups and inadequate mechanisms for resolution of distributional conflicts. This may have left the new democracies too exposed to capture by all sorts of special interests.

A related characteristic of new Latin American democracies is an observed weakness in systems of checks and balances that the executive power is subject to. The political science literature speaks of weak "horizontal" (O'Donnell 1994, 1998) or "intra-state" accountability (Mainwaring 2003), associated with the inadequate role played by legislatures, judiciaries, and state control organisms in most Latin American countries. The idea (see figure 3.1) is that state accountability takes place not only through elections ("vertical accountability"), but also through the checks and balances among different organs of the state.

Legislatures in most Latin American countries show some worrisome signs of weak capacities to act as effective counterbalances to strong executives, for example, in terms of budget formulation. Rare are the instances where Congress tries to hold the executive branch accountable for the performance of particular policy programs and for the budget. Instead of working through the formal budget process on the basis of the constitutionally vested power to oversee the executive branch, Congress often resorts to passing legislation with serious budgetary implications without submitting them to rigorous fiscal analysis. This then creates a situation whereby a country effectively has dual budget processes, one formally governed by the budget law, but informally managed with executive discretion, and the other developed through substantive legislation with budgetary impacts that only become apparent *ex post*.³⁶

Prevailing electoral and party systems often do not contribute to creating pressure to change this behavior pattern. In many countries, the less-than-democratic process of selecting congressional candidates within parties (particularly when elections are run based on closed party lists, as practiced in Bolivia and Venezuela) leads to weak voter

Figure 3.1 Accountability Mechanisms in Presidential Democratic Systems

Source: Payne et al. 2002.

representation (Shugart et al. 2000). At the other extreme, weak party control of candidates (as in the case of Colombia and Brazil, for example) leads to personalistic representation that, in many cases, contributes to “pork-barrel” congressional politics. As a result, efforts to modernize legislatures have shown so far limited impact (Mendez 2000). The implication is double. Legislatures remain weak to oversee actions by the executive branch. They also remain a weak actor in terms of promoting legal reforms oriented to improving incentives for more effective service delivery systems.

The judiciary is another key actor in the presidential system of checks and balances adopted in Latin America. Still a rarity in the region is an effective judiciary that balances independence from undue political interference with external accountability for its decisions. Courts, by design, are the least accountable to external actors for their actions, and thus the least proactive among the three branches. Their role is to encourage rule-based behavior by resolving concrete cases with a consistent application of

the legal norms, but they cannot exercise this power except through a direct request (by a party with standing). Even when cases are heard and ruled on, their ability to force compliance with their decisions tends to be limited, especially when directed against government itself (Henderson et al. 2004). In the best of situations they are most effective in providing relief to individuals, punishing rule violators, and determining the legality of actions and the constitutionality of laws. Since resorting to judicial means is costly, this “reactive” characteristic of the courts has tended to benefit those who can afford judicial recourses, that is, the relatively well-off. Since the rulings typically apply to individual cases one-by-one, even favorable rulings for upholding citizen rights to public services, for example, tend not to benefit the majority poor who have not participated in the particular court cases. Courts can hold political leaders accountable for breaches of the law, but it is rare that they can have much effect in forcing them to do what they will not or cannot undertake.

Against this general backdrop, judicial independence remains the subject of intense criticism and controversy in the region (Galindo 2003). More activist courts that have taken an atypically aggressive role in reviewing government policies and demanding provision of second and third generation rights to aggrieved citizens have been accused of unwarranted meddling in executive affairs and even a sort of judicial populism (Wilson and Handeberg 1998). In a few countries where the judiciaries have high degrees of institutional independence from the executive (for example, Brazil, Colombia), judicial decisions have sometimes struck down important policy measures with effects that may have been welfare-enhancing for the general population (for example, by curtailing legally sanctioned privileges and by imposing unaffordable fiscal costs on the government, both current and future). Courts sticking to a more conservative definition of their functions, and often with less political independence, have been charged with an antipoor bias and an overly formalistic approach to their work (Buchanan 2001; Garro 1999; Pinheiro 1999; O'Donnell 2001). Both types have been accused of corruption, self-interested rulings, and extraordinary inefficiency. From the well-documented case of Peru in the late 1990s to the ongoing frequent accusations of Venezuela today, the judiciaries that lack independence from the executive branch are seen as threats to the integrity of democratic institutions and the rule of law. Methods used to deprive the judiciary of institutional independence vary from outright political purges of judges (for example, Bolivia went through 16 massive judiciary purges between 1936 and 1982), appointment of temporary judges whom the executive can remove arbitrarily as in Peru and Venezuela at the time of this writing, or blatant use of partisan criteria for appointing and removing judges as in Honduras, where until recently, the Supreme Court and the majority of the bench was renewed at each government change.

In many countries, establishing a modicum of judicial independence is a priority for assuring a minimum rule of law, though

having independence is hardly sufficient to have well-functioning courts. Yet despite reform efforts, such as court modernization programs, independence of the courts remains questionable in most Latin American countries. Many countries in the region still experience limited capacity to provide equal access to justice to all citizens (Buchanan 2001; Garro 1999; Pinheiro 1999; O'Donnell 2001). Historical legacies of arbitrary behavior by the state and the ability of powerful elites to operate above or outside the law contribute to negative perceptions of the justice system (Domingo and Sieder 2001). As a result, courts tend not to play an active role as enforcers of state accountability vis-à-vis citizens, particularly poor ones (Correa Sutil 1999; Pasara 2002; Dodson and Jackson 2000).

In the last 20 years, legal and constitutional reforms across Latin America have generated quasi-autonomous institutions that monitor the exercise of public authority. The creation of an ombudsman office ("Defensor del Pueblo") has probably been one of the most successful efforts to compensate for weak judiciaries. In 1985, Guatemala was the first Latin American country to create an ombudsman's office, and in the 1990s, many countries followed suit.³⁷ These offices investigate complaints over human rights, environmental protection, freedom of the press, and elections. Although institutional design varies from country to country, this office's decisions or recommendations are never binding. In most countries, the legislative branch appoints the ombudsman, though the ombudsman operates as an independent entity. But, in most countries, ombudsman offices have very limited (legal and otherwise) capacity to enforce their findings (Shugart et al. 2000) and their effectiveness depends mostly on political dynamics and not on legal status.³⁸

Audit institutions (such as comptroller's and inspector general offices) oversee budgeting and expenditure of public funds. Recent reforms have often involved changes from simply publicizing budget figures to evaluating efficiency or cost-effectiveness. Public auditors have also gained increased institutional autonomy. Prosecutorial or

investigative agencies (often the *Ministerio Público* or *Procuraduría General*) fulfill several roles, but the most important for democratic accountability has been their increasing role overseeing prominent government corruption investigations. In both cases, there are indications of weak capacities in these institutions (Payne et al. 2002).

Decentralization has moved issues down to the local level, adding a new layer of political relations that influences opportunities and capacities for citizens to influence policy makers. Seemingly dramatic transitions to new political and social equilibria have occurred in some cities or municipalities, leading some observers to see more potential for rapid change at local levels (Campbell 2003). When this happens, better service delivery systems typically result.³⁹ However, it is still unclear how widespread the benefits of local level democratization, as exemplified in these cases, will be throughout the region. As the case of Bolivia previously discussed (see above) indicates, even a sharp national reform as Popular Participation may have limited impact on political influence of the poor, depending on local context. The oversight and participatory instruments it introduced—that is, the vigilance committees and the constructive vote of censure—sometimes became attractive targets for political parties and interest groups, thereby weakening accountability and transparency. In those localities where the traditional parties remained strong (and civic associational activities weak), vigilance committees tended to function less effectively either because the latter were co-opted by the traditional elites or because the municipal governments and the vigilance committees became arenas for open conflict. The constructive vote of censure, instead of being used as an ultimate means of holding mayors electorally accountable for their performance, was often abused as a tool of partisan conflict.

The “insufficiency of democracy” for service delivery for the poor is partly a reflection of the intrinsic complexity of shaping institutions for effective services—an issue that is on the agenda even in rich societies with relatively efficient states. But

this challenge is exacerbated by Latin America’s sociopolitical conditions that have limited the scope for effective and equitable public actions. Widespread elections and political decentralization are important radical changes that have taken place in Latin America over the last two decades. In particular, they have created opportunities for creativity, innovation, and experimentation in country after country. But patronage, elite rule, and group-based exclusion appear to be resilient. While elections can be established overnight, rule of law and representative institutions require changes in political culture and habits that are harder to change. Ultimately, whether and how the service delivery institutions will be transformed as a result of the transitions from authoritarianism to democracy depends on the strength of mechanisms for vertical (electoral) and horizontal (within state) as well as social accountability.

A virtuous circle may be in the making, whereby social accountability mechanisms enable more effective state actions in service delivery

The mixed record of the new democracies in transforming the historical patterns of unequal and ineffective service delivery systems may be one of the reasons behind the growing uneasiness with political institutions identified in opinion polls throughout the region [United Nations Development Programme (PNUD) 2004]. The “discontent” with the observed weak state accountability mechanisms has led, in some cases, to conflict and political instability, which in extreme circumstances may reduce even further the state’s ability to guarantee minimum service standards even in basic services. At the same time, there is some evidence that the actions of organized citizens (for example, monitoring and exposing wrongdoing by the state) can trigger positive changes in government actions. In other words, the tension created by weak state accountability does not necessarily mean there is a zero (or worse, negative) sum balance of power between state and citizens. Rather, when civic actions trigger reactions

BOX 3.10 *¿Cómo Vamos? Report Cards, Scorecards, and Citizen Monitoring of Service Quality*

A report card is a survey soliciting citizen feedback on the performance of public services. Cards can provide feedback from users on: availability, reliability, and coverage of services; user satisfaction with service quality; responsiveness of service providers to problems; prevalence of hidden costs like corruption; and user willingness to pay. Report cards enable citizens to signal needed reforms to public agencies and politicians and may exact accountability through media coverage and civil society advocacy of service quality. Although their impact has not been rigorously evaluated, they show potential for increasing accountability and improving service quality.

Report cards were first implemented in Bangalore, India, as a response to growing demand on essential public services—demand that service agencies could not effectively meet. Beginning in 1993, Bangalore gathered citizen feedback through a citywide survey. That feedback pushed providers to improve the quality and availability of public services. It also empowered citizens to directly evaluate civil servants and hence altered the relationship between citizens and local government.

LAC Report Cards. Peru was the first Latin American country to implement report cards to assess national nutrition, education, health, and employment programs. Bogotá's *Cómo Vamos* initiative soon followed in Colombia. In 1997, leaders from Bogotá's *El Tiempo* newspaper, the Corona Foundation, and Chamber of Commerce decided to found a reporting system on public services. The logic was simple: if citizens paid taxes to support local services, why should citizens not play a direct role in

evaluating those services? The resulting system, *Bogotá Como Vamos*, has collected survey data from citizens on the coverage and quality of health, education, security, and other services. The data have been collected both from an annual survey of citizens and city administrators, and from focus groups including citizens from all socioeconomic strata. *El Tiempo* and the local city television station disseminate survey results—each medium reaches about 3 million people—and *Cómo Vamos* sends a quarterly bulletin to 3,000 citizen organizations, libraries, research centers, and universities. The project costs about \$75,000 annually—half for office and staff costs and the remainder for obtaining and disseminating data. The program's main visible effects have been on publicizing information.

Colombia's secretary of education now presents performance data collected by *Cómo Vamos* on the secretary's public Web site. *Cómo Vamos* also published a citizens' guide for the 2000 mayoral election with a summary on trends and achievements.

Citizen report cards are being planned in Argentina, Bolivia, Ecuador, Honduras, and Mexico. A related tool is community scorecards, which focus on monitoring performance of services at the facility or community level—the level of the school, health post, treatment plant, or other service facility. The scorecard process includes an interface meeting between service providers and community members that allows for immediate feedback and hence has the potential to be a strong instrument for empowerment. Scorecards will be implemented in 12 municipalities in Nicaragua, among other locations.

still rather unstable (Garretón 2002). For example, human rights organizations and civic networks that monitor elections to prevent fraud or police actions to prevent abuse and violence have emerged as important actors in countries such as Argentina, Brazil, Chile, Colombia, Mexico, and Peru (Peruzzotti and Smulovitz 2001). The development of the public interest law movement (McClymont and Golub 2000) is another good example of how the emergence of civil society organizations—in this case, those that demand due process and “proper” procedures—is affecting accountability mechanisms. A free(er) and more inquisitive press (Peruzzotti and Smulovitz 2001) and independent think tanks are additional facts in postauthoritarian Latin America.

This more active civil society has provided the basis for what has come to be known as social accountability (Smulovitz and Peruzzotti 2000): the actions by a multiple array of citizens' associations and movements and the media to monitor government actions and expose wrongdoing. The exercise of this type of accountability has typically followed three complementary strategies (Peruzzotti and Smulovitz 2001): legal approaches (involving the courts),⁴⁰ social mobilization, and mediatic—the latter two as a means of calling attention to public wrongdoing. In all cases, these actions seek to activate the operation of intrastate accountability mechanisms directly (that is, by decisions of the relevant state control agencies, including the legal system) or indirectly by pressure operating through the political system. In other words, civic action in response to state failures appears to be directly oriented to encouraging responses by formal state accountability mechanisms.

Of particular interest and relevance for service delivery systems are a growing number of cases of civil society organizations involved in participatory monitoring and evaluation of service delivery (for example, through the use of report cards as exemplified in box 3.10, above), public policies, and budgets as well as of the transparency in the performance of public servants—a good sample of which were surveyed in World

of the more conventional vertical, and particularly intrastate, accountability mechanisms, a synergic process may take place.

Partly enabled by the democratization process, the last two decades have seen rising activity by civil society actors outside the state, from NGOs to identity-based movements (notably amongst indigenous groups). Classical social actors (those existing before the new wave of democratizations) appear to have lost some of their social significance and tended to corporatize, while new ones have appeared but are

Bank (2004).⁴¹ This has sometimes been associated with efforts by national or local governments to open up government decision making to citizen and civic organizations in response to major governability crises (see box 3.11 on Peru). In some countries, regions, and cities, efforts to open up government decisions to citizens and civic organizations— unheard of until relatively recently—are emerging in very different settings.

Overall, these various cases reinforce the point that the success and sustainability of experiences of social accountability are heavily dependent on the development of synergistic relationships between autonomous

and capable organizations of civil society and formally established state institutions (see World Bank 2003b). In other words, civil society pressures, demands, and actions matter the most when they enable and empower the state's own accountability mechanisms (Fox 2000).

The latter point is well illustrated by the experience and difficulties encountered by civil society in its interaction with the regulatory and control agencies set up by the state in the case of infrastructure services [see Asociación de Entes Reguladores de Agua Potable y Saneamiento de las Américas (ADERASA) forthcoming; Collado 2003]. Under the reforms implemented

BOX 3.11 *Opening Up to Social Accountability: Peru, 2001–04*

The problem. In 2002, 34 percent of Peruvians listed corruption as the biggest national problem, making it third after unemployment and poverty. Most Peruvians expressed distrust of political parties (81 percent), Congress (73 percent), and the police (66 percent). Furthermore, Peruvians described receiving poor service from municipalities (19 percent), the police (33 percent), and judges (42 percent).

Peru's Response: Building Accountability.

In response to the lack of confidence in democratic institutions, Peru instituted a variety of mechanisms seeking to improve government operations and government accountability.

- *National Roundtable for Poverty Alleviation:* In January 2001, the transitional government of President Valentin Paniagua institutionalized a roundtable of intellectuals, government agencies, local governments, representatives of civil society, religious groups, and international representatives to develop a consensus about social policies as well as to provide oversight to their implementation.
- *Local poverty alleviation roundtables.* The National Roundtable helped organize district- and provincial-level roundtables of public officials and civil society representatives to cooperatively design local social programs and strategic development plans. By 2004, over 1,000 roundtables were in operation.
- *Participatory budgeting:* Since the November 2002 regional and municipal elections, all subnational governments have been required by law to work with

citizens and NGOs to design agency budgets as part of Peru's decentralization process. This process has involved citizens in the prioritization and allocation of local investments and the design of local development projects that municipal budgets finance. Regulations and a manual on participatory budget formulation were issued, and initiatives to improve quality of participation are under way.

- *The National Agreement:* Upon arriving in power in July 2001, newly elected President Alejandro Toledo appealed to all political parties represented in the National Congress and civil society to design a "National Agreement" of long-term policies. The agreement, consisting of 30 state policies in a variety of areas, was signed in September 2002; a matrix of indicators was also developed. In May 2004, a decision was made to establish a monitoring system to track social policy implementation. The system involves both government and civil society actors.
- *Freedom of Public Information Law.* In 2003, Peru passed a Law on Transparency and Access to Information, allowing citizens and public officials to access information on government operations at all levels. There is a clear need to improve the government efficiency in responding to an exponential increase in demand for information from citizens, political parties, and civil society organizations.

- *Transparent financial Accounting for public expenditures:* Peru required national and subnational governments to record expenditures through a transparent financial management system (SIAF) that regularly compares public spending to budgeting and physical goals. For social programs, the information has details down to the district level. The system is transparent and open to all citizens through the Internet, so that anyone can monitor spending. In 2003, the site was made user-friendly to encourage its use by civil society through a portal called "Consulta Amigable."
- *Report cards on social programs:* Peru's National Household Survey incorporated questions that capture information about users' satisfaction with health and food programs. Representative regional level data gathered through the survey will be available to the public in 2005. The information will be used by the national monitoring system, which tracks the quality of public expenditures.

These social accountability mechanisms sought to improve the quality of public services, and at the same time, to give legitimacy to a democratic government by involving citizens in program design, implementation, and monitoring. However, given that the reforms have only recently occurred, the extent of their effects will not be clear for some time.

Source: Felicio and John-Abraham 2004.

during the 1990s, the regulatory agency is intended to act as an arbitrator between the conflicting interests of consumers and service providers. However, for this model to function effectively, it is necessary for consumers to have a spokesperson that can articulate their interests, and counterbalance the industry perspective, which is usually very strongly represented by the service providers. Without this countervailing influence, there may be a significant risk of regulatory capture by industry interests. In other words, without social accountability, formal “horizontal accountability” mechanisms are unlikely to be fully effective, at least not in a systematic manner.

In Latin America, there was considerable growth in the number of consumer organizations during the 1990s. However, in many countries their presence is still incipient, and in general, they suffer from a shortage of funding, which in turn limits their ability to access the human resources they need to engage in complex regulatory debates. Most countries in the region continue to lack the legal framework that would give regulators a clear basis for interacting with civil society.⁴² There are very few examples where the regulator has established a permanent channel of interaction with civil society⁴³ and in those cases in which such interaction is formalized, ensuring the independence and sustained credibility of both consumer representatives and regulators remains a challenge. Following the U.S. model, public hearings to consult on major regulatory decisions are already widely used in a number of countries including Argentina, Brazil, Colombia, Costa Rica, and Peru. In countries such as Bolivia and Panama, more informal public consultation meetings are held. However, consumer associations often complain that regulators do not provide accessible information sufficiently far ahead to allow them to prepare for these events.⁴⁴ Moreover, public hearings are sometimes perceived as a formality that does not ultimately affect the decisions that are taken. Furthermore, there is little evidence that, when held, such hearings may have led to inquiries or actions by, for example, the relevant congressional committee—a key force for accountability in the U.S. model.

A further concern is the frequent proximity between consumer associations and political parties, which may potentially undermine their ability to act as independent representatives of consumer interests. In a number of countries, the creation of an ombudsman (“Defensor del Pueblo”), as an independent publicly funded spokesperson for consumer interests, has helped to compensate for some of these problems. A lack of tradition in consumer activism remains, nonetheless, a bottleneck particularly for poorer and subordinate groups. For example, a case study of the Bolivian experience with complaint mechanisms after privatization found that there were at least three times more complaints per 1,000 customers originating from the relatively higher income city of La Paz than from its poorer twin city of El Alto, both served by the same utility companies (Foster and Irusta 2003).

Overall, the evidence reviewed presents us with a “glass is half-full, glass is half-empty” situation. Clearly, the political transformations of the last two decades have positioned countries in Latin America much better to enhance the citizen voice’s role and with it the strength of the “long route” to greater accountability. At the same time, a long history of weak states and social and economic inequalities presents itself as a heavy burden in most countries. There are signs suggesting that stronger social accountability mechanisms—like the ones described above—create pressures that could trigger the operation of horizontal (intrastate) accountability mechanisms and, more broadly, pressures for reforming the state. If sustained, these changes could further enable civil society (and particularly the poor) to actively and productively engage in influencing policies and outcomes. As suggested by Fox (2000), this type of virtuous circle requires rejecting the still widely held assumption that state and society are necessarily engaged in a zero-sum balance of power. This points us in the direction of complementary efforts to enhance various accountability mechanisms: long- and short-route approaches complementing and reinforcing each other. The next chapter explores this idea in more detail.

Notes

1. For a succinct historical account of public sector reforms in Latin America, see Spink (1999).
2. Better financial management systems, however, have proven rather powerless in controlling questionable expenditure management when powerful officials are determined to circumvent rules of good financial management. Such was the case in Peru in the 1990s, when the executive branch circumvented its effects on internal control by resorting to various informal means ranging from highly centralized cash management to the decision to leave certain “political” expenditures outside SIAF coverage’s scope and the use of presidential decrees to modify budgets with minimal congressional oversight. See World Bank 2001a.
3. The extent of union power depends on both the economic and political markets. In areas with less competition—education more than health, old-style public monopolies, and national oil companies—workers have more leverage.
4. In the case of the Minas Gerais reform analyzed by Grindle and Mason (2004), there were a number of factors leading to a more positive role of teacher unions than in most of the other cases she studied. In particular, the union was supportive of the competitive selection of school principals and of introducing broader community participation, as it counteracted previous abusive employment practices by clientelistic local politicians.
5. Among the reasons cited for the positive role the Chilean teacher’s union played is its relatively high degree of professional and technical competence, related to its reliance on its professional reputation for its legitimacy. Compared to most teacher unions in the region that tend to concentrate their focus on bread-and-butter issues of remuneration and work conditions, the Chilean teacher’s union openly and systematically engages in serious and considered debates on education policy and is thus a respected voice in Chile’s education policy network (Crouch 2004).
6. It should be recognized that conventional “command and control” service delivery approaches do work in the case of specific services, whereby informational problems are limited and social demands for immediate results strong. A good example has been polio eradication in LAC (Olive et al. 1997).
7. The only exceptions to this general pattern are Chile, which decentralized water to the regional rather than municipal level, and a number of Central American countries (Panama and Nicaragua), which still retain single national providers. In Brazil, the decentralization was from the state to the municipal level and is still only partial.
8. The decentralization of education services, for example, presents a variety of experiences. A first group of countries (Argentina, Brazil, Chile, and Mexico) placed a subnational level of government at the center of the decentralization process. A second group of countries (most notably Bolivia and Colombia) have operated, de facto, with a system of shared responsibilities between local, regional, and national governments. More specifically, in the case of both countries, the management of human resources was attributed primarily to the regional level and the management of school infrastructure primarily to the municipal level, with the responsibility for the planning, pedagogical, and curricular aspects of the educational process shared mostly across the central/regional/local level. A third group of countries (principally in Central America) have decentralized responsibilities to the school level, adopting an approach of school-based management with little influence of subnational governments.
9. We use the term “local government” loosely here to refer to a broad range of subnational state actors.
10. In a number of countries including Argentina, Bolivia, Brazil, Colombia, Ecuador, Peru, and Venezuela, conflictive relations and political rivalries between the national and subnational governments have reduced the scope for effective intergovernmental coordination. The essentially political nature of these relations has also made it difficult for these countries to resolve the perennial problem of vertical imbalance in resource and responsibility assignments across government levels, as reassignment of resources and responsibilities often implied zero-sum games between competing political actors. See, for example, Abrucio (1999) for a thesis on “competitive and predatory federalism” in Brazil and, similarly, Tommasi et al. (2001) for the case of Argentina.
11. In many cases, only a small minority of municipalities have taken any measures to modernize their water utilities, whether by private sector participation or by corporatizing the public provider. This has led to situations where the national regulatory agency applies modern incentive-based regulation to utilities that are

still managed along traditional “clientilistic” lines and have no real incentive to meet regulatory targets. In extreme cases, there may even be jurisdiction conflicts. For example, Peru’s national regulator found that when it authorized municipal water companies to increase their tariffs towards cost-reflective levels, in 30 percent of cases the boards of these companies voted to keep their tariffs below the regulatory price cap for political reasons.

12. Brazil and Mexico have federal banks (Caixa and Banobras), which to some extent condition access to credit against financial indicators. Ecuador is currently developing a mechanism that would allocate central government capital transfers across municipalities based on a formula that captures the level of financial and institutional performance of the utilities, taking poverty levels into account. A similar scheme has been proposed for Bolivia.
13. In countries where decentralization has taken place, there are a number of cases where local mayors have played a pivotal role in water sector reform processes, such as Cartagena in Colombia. In countries that have thus far retained a centralized service provider, such as Honduras and the Dominican Republic, there has been an increasing tendency for individual municipalities to opt out in the hope of being able to provide a better service at the local level. An interesting example is the city of Puerto Cortes on the Atlantic Coast of Honduras; following a hurricane that interrupted the city’s water supply, the mayor succeeded in negotiating a temporary transfer of operation and maintenance responsibilities from the national water utility and reached an agreement with the population that tariffs could be raised as long as services improved. Thereafter, a full transfer of responsibilities to the municipality was achieved by means of a congressional decree, and the utility was converted into a limited company with mixed municipal and work-force ownership.
14. Comparing the decade leading up to reform to the decade that followed reform, the expansion rate of service connections increased by a factor of two for water and sewerage services, a factor of four for fixed-line telephony, and a factor of 27 for cellular telephony, while it declined slightly for electricity. A similar comparison for labor productivity shows that the improvement rate of this index increased by almost threefold for electricity, by more than fivefold in the fixed-line telephony sector, and by more than tenfold in the cellular telephony sector; however, for the water sector, the improvement is more modest. There have also been significant improvements in the continuity of service, particularly in the electricity sector.
15. McKenzie and Mookherjee (2002) find that the increase in access to water following private sector participation in La Paz and El Alto in Bolivia was significantly higher than the previous historical trend for those cities and to the trend observed in nonprivatized cities over the same period. Moreover, a recent study from Argentina showed that (controlling for other relevant factors) municipalities that had privatized their water services had significantly lower infant mortality rates than those that retained the service in public hands, the main explanation being improved service quality (Galiani et al. 2002).
16. Foster (2002) found that the typical period of tenure of water regulators was two to four years, compared with five- to six-year legal terms. This kind of evidence illustrates that it is difficult to legislate against the prevailing political culture and that regulators may come under pressure to “resign voluntarily” long before their legal term has expired, particularly following changes of administration. Nevertheless, while two- to four-year terms may fall short of expectations, they still represent a greater degree of stability than is the case for sector ministers or public utility managers, who typically have a higher turnover rate.
17. It should be emphasized that responsiveness to “communities” is not always, or not necessarily, the same as responsiveness to the articulated preferences of poor groups in the population. “Communities” are heterogeneous and embedded in unequal social and political structures. There is undoubtedly substantial variation in the ways in which different social funds engage with (different groups in) local communities.
18. While Bolsa Escola in Brazil was probably the first in the region, Oportunidades (previously PROGRESA) in Mexico has become the most famous example (with similar schemes in poorer countries, including Honduras and Nicaragua).
19. The basic alteration of traditional accountability relationships described above is complemented by a series of innovations that CCT programs have adopted to address many of the shortcomings of traditional social assistance programs: addressing both current and future poverty, more sophisticated systems for targeting the poor, providing cash, fostering syner-

- gies in human development, and using evaluations strategically.
20. This is related to concerns about the geographical selection criteria that most CCT programs applied, which can leave out poor areas with limited health and education supply capacity or limited financial infrastructure. For a discussion of some of the targeting concerns in the specific case of Oportunidades-PROGRESA, see Adato (2000) and Adato, de la Brière, Mindek, and Quisumbing (2000).
 21. To address many of these concerns, CCT programs have set up channels through groups of mothers' representatives that act as information conduits between the centrally administered program and the local beneficiaries. This system may have led to women's empowerment and provided a communication channel with local communities, but it operates independently of elected local officials.
 22. For a review of the institutional development impact of social funds, see Carvalho et al. (2002).
 23. Tandler also argues that there are some structural features of many social funds that make them particularly conducive to patronage—the delivery of “obras,” the queues, or lists of applicants to be chosen from, and the capacity to turn on the money in preelection periods.
 24. These providers often provide the only realistic short-term supply alternative for low-income customers, yet they often operate in a climate of informality. This limits the possibility of regulating these activities, for example, to ensure that safe drinking water is provided. It also complicates the formation of potentially helpful partnerships between formal utilities and independent providers, whereby, for example, the utility provides a bulk supply of potable water that independent providers then distribute to peri-urban areas.
 25. Namely, the existence of soft budget constraints at the municipal level, restrictions on municipal decision making, and the lack of autonomy and accountability of municipal schools.
 26. See Di Gropello (2002) for the negative impact of the teacher statute and Sapelli and Vial (2002) for the negative impact of central interventions on competition through the implied differences in per-capita budget between the two types of schools.
 27. There is still significant controversy about both the sources and long-term impact of this segmentation on the financial protection of, and service use by, the poor (Massad 1996; Baeza and Cabezas 1998; Bitran et al. 2000; Vega et al. 2003). It should be noted that, particularly during the 1990s, increased targeted public financing for FONASA resulted in significant, progressive anti-poverty effects of public health expenditures.
 28. Over 20 years, water services have been provided to 1.3 million rural communities, thereby reaching full coverage of the rural concentrated population.
 29. In Honduras, for example, insufficient capacity in the Ministry of Education contributed to substantial delays in salary payments to autonomous schools and teachers being more absent for training needs (Di Gropello and Marshall 2004).
 30. Development of this emphasis was affected (not without endogeneity) by many factors—including the rise of democratization throughout the region; the involvement of “community participation” specialists to help improve methods in social funds, but who had a tendency to see community participation as a good in and of itself; and rising emphasis in the international development community on notions such as social capital, empowerment, and so on.
 31. In the case of Nicaragua, decentralization to the school level was also functional to the process of “de-Sandinization” that the Chamorro administration initiated. See Grindle and Mason (2004) and Kaufman and Nelson 2004.
 32. As, for example, in the case of Guatemala with PRONADE, which was put under severe strain when there was a change in government.
 33. Cuba has had exceptional results in delivery of quality education and health services, under authoritarian auspices (World Bank 2003a)—although possibly at extremely high costs in other dimensions of development. Chile under Pinochet, while presiding over distributional worsening along some dimensions, did have areas of relatively effective public action for the poor (Sen and Drèze 1989). Both were building on previous histories of relatively effective social development.
 34. In Brazil, for example, the democratic transition involved as much as anything a failure to resolve distributional conflicts—with the 1988 constitution reflecting such a multiplicity of pressures. Expansion of debt and an unusual capacity to raise taxes (by Latin American standards) instead supported a mix of measures

that sought to provide something to all groups, including expanded education for the poor. But this was done without tackling the multiple areas of opportunity-hoarding or vested interest in the society. Highly subsidized college education has traditionally been one of these elite preserves in Brazil, and the numbers indicate a sharp rise in per student spending.

35. Recent work that tries to model clientelism's effects on policy outcomes under different assumptions all point to the same conclusion: clientelism results in less than optimal levels of public goods production (Keefer 2002; Robinson and Verdier 2002; Ames 2003).
36. An example of budget management with executive discretion is Peru in the 1990s. Between 1994 and 2001, the Executive issued 748 urgency decrees, 27 percent of which directly amended the budget and 41 percent had a clear effect on the budget or public finances (World Bank 2001a). An example of substantive legislation affecting budget allocation and even fiscal sustainability was the passage of a teacher statute in Honduras in the late 1990s; this granted generous salary increases and other employment benefits without corresponding measures to enhance teacher performance.
37. Ombudsman offices were established in Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Panama, Peru, and Venezuela (Smulovitz and Peruzzotti 2000).
38. In Peru, for example, Alberto Fujimori's government blocked the Peruvian legislature from acting on the Ombudsman's recommendation to prosecute actions of the armed forces and intelligence organizations.
39. For example, Porto Alegre in Brazil is a case of an apparent transition in which the participatory budgeting "instrument" played a role. The design of the participatory budgeting process—by which delegates are allocated to the budget council in proportion to the participation level of associations in open forums—has stimulated associational activity. It has also had the effect of promoting horizontal coalition building, in contrast to the past when neighborhoods processed demands vertically through political patrons with the effect of severely compromising their associational autonomy and weakening civil society.
40. Both the Brazilian (1988) and Colombian (1991) constitutions introduced legal figures (*Acciones de tutela* and *Acao Direta de Inconstitucionalidade*) that allow for citizens' legal actions in response to failures to enforce rights.
41. Some innovations have targeted the typically hard-to-reach legislatures (Mendez 2000). A good example is the case of *Poder Ciudadano* in Argentina, with the creation of databases with the voting records of members of Congress, which has been taken up by civil society organizations in Colombia, Dominican Republic, Ecuador, Guatemala, Mexico, and Panama.
42. Relatively little attention was given to consumer issues in the original regulatory frameworks. An important reason for this is that, with the exception of Brazil, utility reform predates the establishment of broader consumer defense legislation. In a number of countries (such as Argentina, Colombia, Costa Rica, and Peru), consumer defense legislation was introduced a few years after utility reform, obliging regulators to review their current practices in this area, as well as providing them with new legal instruments to facilitate civil society participation.
43. An interesting exception is the case of ETOSS, the water regulator in Buenos Aires, which in 1999 established a Consumers Commission that was made up of one representative from each consumer association active in the water and sanitation sector. ETOSS funds the commission and the commission has the opportunity to review and comment on all of the major decisions that the Board of Directors makes. In a few isolated cases, such as the state regulator in Rio Grande do Sul in Brazil, the provincial regulator in Cordoba, Argentina, and (for a brief period) the telecom regulator in Peru, consumer associations have been invited to join the board of directors of the regulatory agencies.
44. In response to these criticisms, Costa Rica has introduced a consumer advisor in the regulatory agency staff; the advisor's role is to help consumer groups analyze and understand the information issued ahead of each public audience.