Service Provision for the Poor
Public and Private Sector Cooperation

Edited by
Gudrun Kochendörfer-Lucius and Boris Pleskovic

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Reforming the Investment Climate
Service Provision for the Poor
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1. Program

2. Participants
The planning and organization for the 2002 workshop involved a joint effort. We extend our special thanks for the support and advice of Nicholas H. Stern, senior vice president for development economics and chief economist of the World Bank at the time of the conference, and Shantayanan Devarajan and Ritva Reinikka, co-directors of the World Bank’s World Development Report 2004. We would also like to thank other staff members, in particular the conference coordinators, Irene Federwisch, Mantejwinder Jandu, Klaus Krüger, and Joachim Müller, whose excellent organizational skills kept the workshop on track. Finally, we would like to thank the editorial staff, especially Alice Faintich, Kim Kelley, and Grit Schmalisch, for their work on this volume.
The articles in this volume were presented at the fifth annual Berlin Workshop, held in July 2002, and sponsored by InWEnt–Capacity Building International, Germany, established in 2002 through a merger of the German Foundation for International Development and Carl Duisberg Gesellschaft, and the World Bank. The workshop series is intended as a forum for the research community to contribute to early discussions in preparation for the World Bank’s annual World Development Report.

Furthermore, the workshop series exposes initial ideas for upcoming World Development Reports—ideas whose policy implications may not yet be entirely clear—to recent thinking by European and other economists and key policymakers outside the Bank. Participants at the 2002 workshop came from a range of research, academic, and policymaking institutions in Europe, the United States, and developing countries as well as the World Bank and German development institutions and organizations.

The workshop investigated how countries could accelerate progress toward the Millennium Development Goals by making services work for people living in poverty. The participants hailed successful innovations; took a hard look at some of the failures; and drew conclusions about how to learn from both in order to guide policymakers, donors, and citizens on ways to improve the delivery of basic services: health, education, and water. Making services work for poor people is also the theme of the World Development Report 2004.

The workshop was divided into five sessions, each exploring a theme related to the provision of basic services:

- **Session I on the Role of Altruistically Motivated Organizations for Making Services Work for Poor People** tried to figure out roles for these organizations, such as advocacy at the local, national, and international levels, as well as funding partnerships with nongovernmental organizations and community-based organizations.
• Session II on the Role of the Private Sector examined the willingness of governments in developing countries to experiment with demand-side subsidies and public–private partnerships and the impact of such programs and policy innovations. In relation to the private delivery of education services, session participants discussed how the private sector can best support public sector goals and how the public sector should regulate both public and private schools and ensure access.

• Session III on the Role of Local Governments highlighted how governments in both industrial and developing countries are important actors in sustainable development. The discussions suggested that all tiers of government, especially local governments, play a critical role in fostering crosscutting links with local associations and community groups to enable participation by poor and vulnerable groups.

• Session IV on Incentives and Innovations debated ways to achieve a greater results orientation in development work.

• Session V on Modes of Financing sought to identify appropriate and efficient aid modalities that focus on ownership of partner countries’ plans. Session participants discussed new tactics such as sector program and budget support based on partner countries’ own priorities and poverty reduction strategies. They also deliberated on the need for increased coordination of donors’ efforts to reduce the burden of administration on partner countries and to avoid the current parallel system of funding.

The workshop occasioned lively debate on these issues from which several conclusions emerged that helped guide preparation of the *World Development Report 2004*. These conclusions included the following:

• The incentives that lead to the underfunding of nonwage recurrent expenditures have to be examined. Ways to correct those incentives, including user charges, have to be explored. In particular, the incentives created by donors should be looked at, especially in relation to the choice of aid modalities, as well as those created by the political economy of pressure groups in low-income countries.

• The issue of the supply of skilled personnel in the social services, including the effects of donor practices (project implementation units, and so on) and civil service rules, has to be addressed.

• The failure, in many instances, on the part of staff of service delivery organizations to be responsible (frequent absenteeism and the like) and to perform at an appropriate level is one of the biggest constraints facing effective service delivery. As the delivery of services tends to be poorly monitored, service providers do not feel accountable. Many governments have tried to address this problem. Both failures and successes should be documented.

• The outcomes of governments’ attempts to introduce new institutions within existing frameworks (providing greater autonomy to local governments or communities in monitoring and making decisions about local schools or hospitals or changing incentives for service providers) should be documented to develop a taxonomy of ways in which the incentives facing service providers can be strengthened to improve services for poor people.
The international system at large is currently confronting numerous problems, political, economical, and social. All of them are directly or indirectly interconnected. I will address a few of these and raise the issue of what scholars can contribute to their solution. From the developmental perspective two urgent issues are poverty and inequality. Given my international relations and security studies background, my primary concern relates to collective violence and instability. We know that underdevelopment and collective violence are interdependent, but do we know how to achieve greater equality and wealth by preventing collective violence from breaking out? I fear that the answer at this time is no.

Success in achieving these goals implies two conditions on the political side: the capacity and the willingness to act. I will focus on the former.

As far as the capacity to act is concerned, research has an important role to play in that it contributes to a better understanding of the complex processes that inhibit or favor greater wealth and stability. This link can be clarified by answering the following four interrelated questions:

- What do we know?
- Do we know the right things?
- Do we need to know more?
- Could we know more?

Answers to each of these four questions are implied in the statement by World Bank President James Wolfensohn in the introductory remarks to the draft of the World Development Report 2004, when he suggested that the World Development
Reports should be seen not as the capstone of a one-off research program, but as part of a continuing program of research and a springboard for action.

Some of you will remember *The Limits to Growth* (Meadows and others 1972) and the groundbreaking study by Forrester (1971). This was the first generation of global models, simple computer simulation models of system dynamics that combined demographics, economics, the environment, and agriculture to study their interconnectedness. This revolutionary approach was followed in subsequent years by a whole series of other such global models (for an overview see Meadows, Richardson, and Bruckmann 1982). The conclusion Forrester and his colleagues drew from that first model was that in the long run, the breakdown of the world system was inevitable unless drastic changes were implemented, for instance, less pollution, less economic growth, and less population growth. Twenty years later, a replication of the initial study confirmed its results. In *Growth beyond the Limits* Meadows, Meadows, and Randers (1992) found that the situation had deteriorated to such a degree that sustainability of the economy and the environment could no longer be achieved in the next 50 to 100 years.

Amilcar Herrera, director of the global modeling group that produced the so-called Bariloche model (Herrera and Scolnik 1976), challenged the basic philosophy of the “models of doom” (Cole 1973) of the Forrester type. Herrera’s model addressed the conditions under which basic needs could be satisfied and how many years this would take. He believed that whenever there are problems, there always is a solution. Herrera’s belief is directly relevant to my remarks about the link between research and action, in that it acknowledges that policies and politics make a difference.

To make my point, let me go back to the 1960s. In the social sciences, behaviorism was at its height. One consequence was the recognition that for the social sciences to achieve any substantial progress researchers needed valid and reliable data about politics and society. This led to the large aggregate data movement that gained initial prominence with the Yale Political Data Program, which later materialized in the *World Handbook of Political and Social Indicators* (Taylor and Hudson 1976; Taylor and Jodice 1983). One of the champions of this philosophy was Karl Deutsch, professor of government at Harvard and former director of the Berlin Science Center for Social Research. He believed, and I think rightly so, that measurement leading to quantitative indicators that permit the formulation and testing of propositions by using statistical and mathematical models is fundamental if social research is to make substantial progress.

This said, let us return to the four points mentioned earlier. First, what do we know? The answer is trivial, but its consequences are not. Empirically grounded research has significantly enlarged our insights about poverty, inequality, collective violence, and the linkages between these phenomena; however, are these insights directly relevant to the policymaking community and to practitioners in the field of development? The answers to the next three questions will clarify what I mean and provide some initial answers.

Second, do we know the right things? I will not even try to give a definitive judgment on this broad issue area. My guess is simply that some of the research is probably not
that useful from the perspective of practice. Among other issues, a number of the con-
cepts, indicators, and aggregation procedures used are too distant from reality. To give
but one example: the concept of expected utility that some research on international
violent conflict employs is highly abstract and complex. The same is true for the con-
cept of relative deprivation. How such concepts can be directly translated, if at all, into
a particular policy program is hard to envision.

Third, do we need to know more? The answer is yes. We need to know in what
political and social contexts poverty and inequality occur and evolve. This implies
that a number of insights are not contextualized properly. Consider the Sub-Saharan
region, where many low-income countries are located. The data suggest that a con-
siderable number of the 48 countries in Sub-Saharan Africa have more or less contin-
uously suffered from internal strife and natural disasters. Between 1950 and 2000
Sub-Saharan Africa witnessed more than 1,100 natural disasters, 575 of them in the
1990s alone, with a total of more than 1.6 million people killed. During the same
50-year period the region experienced a combined total of 204 years of armed con-
flicts. Of these a number escalated to war, resulting in a total of 158 war years. In the
last decade of the 20th century, nations in the region were involved in a total of 81
years of armed conflict (nearly 40 percent of total armed conflict for the period
1950–2000); and these conflicts escalated to 48 war years (or 30 percent for the
period 1950–2000). A number of states—Chad, Ethiopia, Mozambique, Somalia,
and Sudan—were plagued by both internal violence and natural disasters.

With reference to the Millennium Development Goals on poverty reduction, in
particular, in low-income countries, in their outline for the World Development
Report 2004 Shantayanan Devarajan and Ritva Reinikka state that growth and pub-
lic expenditures are clearly not enough. If poverty reduction is a long-term goal,
I would argue that any development strategy has to explicitly take into account the
risks of violence and of natural disasters. Both events have direct consequences for
the overall development process. Part of this process relates to the risks that they will
damage political, social, and economic institutions.

Fourth, could we know more? Naturally, the answer is yes. I will only raise one
simple issue: data disaggregation. A disaggregation of the map of Burundi reveals
that the genocide that occurred in the 1990s occurred predominantly in those dis-
tricts where the judicial system had broken down. This has two implications. First,
most of our empirical knowledge is based on aggregate data of the nation and year
type, but as the Burundi example illustrates, a state is not a homogenous spatial
entity. Thus poverty reduction strategies in conjunction with violence and natural
disaster prevention need to take the spatial risk distribution in a given country into
account. This means that we need spatially disaggregated data. Second, when an
event takes place makes a difference. For example, several time series on internal
strife and political regime breakdowns and transitions are available, but annual data
do not tell us which comes first, regime transition or violence. Either is a possibility,
but each has different policy implications.

Thus for poverty reduction strategies combined with disaster and violence preven-
tion, we need disaggregated data as far as space and time are concerned. Irrespective
of the impressive data collections at our disposal, we do not have the finer-grained information that would make our scientific knowledge much more usable for practitioners and policymakers.

In this connection I will limit myself to just two conclusions. First, we need systematic empirical insights, but empirical research as such is not directly useful for bridging the gap between research and practice. For that purpose research should be based on concepts that come much closer to those factors that policymakers can manipulate. Second, to bridge this gap between the abstract and the concrete we also need a better understanding of the dynamics of ongoing processes. For that purpose we need systematic time series disaggregated in time and space. One possible effect could be to narrow the gap between structural prevention and operative prevention. The first is a long-term issue: reducing violence and instability by reducing poverty and inequality. The second is a short-term issue and falls within the purview of decisionmakers in the realm of foreign security.

As I argued some years ago, the conceptual world of scholars does not necessarily match the world of practitioners. We have to narrow this gap in the interests of both communities and of beneficiaries. Even though scholars do not have to make hard political and policy choices, they can nevertheless help increase the overall capacity of those who must make such choices.

References


I am delighted to be here at the launch conference for the World Development Report 2004: Making Services Work for Poor People. I am especially excited about this World Development Report (WDR), because even though it is the fourth one on my watch, it is the first one whose topic I was able to choose without any constraints of history. More important, however, following Monterrey, we now have a real opportunity to scale up development. The question is how to do so. Additional resources are essential, but we know that is not the whole story. At least as important is making basic services—health, education, water, sanitation—work for poor people. Vast differences exist in how these services work, even in the same country. Compare Kerala and Uttar Pradesh in India, for example. A girl born in Kerala today can expect to live 20 years longer than her counterpart in Uttar Pradesh.

While the overall productivity of public spending on health and education is, in many ways, disappointing, enough success stories have been rigorously evaluated to give us the confidence that we can make services work for poor people. One of the most celebrated is PROGRESA in Mexico, a conditional cash transfer scheme that reduced illness among children by 13 percent and increased secondary school enrollment by 8 percent for boys and 12 percent for girls. The Educación con Participación de la Comunidad en el Salvador (Education with Community Participation in El Salvador) or EDUCO program in El Salvador is another case in point. Weekly school visits by parents’ and community associations reduced teacher and student absenteeism and increased student performance on test scores. The common feature of most of the success stories is that they involved poor people in the delivery of services, for example, by having parents monitor the schools. That is why the topic of the WDR is making services work for the poor, not the passive delivery of services to the poor.

At the time of the workshop, Nicholas H. Stern was senior vice president development economics and chief economist at the World Bank. He is currently head of the Government Economic Service and second permanent secretary to the U.K. Treasury.
This WDR is an essential part of the Bank’s development strategy, which consists of two pillars: improving the investment climate and empowering poor people. The WDR will add real strength to the pillar on empowering poor people, but it also has implications for enhancing the investment climate, because better services are often a linchpin in attracting new investment.

The reason why empowering the poor is one of the two pillars in the Bank’s development strategy is that economic growth—even if it leads to increased spending on public services—will not necessarily generate reduction in poverty on a scale consistent with government objectives. Much more can be achieved in relation to poverty reduction if poor people are empowered to take advantage of growth opportunities. And, at the same time, public spending will be more effective. While our experience has been that when poor people are involved, such as with parents’ monitoring of schools, the productivity of public spending improves, much more is involved than simply the adversarial relationship inherent in parents as monitors. Of great importance also are the benefits of cooperation between teachers and the community that come about when the community is more involved in educating its young people. Empowering poor people also means unleashing this cooperative behavior.

The WDR is a process as much as it is a product. It is not a one-off book, but a significant step in a process of research, learning, and change. That is why the manager of the research team on public services, Ritva Reinikka, is codirector of the WDR. Her team’s research will feed into the WDR, and the WDR itself will generate questions for further research that her unit will carry out.

The Bank has been involved in service delivery for at least 50 years and will continue to be involved for the foreseeable future. This WDR will attempt to distill the lessons learned from this experience with service delivery, but will also lay out the agenda for future research, experimentation, and policy change. In addition, as this workshop shows, the topic is one that concerns civil society, the private sector, governments, and academia. We hope their involvement will continue beyond the WDR, so that we can make genuine progress in making services work for poor people.

The potential for improving the outcomes of public services is enormous. During and following the international meeting in Monterrey in spring 2002, we saw strong commitment by the international community to stronger development action, including more resources. If such commitment does translate into effective policies and a strong increase in aid and this is combined with the application of the type of analysis in this WDR, then we will have a chance of attaining the Millennium Development Goals.
Poverty has become one of Russia’s greatest social problems. At the beginning of 2002, a quarter of the population, or some 32 million people, were below the poverty line.

The main source of poverty in Russia is the disparity between minimum salaries and pensions and the amount needed to avoid living in poverty. The minimum salary amounts to only 20 percent of the amount needed, while the minimum pension accounts for only 59 percent. Unfortunately this disparity is on the rise.

The Russian poor are primarily government employees and pensioners, but demographically the largest group of poor is children. More than 70 percent of children live in poor families. Thus the face of Russian poverty is the face of a child.

Russia also has a group of new poor. These are the country’s teachers, doctors, engineers, and scientists, all those who in the West comprise the middle class and on whom any industrial nation depends.

In addition, the pension system is facing a crisis. According to official statistics, more than 78 percent of pensioners receive less than the livelihood minimum, and the situation is likely to become even worse in the near future.

Discussion is ongoing about role the of the shadow economy in estimating the scale of poverty. However, its relevance is peripheral, as those involved in the shadow economy are generally not the poor.

The main measure needed to fight poverty is a liberal economy and its further development in a stable, democratic society. Unfortunately, as the following paragraphs show, the development of such an economy faces a number of obstacles.

Concentration of Capital and Business Activity

The economy is mainly concentrated in a few areas that attract major human and financial resources, namely, the production of aluminum, raw gas and oil, energy,
and steel and nonferrous metals. The rapidly developing sectors of the national economy are upholding Russia’s trade and payment balances, federal budget, and currency exchange rate. While this is a positive aspect, at the same time the rapid development of these sectors has virtually shut the poor out of the economy’s more profitable sectors, especially small businesses.

**Difficulties Facing Small Business Development**

Given Russia’s economic and social traditions, making use of foreign experience in relation to small business development is difficult. One approach that could help would be to establish a license system for small individual or family businesses. Anyone who wanted to start up a small business could do so simply by paying for a license without having to undertake any additional bureaucratic formalities. This could revolutionize this sector of the economy.

Currently, would-be small business owners face difficulties related to credit access, administrative barriers, and corruption. What the country needs is education and information programs that explain the opportunities inherent in small business ownership.

**Support Expectations**

Russia’s economy needs to have its own niche in the international system of production specialization. Its traditional sector of raw natural resources is insufficient for stable economic development. The difficulties of access to international markets are one reason for the decline in living standards. For many people this has reinforced their beliefs in communist ideology and their anti-Western attitudes.

**The Drug Problem**

A tide of illegal drug use is spreading across the country and poses a significant threat. In the last five years the number of drug addicts has more than tripled, and official estimates indicate that more than 3 million people are now addicted, while other estimates suggest that the figure is closer to 7 million or even 9 million people. For the last 10 years the number of women involved in illegal drug use increased more than sixfold.

In addition to the problem of the increasing number of drug users, the transition from “light” drugs, such as marihuana and ecstasy, to “heavy” ones, for example, heroin and LSD, is taking place more quickly than elsewhere.

The average age of drug addicts is 13 to 25 years old. Drug use is spreading extremely rapidly among schoolchildren, and the number of school-age users has increased sixfold to eightfold in the last four years. The latest statistics indicate that one in five schoolchildren in Moscow and Saint Petersburg has tried drugs and that
about one-third of older children use drugs regularly. In the last year the authorities closed down 1,048 illegal drug production laboratories and started legal proceedings in 2,000 cases against drug producers.

**Budget Crises**

Russia’s budget crises started at the same time it embarked on liberal reforms. Budget privatization began at the same time as industrial privatization. Credits given by the government to state-owned enterprises to pay their workers’ salaries played an important role in the process of privatization. The provision of illegal tax privileges to commercial enterprises, often well-known in the region or worldwide or headed by well-known local authorities, became the original form of budget privatization. For example, the granting of customs duties exemptions to a sports foundation headed by Shamil Tarpishev, a famous tennis coach, helped the foundation rake in a $4.2 million profit. In 1993–94 the value of these kinds of privileges exceeded the revenues derived from privatization.

Regional budgets also present a problem. Over 70 percent of regional budgets are provided by donors. More than half of the regional governments are bankrupt with no hope of improving their situation in the near future.

**Social Spending**

Throughout the 1990s, a period of chronic budgetary crises and falling gross domestic product (GDP), the mismatch between spending needs for social programs and actual expenditures on health, education, and cultural services and social benefits and allowances increased steadily. During this period dramatic changes in income distribution, that is, an increase in the number of those living below the poverty line, significantly affected the amount of money needed to sustain social assistance. According to official estimates, in 1992 some 33 percent of the population fell below the poverty line. This number decreased to around 25 percent in 1994–96, and then rose again in 1999 to about 34 percent, mainly because of the August 1998 economic crisis. Thus the number of those in need of social assistance has increased considerably.

**System of Social Privileges**

In the 1990s the social privilege system, that is, the provision of such items as medication or municipal transportation free of charge, developed largely in response to newly emerging social and economic problems. Many current benefits and allowances are a legacy of the Soviet system, under which they performed quite different functions. At the same time, a substantial share of these benefits is paid in compliance with laws, decrees, and acts approved during 1994–96, many of which were passed with an eye
to election campaigns. These legal and normative acts do not clearly define their target
groups, and thus many of them fail to provide assistance to those who need it the
most. According to some estimates public coffers pay for more than 1,000 different
programs of social assistance. At the federal level alone 156 different programs pay
benefits to 236 different categories of people.

Two social benefits, a monthly child allowance and housing subsidies, were
enacted at the federal level in 1998–99 and were provided only to households with
per capita incomes below the poverty line. However, because the total amount of
social benefits was spread too broadly, the amounts provided were insufficient. For
instance, the child allowance was about 13 percent of the subsistence minimum for
children younger than 16, and by 2002 the amount had dropped to just 6 percent of
the subsistence minimum.

Social Insurance

The financing for social programs comes out of the social policy sector of the state
budget. In 2001 the consolidated budget expenditures for these items amounted to
Rub 108.2 billion, equivalent to about 7.3 percent of total expenditures of the con-
solidated budget or 2 percent of GDP. The same source provides funds for a number
of extrabudgetary social funds, such as the Pension Fund, the Employment Fund, the
Social Insurance Fund, and the Compulsory Health Insurance Fund. In the late 1990s
total expenditures for maintaining the social privilege system amounted to some 18
percent of GDP.

Pension Reform Problems

The government set up the Pension Fund in the 1990s to manage pension resources;
however, the fund’s financial standing was unstable. Key reasons the Pension Fund
experienced a deficit were the accumulation of budgetary indebtedness related to pen-
sions financed on a repayment basis and falling revenues from insurance premiums.

The burden on the employed population increased during the 1990s because fewer
people were employed and because of the aging of the population. It was aggravated
by the growth in the number of pensioners caused to a considerable degree by the
extent of preferential pensions, for example, pensions granted to war heroes.

Despite measures aimed at increasing the amount of pensions, the minimum gross
pension remains below 80 percent of the subsistence minimum for pensioners, the
level stipulated by the legislation currently in force. The lack of comprehensive
reforms may result in a dangerous worsening of the financial standing of the pension
system in the long term. The ongoing aging of the population will also continue to
aggravate the situation by adding to the burden on those in the workforce.

The debates on pension reform illustrate the ongoing struggle in relation to poorly
formalized jurisdiction over major financial resources. Pension reform approved by
the Russian government in May 1998 will ensure the pension system’s long-term sta-
bility by introducing insurance principles into the distribution component, but pro-
posals for investing pension funds through transparent private vehicles have failed to
gain unanimous support among either Pension Fund officers or government officials.

The state should be responsible for the transparency of pension funds, for the sta-
bility of the national currency, and for those in the most desperate need. Even in the
latter case, encouraging charity by private individuals under simple and transparent
schemes may turn out to be much more effective. The best thing the state could do
for elderly citizens is to guarantee the stability of funds earmarked for pensions.

Having an insurance-type of pension scheme will help address the imbalance
caused when the majority of men do not live long enough to claim their full pensions,
while women receive them whether or not they ever made any contributions. Unless
the situation is addressed, the birth rate could rise as people revert to the traditional
form of social insurance: children who can support them in their old age.

The Family Crisis

Whatever left-wing politicians and journalists might now claim, the family crisis
peaked during the 1930s through the 1950s. During these years the family, which
according to the plans of the founders of the Bolshevik state was to disappear as an
institution, was added to the armory of the Soviet regime by becoming a component of
the political surveillance system. What in the West was considered as Orwellian was life
as usual for the typical Soviet family of the mid-20th century. In the 1960s through the
1980s the family reoriented itself into a unit of redistribution coalitions. The presence
of a marriage stamp in a Soviet internal passport reduced the costs of access to certain
resources distributed by the state. At the same time the former Soviet Union was char-
acterized by features of the typical urbanized industrial society, that is, a decreasing
birth rate and a rising divorce rate, especially in Russia and the European republics.

The disintegration of the socialist system was followed by a crisis of adaptation to
new realities. A sharp change of social status, a loss of stability and predictability,
and the “shrinking horizon” for day-to-day decisions, all typical for a country in
transition, had a sharp effect on the family as an institution given the inability to
make long-term plans of the kind that families must make. Predictably, the number
of first-time marriages decreased. A steep growth in the number of divorces would be
explainable; however, this did not take place. Even though the divorce rate did
increase in 1991–95, even at its peak the number was only slightly higher than in the
1980s, and by 1999 the number of divorces had decreased to approximately the level
of the first half of the 1970s. The decrease in the number of first-time marriages is
partly accounted for by the number of couples living together without being married,
now that marriage no longer gives people special privileges.

The increase in the number of children who have fallen under state care as a result
of the family crisis is in part compensated for by the doubling of the number of chil-
dren adopted.
Housing and Utilities

The deficit of funds necessary to maintain the status quo in housing and utilities, which is far from ideal, is estimated at around US$1.3 billion in the next year. This deficit will increase progressively in the coming years. The current system of provision of housing and utilities is enormously wasteful, and central and municipal budgets can no longer subsidize housing. Thus without immediate reforms to the system, the poor face the prospect of significant additional expenses.

Former Soviet municipal enterprises monopolize the sphere of utilities; however, the cost of services provided by these enterprises is too expensive for most people. The state should not reimburse state enterprises for providing utilities and competition in the provision of utilities needs to be increased. Reform of housing and utilities is vital. Many regional governments have to spend up to one-third of their budgets on subsidizing housing and utilities. Savings could be realized in a number of areas. For example, local governments could establish specifications for the consumption of energy and water, above which prices would rise, and could install meters to measure individual household use. As the experience of the Baltic countries shows, families can gain by paying only for what they consume instead of paying for some average amount calculated by the utility provider, which is often a monopoly. This experience has also shown that households are ready and willing to pay to buy individual meters in return for paying only for what they actually consume.
The Role of Altruistically Motivated Organizations in Making Services Work for Poor People
The struggle against poverty has led Uganda to embark on a wide range of reforms across all sectors of society and of its administration. The reforms in the health sector, started over a decade ago and framed in the larger context of administrative decentralization, have significantly changed the context within which health care delivery takes place.

Development partners, who have provided substantial amounts of the resources required, have supported the reforms. While in the past such resources were channeled toward focused interventions aimed at addressing specific determinants of health, over time health policymakers in Uganda realized that only a sectorwide approach would result in sustainable structural changes. While both public and private spending on health has increased in recent years in Uganda, whether services have improved and whether such services reach the poor is not clear.

A number of different actors are involved in Uganda’s health sector. Traditionally it has been subdivided into public and private health providers. The private sector can be subdivided into nonprofit and for-profit (private) practices. Each of these can be further subdivided based on various criteria, for example, facility based and non-facility based, Western and traditional, and so on. Even though the government health sector is sizable, probably accounting for about one-third of health care delivery (with the for-profit and not-for-profit sectors contributing a third each), it needs the support and cooperation of other subsectors if the burden of disease alleviation is to be sustained over the long term. Both the National Health Policy and the Strategic Plan for the Health Sector recognize this need.

The emergence and sustained development of the formal private health sector is a relatively new phenomenon that mushroomed in the mid-1990s. Because of its tumultuous development and volatility, information about this sector is scanty and the regulatory agencies (including nurses’, midwives’, and pharmacy councils) are
having a hard time trying to regulate it. It is, however, an important actor that needs to be better understood.

In this context, religious organizations are a major actor: Catholic, Protestant, and Muslim facilities account for about 80 percent of private not-for-profit (PNFP) health facilities. They have had a long history in Uganda dating back to the end of the 19th century and have always focused on providing services (thanks to interfaith solidarity) to the poor. For the last century this subsector has found ways to continue operating and expanding, especially in rural areas, while providing services at subsidized prices. It is also well organized through coordinating bodies, of which the main ones are the Catholic, Protestant, and Muslim medical bureaus and the Uganda Community-Based Health Care Association.

During the era of sociopolitical and economic upheaval in the 1970s and 1980s, this subsector continued to provide essential health services. This historical evidence that underscores the PNFP subsector’s resilience is too often ignored. The coping mechanisms the sector developed during this period, which included underpaying personnel, employing less qualified staff, maximizing staff working hours, and delaying investment in infrastructure and equipment maintenance, started to show their limitations in the mid-1990s. At that time the bureaus declared that the subsector was finding that coping with the increasing cost of service provision and with the need to preserve access for the poor was becoming increasingly difficult.2

The government’s decision to intervene in support of the PNFP subsector through increasing, but nevertheless limited, budgetary support has avoided an immediate crisis. It has also opened the door to wider participation in policy formulation and development by the PNFP subsector. However, the overall environment is still determined by conceptual frames of reference that do not envisage a clear or major role for the PNFP subsector, despite its size and importance. The entire voluntary–altruistic segment of the health sector operates in a limbo that hampers full exploitation of its potential and its contribution to the fight against poverty.

At the same time, closer collaboration has developed between the government and the PNFP sectors and the opening up to PNFP participation has raised issues that policymakers have not yet adequately addressed. Some of these issues arise from the newly established collaboration, while others are broader. Even though they are presented here as separate issues, many are interlinked.

I believe that too little attention has been paid so far to the knowledge, understanding, enhancement, and support of this subsector, which does not fall within the current dichotomous framework in which entities are considered either fully public or fully private and claims to be something altogether different from either.

**Issues**

When developing a national health policy strategy, access to care, accountability and regulation of providers, and equitable payment for care are important considerations.
Can an Integrated Health System Be Pluralistic?

All the structures that together provide health services are defined as the health system. The notion of a system evokes the idea that all the elements in it participate in achieving the same goal and carry out functions that are well defined, complementary, and integrated, without functional voids or overlaps. In reality, this hardly ever happens. When the word “system” is used, at best it refers to a set of service delivery facilities and levels (elements of the system), each of which should be technically adequate in terms of infrastructure, equipment, and skill mix to provide the expected scope of services for the level. Clearly the entire package of services (as defined by Uganda’s minimum service package) that the population can expect to receive cannot be provided at the same point of delivery, hence the need for a tiered structure based on technical efficiency criteria.

A large proportion of the planning efforts in ministries of health in poor African countries consists of finding local adaptations to the World Health Organization (WHO) model presented at a 1987 WHO interregional meeting on strengthening district health systems based on primary health care (WHO 1987), and in finding ways to make it operational. In doing so they end up by planning only for the public health sector. When other subsectors are included, this occurs almost by accident even when, like in Uganda, these others represent a sizable proportion of the health sector. This approach does not take into account that in a decentralized environment, even the public sector belongs to public legal entities that are increasingly diversified and respond to different dynamics and priorities. For example, in Uganda public health units may belong to the central government, to districts, or to subcounties.

The basic question that should be answered is whether an integrated health system, the type of health system that seems to be the most appropriate for responding to people’s needs, can be pluralistic, that is, consist of more than one actor. In other words,

- Is the reference to an ideal model (the integrated health system) compatible or incompatible with a pluralistic health system?
- Is a functional integration of different elements and actors without outright absorption into the public health system possible? 
- What tools permit obtaining functional integration and avoiding absorption?

In this context, and as illustrated by the following subsections, Uganda’s experience of collaboration between the PNFP health subsector and the government could be described as being in the middle of the ford as the water level is rising.

Should Access to Health Services Be Regulated or Should Choice Prevail?

In terms of the scope of services provided in the minimum package, the components of the package that each level of care in the system must deliver has been defined, but the addition of each higher level adds new elements of the package to the lower levels and
does not exclude any. In addition, little effort is made to define how these different levels of service are integrated and complement each other and how users move through the system (not only in physical terms). The basic assumption is that people will seek services at those facilities that are closest to them, but the evidence does not support this assumption. Whenever possible people seek services wherever they believe they will get what they want, regardless of technical efficiency considerations. If the integrated health system model is adopted, whether pluralistic or not, then regulating people’s movement is necessary. In Uganda this does not happen. Currently people can and do obtain immunizations and other preventive services or treatment for uncomplicated malaria at a national referral hospital just as readily as at any level II health center. The question that needs to be answered is should choice be the engine of the system or should something else? The only known case of an attempt at directing the flow of patients according to a systemic rationale in Uganda occurred, ironically, in a PNFP hospital. In this hospital patients who used its services after referral from a lower unit obtained higher subsidies than those opting for self-referral. This experience has never been evaluated, and whether the hospital works better because of this choice is not known.

Accountability: Competition or Integration?

This issue is related to the previous issue. The private sector, motivated by commercial aims, tends to identify those services that are more in demand, and for which people are willing to pay, regardless of the minimum package. It banks on users’ choices and takes responsibility only for the people who choose its services rather than for a geographically defined population. It is therefore highly responsive to users’ demands for service rather than to objective needs. This makes the private health care sector extremely flexible, but also volatile. Private practices open and close rapidly depending on the local market for services. Whenever possible, the private sector tends to “cream skim” less expensive and more lucrative types of services, for example, the treatment of uncomplicated disease episodes, leaving other types of services and more complex case mixes for public or PNFP facilities.

Because of its mission and history and because of the service demands it has had to meet, Uganda’s PNFP health subsector has developed and operates in a way that is similar to that of the public sector, and it tries as far as possible to structure itself in the same multitiered levels as the public sector. At the same time user fees cover about half the cost of service provision in the subsector. This places the subsector in a unique position: it provides services according to socially oriented goals (need is more important than demand) and according to a systemic rationale of its operations. At the same time it has to preserve a high degree of awareness of market dynamics. In this way it is exposed to both sides of the public–private equation, which in turn subject it to increasing pressure on two sides: the demand for progressive integration into the public health system and the pressure of competition from the private sector.

This dual exposure introduces a dual line of accountability for the PNFP health subsector. Perhaps this mixed accountability, which could be seen as a source of weakness, is also the reason for the sector’s resilience and perceived higher quality.
Uganda’s experience with government health services at the time when they charged user fees seems to point to the validity of this assumption. If this is true, then the questions would be as follows:

- How can the health system maintain a dual line of accountability for all its elements, not just for the PNFP subsector?
- Is the question one of who pays the bills, one of “mission,” or both?
- What is the right mix of accountability for each subsector?

For the PNFP health subsector the answer is relatively easy. It is mainly a question of mission. Indeed, this accountability also existed during the period of socioeconomic upheaval, when many PNFP health units took it upon themselves not only to provide curative services, but also preventive services, at their own cost, and actively solicited funds for this purpose.

The example provided earlier of the PNFP hospital that has attempted, even in the absence of public subsidies, to operate within a systemic rationale by directing the flow of patients using differentiated fees further testifies to altruistic behavior that has no link with monetary incentives.

**Who Should Pay What?**

Policy is committed to devoting the bulk of the health budget to the minimum health care package and of assuring its provision to all the population, especially the poor, women, and children (Ministry of Health 1999). At the time the policy was approved user fees were still a practice in all subsectors, but were abolished in government health units in 2001.

In any case, public funding has always been well below the actual cost of the package. The Ministry of Health (2002a) estimates the cost of the package at the service delivery point to be US$13.5 per capita. The Ministry of Health estimated actual current health spending in 2002 to be US$9 per capita, including the amounts spent by the government through the budget (US$4.5 per capita), amounts spent through projects (US$3.7 per capita), amounts contributed by nongovernmental organizations and the PNFP system and mobilized abroad (US$0.3 per capita), and amounts spent by households through user fees in both government and PNFP units (US$0.5 per capita). These estimates do not include the private sector. The government budget therefore contributes 50 percent of current spending, which is, in any case, suboptimal. This is amply demonstrated by the inadequacies of service provision in the government sector, for example, the shortage of drugs.

Pertinent questions include the following:

- Should the entire minimum package be provided free of charge to users, and if so, is this possible?
- If not all the components can be funded by public money, which should be funded?
The answers are somewhat redundant given the evidence, yet little attention has been devoted to redefining the package that should be universally accessible without charge. The absence of clarity on these types of questions is having serious consequences on the PNFP subsector, which because of its 25 percent funding from the government budget is increasingly facing pressure to provide the entire package without recourse to user fees. The PNFP subsector has repeatedly voiced its concerns about this ambiguous state of affairs and declared that more clearly defined terms of the partnership are necessary. The issue of what public money buys is high on the agenda of the PNFP subsector, so much so that it has repeatedly requested the government to shift from its current administrative approach toward a more clearly defined relationship to lessen the weight of bureaucracy and reduce the scope of unjustified expectations. Unfortunately, experience with alternative approaches (contractual approaches, relational contracts, and so on) is limited in Sub-Saharan Africa (see Rypkema 2002, summary of the WHO intercountry meeting on Lessons from Health Sector Experiences in Contracting in Africa held in Addis Ababa in November 2001).

Are Technocrats and Politicians Worlds Apart?

The most serious objections to public funding of the PNFP subsector, even in its current partial and limited form, come from the political arena and follow the abolition of user fees in government health units. This decision had not been foreseen during the formulation of the National Health Policy and the National Health Sector Strategic Plan, and threatens to slow down the pace of convergence of the government and PNFP subsystems that had been under way. The arguments, stated in simple terms, are the following:

- Why is the PNFP subsector not decreasing its user fees?
- Why should public funding be provided to the PNFP subsector when the government health sector is underfunded?
- Why should people entitled to free health care pay for services if they happen to live in an area where the only provider is a PNFP health unit and they have no other choice? This objection is usually followed by a proposal to establish a government health unit in the area.

The first is a question of problem accountability or responsiveness, the second of allocative efficiency, and the third of equity. These are three different levels of the basic question the justification of public subsidies to the PNFP subsector—and need to be addressed separately.

Accountability

The answer to why the PNFP health subsector is not decreasing its user fees is certainly the easiest to answer, because the objection has no foundation: evidence has demonstrated the exact contrary. Documented evidence indicates that the PNFP health subsector is indeed decreasing its fees, is increasing its staff remuneration, is being increasingly utilized, and is providing more preventive services (Giusti, Lochoro, and Mandelli 2002; Santini 2002) (see figures 1 and 2).
Perhaps the magnitude of the decrease in fees is not as large as desired by those objecting, but they need to take into account that this objective had to be a trade-off with other important objectives, namely, increasing salaries to bring them closer to government levels and providing more public goods. In addition, comparing the proportion of government subsidies with the cost of production of services is impossible,
though in terms of allocation, the government subsidy amounts to about 25 percent of the PNFP subsector’s costs (Ministry of Health 2002b).

**Allocative Efficiency**

The overall resource constraint is what makes the provision of subsidies to the PNFP health subsector desirable in the first instance. Those raising objections fail to see that services are provided by the government, the PNFP, and the private for-profit health subsectors in proportions that seem to be equal (Hutchinson 2001). In addition, the rationale of the operations of the PNFP health subsector makes it similar to the public health sector (Giusti, Criel, and De Bethune 1997).

The real question is whether the subsidies provided to the PNFP subsector provide returns in terms of increased geographical access to services, increased access for the poor, and quality care. With almost half the hospitals in the country and a quarter of the lower level units, it would be difficult to deny that the PNFP subsector has at the minimum increased geographical access. In addition, for the cash starved health budget, the return of 100 percent of the services provided in exchange for some 25 percent of their cost is a very convenient arrangement for the government, especially if these services have lower costs of production than in government units (Ministry of Health 1997).

**Equity**

The objection arising from equity concerns is probably the most difficult to address. Equity concerns are certainly understandable and justified. Unfortunately, they need to be constantly gauged in relation to the resources available for the pursuit of equity. It is not the intent here to return to what has already been stated, that is, free universal access to the minimum package of health services is impossible within the current and the foreseeable future resource envelope, no matter how desirable this would be. Therefore the argument that inequity exists if two populations, one served free of charge by a government health unit and the other served for a fee by a PNFP unit, could stand only if the package of services provided were of the same scope and of the same quality. A more consistent adoption of exit polls to assess users’ satisfaction would give more strength to this counterargument, but consider just the substantial difference in drug availability between the government and PNFP units.

Equity is about comparisons, and comparisons require an even playing field. To be fair in making a comparison one should add to the “free” diagnosis and prescription in government units the cost of purchasing drugs in a pharmacy or a drug shop. If this were substantially less than the fee paid in a PNFP health unit, then talking about inequity might be possible, but perhaps not even then, because other considerations would have to be taken into account, such as the consistency of the drugs purchased with the prescriptions.

**Cost**

The PNFP health subsector has always operated in a situation of resource constraints. Cost consciousness is part and parcel of the institutional culture. The subsector keeps
its expenditures in line with its revenues, balances its budgets, matches its revenue forecasts to its commitments, and rarely incurs debts. The management of PNFP units has relatively ample discretion in deciding on the allocation of resources and virements (or execution of payments) within the established budget. When costs started escalating at the beginning of the 1990s, the subsector developed the coping mechanisms referred to earlier, which were effective for some time, but eventually had to be abandoned as unsustainable. Since then, especially in the last few years, budgets have increased substantially. For example, an increase of 70 percent over six years has been observed for Uganda’s Catholic hospitals (see figure 3). Figure 3 also shows how government subsidies have displaced user fees as a source of income. This has probably also occurred in the public and commercial private sectors, but has only been documented in the PNFP subsector (Giusti, Lochoro, and Mandelli 2002). Observing expenditure trends per unit of output all across the sectors and comparing them would be an interesting exercise.

A close look at the structure of budgets over time shows that the cost of labor is the single most important cause of cost escalation, but this is hardly a surprise. The main competitor on the labor market for health staff is the public sector, whose remuneration has kept increasing in the last few years. When in 1999 the freeze on recruiting civil servants was lifted, the PNFP subsector witnessed a critical exodus of qualified staff. Ironically, both the increase in the public sector and the new recruitment were made possible by donor money and debt relief. Understandably the PNFP subsector had to increase the remuneration of its own staff. Average salaries in the
PNFP subsector are about 30 percent less than in the civil service. This may reflect some altruistic motivation on the part of PNFP staff, but such an altruistic motivation does not hold if work conditions become too unequal.

The issue here is not whether or not health staff should be paid more: there is enough evidence that staff are underpaid in both the public and PNFP sectors. The issue is rather whether policies that affect the cost of labor could and should be decided without taking into account the larger health sector, especially if these policies are made possible by donor money and may not be sustainable.

Identity and Institutional Culture

This paper has not yet accounted for all the factors that point to the altruistic character of the PNFP subsector. Some of these factors that have not been mentioned include the following:

- Most of the PNFP subsector (86 percent) operates, by choice, in rural areas where the proportion of poor people is higher than in urban areas (Ministry of Health 2001).
- Despite the need to charge user fees, the PNFP subsector keeps these to the minimum necessary to secure sustainability by using alternative sources of funding whenever they are available.
- Better-off segments of the population prefer government health services rather than PNFP services (see figures 4 and 5).
- Spontaneous networking and accepted coordination from the umbrella organizations (the bureaus) indicate a high degree of discipline.
- New approaches to problems are developed and tested, for example, the development of home-based care for HIV/AIDS patients and of community financing mechanisms stemmed largely from the PNFP subsector.

All these features would constitute odd behavior by the standards of the private sector.

The mission of Catholic health services in Uganda expressly states that the aim is to treat the poor, and similar statements can be found in the charters of units from other denominations. Other PNFP services are motivated by different values. In any case reference is made to an ideal that is to be pursued because it is considered good in itself (Giusti 1999). The issue here is whether this ideal is duly considered as an inherent value of the subsector, and therefore respected and protected, or not.

Welfare State, Market-Based State, or Welfare Society?

The issues presented in this article range from welfare state to market-based models. However, another idea, not a model, is the notion of a welfare society, one that has not been planned, but simply exists as the fruit of the initiative of individuals, communities, and associations. This is how PNFP health units develop. They start humbly and grow, often beyond expectations. They take care of people’s needs
because they stem from the social experiences of people themselves. All they need is to be recognized as individual entities. When their social value is evident and the services they provide are obvious, they need to be supported. In other words, they require a correct understanding of the principle of subsidiarity. Finally, of course,
they require an environment conducive to their development. As Pope Pius XI put it (1931, paragraph 5):

It is indeed true, as history clearly proves, that owing to the change in social conditions, much that was formerly done by small bodies can nowadays be accomplished only by large corporations. None the less, just as it is wrong to withdraw from the individual and commit to the community at large what private effort and action can accomplish, so, too, it is an injustice, a grave evil and a disturbance of right order for a larger and higher organization to arrogate to itself functions which can be performed efficiently by smaller and lower bodies. This is a fundamental principle of social philosophy, unshaken and unchangeable, and it retains its full truth today.

The issues here are

• How far is the concept of a welfare society accepted?

• How far are policymakers, both in the government and in large multilateral and bilateral organizations, ready to revise their paradigms?

Conclusion

The PNFP health subsector is an important actor in service delivery in Sub-Saharan Africa. It is certainly an important actor in health in Uganda. In most instances it started up as way to provide services to the poor, and continues to do so, but reaching the poor is not easy. Certainly the subsector faces issues of internal weakness and inconsistencies and is taking steps to address the various problems; however, the task is made more difficult by an ambiguous policy environment, by practices inconsistent with policy, by resource constraints, and by the inadequacy of prevailing paradigms.

The policy and donors communities have reached a point in history when they have reached clear consensus that poverty can be defeated, or at least lessened. If we are to progress on achieving this goal, we must bank on the energies of all, starting with those people, institutions and organizations that have made responding to people’s needs, and especially the needs of poor people, a focus of their existence. Too often what happens is the exact opposite. Perhaps the new millennium will bring new synergies and a new focus.

Notes

1. The definition of private practice is somewhat vague. More often than not private practitioners, including medical practitioners, nurses, and allied professionals, are both public functionaries and private entrepreneurs.

2. The main factor contributing to the increase in the cost of service production was the increased wage levels mandated by the government.
3. For example, in Uganda the following levels are envisaged for the public health system: village level; health centers II, III, and IV; district and general hospitals; referral hospitals; and national hospitals. Standards of infrastructure, equipment, and staff have been defined for these levels, but are not often adhered to.

4. Functional integration as used here means an integration of functions by different legal entities that preserves the basic management autonomy of each.

5. With almost perfectly balanced budgets, the subsector currently recovers 50 percent of its costs from user fees, 25 percent from public subsidies, and 25 percent from an external mix of private donors and denominational charities.

6. Accountability here refers more to fulfilling expectations and less to a formal process of accounting for resources used. It is possible to be accountable by doing what one has accepted to do, even in the absence of formal checks.

7. Components of the national minimum health care package include (a) control of communicable diseases; (b) integrated management of childhood illness; (c) sexual and reproductive health and rights; (d) other public health interventions, such as immunization, health education and promotion, and disaster responses; (e) mental health services; and (f) essential clinical care.

8. This estimate is based on an analysis of costs based on the existing infrastructure, both government and PNFP, and does not take into account the need to expand services to improve coverage. When this extrapolation is carried out the per capita cost reaches US$28 per capita, closer to the figures provided by the Macroeconomic Commission for Health.

9. With the abolition of user fees, private services were established in government units on the assumption that those who could afford to pay would get faster-track service of the same quality. Whether this assumption has been confirmed in practice is not clear.

10. Administrative approach as used here means a form of partnership whereby the PNFP subsector is equated with the public sector and is asked to adopt all government regulations (especially those related to financial management) in exchange for partial budgetary support.

References


Daniele Giusti


Starting a discussion of this topic is hard without mentioning the failure of the Group of Eight Summit, held in Canada in 2002 to support increased funding for Africa. Oxfam is deeply disappointed that Canada’s and the United Kingdom’s efforts to get new money for the New Partnership for African Development (NEPAD) were frustrated by other Group of Eight governments. Without initiatives such as NEPAD, poor governments are unlikely to be able to provide the services that their communities need, services that we in the industrial world take for granted and as our right. Making services work for the poor means that the industrial world must find enough money to do so.

Oxfam’s approach to development is rights based and its role is to advocate for the rights of poor communities, including their rights to basic services, such as health and education. For example, as a member of the Global Education Coalition Oxfam has campaigned hard for universal primary education. Unfortunately, the positive rhetoric of those supporting the education for all campaign, including the World Bank, is not backed by sufficient cash to make it a reality, although some progress is being made. For instance, the government of Japan recently quadrupled its official development assistance allocation to primary education, joining other donors that have come to recognize its importance for poverty reduction.

Nongovernmental organizations (NGOs) maintain that one of the key obstacles preventing poor governments from delivering education and other services to poor communities is debt. Debt relief has been neither fast enough nor extensive enough, yet it is surely one of the ways in which resources for services could be made available.

Oxfam and other NGOs are also challenging the European Union on its proposals to open negotiations on services under the new trade round. Oxfam does not think that poor governments will be able to withstand the pressures brought to bear by huge European firms wanting to obtain access to developing economies on terms unfavorable to
those countries. Oxfam is not opposed to the private sector’s involvement in service delivery in principle, but its involvement must assure quality and equity.

Oxfam is particularly concerned about water not only being privatized, but also being commercialized and priced out of reach of the poor, especially those in rural and remote communities. Access to affordable, clean water is a right, not a consumer choice.

As the campaigns on education, debt, and trade demonstrate, Oxfam believes that the most strategic way in which it can affect the quantity and quality of development assistance and aid flows in general is through advocacy and argues that NGOs have a limited role to play in the direct provision of services. NGOs should not take on governments’ roles, especially if this lets them avoid their obligations, unless no other options are available. NGOs need to have the greatest impact they can with their limited resources, and Oxfam believes that they can have such an impact by changing policies that impede development. If Oxfam were primarily a provider of services—a government subcontractor—its ability to critique governments and the multilateral development banks would be limited, but Oxfam argues that such critique is important if it is to maximize opportunities for poor communities.

Increasingly NGOs, including large, service-oriented NGOs in developing countries, are moving into advocacy at the local, national, and international levels; however, they have other roles as well. Oxfam, for example, is known as a provider of water supply and sanitation in emergency situations as in Rwanda; as a rehabilitator of water systems in East Timor; and as an implementer of long-term, bilateral water programs in Tigray, Ethiopia and elsewhere. In Tigray, Oxfam built up an operational partnership with the Relief Society of Tigray, which had evolved out of the struggle against the former dictator President Mengistu. Oxfam shifted from providing emergency food and water during the famines of the mid-1980s to providing technical support for water programs that suited the remote and mountainous terrain—wells dug by hand or blasted with dynamite—to deliver a permanent, clean water supply to more than 300,000 people scattered across Tigray for around US$3 per person.

Most of Oxfam’s work in service delivery involves funding partnerships with NGOs and community-based organizations. A good example is the Bangladesh Rural Advancement Committee (BRAC), a membership-based NGO that effectively fills the gap left by the government in several areas, notably education and microfinance. The committee has 26,000 employees, many in its primary schools, nonformal education system, and credit unions, and obtains remarkable results in literacy, loan recovery, and increased household incomes. The performance of BRAC, which would be the envy of any government, is underpinned by a huge investment in human resource capacity: strengthening leadership, building a strong organizational culture based on service to the people, providing training to agreed standards, and having highly professional management.

In some countries—Cambodia, China, the Lao People’s Democratic Republic, and Vietnam—Oxfam has worked to build the capacity of local governments. This can be more strategic than supporting local NGOs (and in some situations they do not exist anyway), because it makes use of existing resources and focuses on technical capacity
and human resource capacity. In some situations strengthening the capacity and transparency of local governments is a cost-effective and sustainable approach to service delivery. Often a simple factor, such as building the confidence of key leaders or ensuring that the community can hold public servants accountable, has a major impact on project success.

Inherent in all these roles are critical factors that many agencies—multilaterals, bilaterals, and NGOs—pay lip-service to, but often fail to deliver upon. First is the need to be oriented toward enabling communities to control their own development. This requires genuine participation to ensure that communities really are in control of the process and that projects meet their needs. While no one disagrees with this, doing it properly is difficult and is probably one of the main reasons that projects fail. Highly vulnerable communities are unlikely to be able to deal on equal terms with major agencies (whether governmental or multilateral), with private sector firms, and even with large NGOs. The power imbalance is too great and respective agendas and imperatives are too disparate.

Second is a realistic understanding of the absorptive capacity of communities, both in terms of the resources available and the pace of programs. The most successful projects are those where the delivering organizations have taken the time and the care to build confidence and trust: confidence to articulate needs or demands, to organize, and to resist in an unequal power relationship. Introducing resources at a level and pace that communities can handle, that enables equitable access to resources, and that avoids the “bees to the honeypot” syndrome is essential to success.

Third is design flexibility. Delivery must be based on context-specific design that takes gender and cultural issues into account and should not use a one size fits all approach. Project design needs to acknowledge power inequalities within households and the leadership potential of women as the main users of services. In addition, donors need to be flexible enough to build in innovation and risk taking to avoid more development failures. These design issues also need to be taken up through poverty reduction strategy papers: they must be country driven and owned, focused on outcomes that benefit the poor, and based on medium- to long-term strategies that recognize that sustained poverty reduction takes time.

Fourth is the value orientation of the delivering organization. It is no accident that NGOs and religious organizations are found in the most remote and sometimes the most dangerous places, places that civil servants often do not like and where companies cannot make profits. Affinity-based organizations tend to understand and respect the other key factors: genuine partnership, absorptive capacity, and power relationships and flexibility.

Oxfam argues that any provider of services to poor and very poor people, whether public or private, should have demonstrably altruistic values and a clear commitment to the public good within a legislated framework that ensures quality and equity. Government agencies need to be clear about control, for example, empowering communities that may then criticize them, while the private sector needs to address the tension between the public good and making a profit, two aspects of service provision that often do not sit comfortably together. Instilling altruistic—or public good—values into
the reward structure of service delivery programs is essential. Voluntary codes are insufficient in this respect and governments are responsible for putting the public good ahead of profits.

The challenge facing NGOs is to scale up successful village-level programs to regional or national levels. NGOs rarely have the full complement of professional, commercial, and technical skills required to do this. There needs to be a much deeper, shared understanding of how the different sectors—public, private, and nongovernmental—could work together, with their complementarities and comparative advantages, to enable more effective partnerships. This is not about subcontracting, but about approaching development together with a shared understanding of what constitutes good development, clearly defined roles, and a focus on improving both policy and practice.

Different NGOs will play different roles in different contexts—acting as critics, innovators, or mainstream providers—in championing the rights of poor communities. Ultimately it is their rights that should shape the way development organizations across the spectrum provide services to people.
The Early Years, 1986–94

The Madrasa Early Childhood Programme originated as a small pilot initiative in Kenya in the mid-1980s to address communities’ concerns about their children’s understanding of their local culture and religion while also increasing their chances for later access to and success in formal education. The program emerged out of a request by local Muslim community leaders to His Highness the Aga Khan and centered on a desire to see more of their children enroll in and succeed at university-level education. As a result, program staff from the Aga Khan Foundation (AKF), in coordination with leaders from the local Ismaili community (followers of the Aga Khan), commissioned a series of studies to look at issues related to access and success across the education system for Muslim children and young people. The recommendations, which were fully accepted by the community, suggested that the most effective approach would be to establish high-quality preschools. The rationale was that this would ensure a positive start to young children’s learning that might then help them achieve greater success in their passage through the education system.

Although identifying space for a preschool program could have been difficult in urban Mombasa, the solution of using the traditional madrasahs (see box 1) was rooted in the program’s rationale: building on local communities’ culture and religious values. Moreover, in East Africa the madrasahs were largely unused in the mornings because most classes were given in the afternoons and evenings. Madrasahs are referred to by various names in the different countries in which they exist.

*Anwar Poonawala, director of the Aga Khan Fund for Economic Development in Geneva, presented comments on the Madrasa Early Childhood Programme at the Berlin Workshop meetings in July 2002. The paper published in this volume was prepared by Kathy Barlett, senior programme officer, Early Childhood Development and Education, at the Aga Khan Foundation. This is a revised version of work first prepared as a case study for a forum held at Canterbury Cathedral in October 2002, and is published here with permission. An overview of the Canterbury meetings was published by the World Bank in 2003 as Millennium Challenges for Development and Faith Institutions.

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Box 1. What Is a Madrassah?

Madrassah is an Arabic word that refers to a place of learning. Initially part of the mosque or linked to it, madrassahs educated children and others about the Muslim faith and the Koran. Madrassahs are a widespread educational institution in the Muslim world and many have evolved into centers of higher learning for training religious scholars and jurists.

The role, status, and function of the madrassah has varied across time, and this diversity is still evident in the continuing role it plays in the development of literacy and education across the Muslim world, particularly in rural communities. In East Africa, which has a large Muslim population, madrassahs also cater to young children who study the Koran and the life of the Prophet Muhammad before they move on to secular primary education.

(madrassahs, madaris, Koranic schools, and so on). For the purposes of this paper, madrassah is used when it refers to this traditional system and madrasa is used for the specific preschool program described here.

In addition to finding space, another challenge for the AKF was identifying an appropriate initial leader for the pilot effort who would be accepted by the parents and the religious teachers (imams) and who could convince communities to take up this initiative. A local, well-respected Muslim woman trained as a primary teacher, Swafiya Said, was hired as the first director (plus trainer, plus curriculum developer, plus community organizer). She began by working with a handful of communities—the first to express interest in working jointly on the development of this new approach—to select local women to train as preschool teachers. As with any new pilot effort, the selection of the first communities was a critical decision, hence the focus on those showing willingness, commitment, and interest.

Said also began developing the curriculum and the overall approach jointly with communities and religious teachers and with additional technical support from the AKF. The resulting “integrated” preschool curriculum brought together local Swahili culture (language, songs, stories), key values and teachings from Islam, and contemporary preschool methodologies and content. This approach promoted culturally relevant early learning and the social development of preschoolers (early literacy and numeracy skills, working and playing with peers, and so on) in age-appropriate ways.

Over time, enthusiasm for the approach grew, and the AKF and the Aga Khan Education Services Company in Kenya (a linked Aga Khan Development Network [AKDN] institution) helped to establish the first madrasa resource center (MRC) in Mombasa, Kenya, in 1986. This center began the process of institutionalizing the program and, with additional staff, enabled further expansion to other communities. By 1990 Said and her small team were working with some 10 to 12 communities in and around Mombasa. In 1989 community and religious leaders in nearby Zanzibar
(part of Tanzania) heard about this integrated approach to preschool education and expressed interest in visiting the program and replicating it in Zanzibar, whose population is more than 95 percent Muslim.

The Zanzibar MRC was established in 1990, again beginning on a small pilot basis. The third MRC was established in 1993 in Kampala, Uganda, and like the other MRCs emerged out of discussions between local community leaders and the Aga Khan and/or various senior staff from AKDN institutions along with senior local Ismaili leaders. As MRCs were established and registered in each country, volunteer national boards were set up to oversee the MRCs’ work. The boards were made up of respected Muslim leaders (including one or two from the Ismaili community), local teachers, business people, and the like.

In relation to staff, local Muslim women—often trained as primary school teachers—were identified to serve as directors of the new MRCs. Each also acted as a trainer of preschool teachers. The initial development of new MRC staff was undertaken through a period of on-the-job training and mentoring by Said and her staff in Mombasa. This process helped ensure a similar philosophy and approach during the early period of expansion. To this day new MRC staff and community teachers undergo a combination of training sessions within the MRCs and a significant amount of follow-up and on-the-job training followed by regular mentoring in the schools.

The passing on of agreed core values, methodologies, and philosophy that did not prescribe to any specific interpretation of Islam was critical not only because of the geographical spread of the MRCs, but also because it provided a foundation for MRC staff to interact with a diverse set of Muslim communities in the three countries. This was particularly true in the case of Uganda. During the early phase of the MRC program there, proponents had to pay careful attention to how the MRC would work with the three main Muslim groups in Kampala. At that time the three groups had a somewhat uneasy relationship with each other largely because of their particular interpretations of Islam and the Koran. Parents did not want their children going to another group’s preschool, and organizing joint meetings with all three groups was difficult, if not impossible. The MRC staff held separate discussions with the three Muslim communities and decided to establish three preschools, one in each community, to avoid any perceptions of favoritism. Now, nearly 10 years later, representatives of the three main Muslim communities in Kampala meet regularly on their own accord and with a sense of purpose: to ensure that their preschools maintain their quality and to work toward long-term sustainability.

A separate and perhaps surprising feature of the madrasa program is that in all the communities in which the three MRCs operate, enrollment of non-Muslim children occurs on a limited, but regular basis, usually in roughly the same proportion as the number of non-Muslim families living in the preschool’s neighborhood. When asked why they have enrolled their children in these faith-based preschools, the parents of these children often state that they are the best and most affordable preschools in the community. Some have also commented that their children learn to appreciate their own faith better as a result of attendance. Indeed, a few parents have reported children returning home and suggesting that the family should say prayers before eating.
The Program’s Development and Evolution, 1995–2001

In 1994 AKF staff undertook an internal review of the MRCs and the linked preschools (3 in Uganda, 15 in Kenya, and about 20 in Zanzibar). Some of the main issues facing the program at that time included (a) the need to strengthen the MRCs’ capacities to develop, implement, and monitor the *madrasa* preschool program on a larger scale; (b) the need to address the preschools’ financial sustainability while also ensuring that they were community-owned and managed and were providing high-quality early learning experiences; and (c) the need to work toward achieving the MRCs’ sustainability.

A second phase of improvement and development ensued during 1995–2001 that focused on building up the MRCs’ organizational and technical capacities. This included strengthening their approaches to early childhood education (that is, refining the curriculum) and enhancing how they mobilized and worked to build local communities’ capacities to manage and oversee their preschools, which by that time included both rural and urban communities. A key outcome of this phase was the development of monitoring and support systems that the MRCs and the school management committees used to assess progress and quality across the expanding number of preschools, with the end goal being the “graduation” of community preschools. Two of the main driving forces behind the idea of graduation were that (a) the MRCs were expanding to new communities on a yearly basis and each required intensive training and mentoring, raising the issue of how many communities MRC staff could support at any one time; and (b) the MRCs were keen to promote the idea of communities sustaining their own preschools over time in the hope that this would decrease the levels of direct and intensive input required from MRC staff. Thus AKF and MRC staff hypothesized that after two to three years of concentrated work and support, communities should arrive at a basic level whereby they were independent and on their way to being sustainable, that is, communities had the skills to manage and finance their schools and local teachers had sufficient training to maintain quality, albeit with some refresher training from the MRCs.

The MRCs worked out a transparent monitoring and assessment process with communities that led to their graduation. The criteria for graduation all related to the achievement of quality in relation to the *madrasa* program’s objectives, including high-quality teaching and learning environments and processes, effective and transparent management and financing of the preschools by committee members, and participation in the preschools by the wider community. On graduation, the preschool was awarded a one-time grant of US$2,500, and also received up to an additional US$2,500 that was matched one to one with funds raised by the community (as explained in more detail later).

During this expansion phase, the three relatively independent MRCs were brought together under a regional structure to facilitate more coordinated improvement of the MRCs and to ensure a set of coherent and agreed upon methodologies and a coherent overall approach to the *madrasa* community-based preschools. This included organizing a series of joint training sessions for the MRC trainers, having the newly
appointed community development officers be responsible for taking the lead in relation to community mobilization, and strengthening the madrasa preschool management committees. A particularly important outcome of this process was that the regular meetings, discussions, and training sessions encouraged the staff of the MRCs to build a culture of reflection and regular sharing of ideas and lessons learned. External evaluators and the regional researcher for the madrasa program have since concluded that this ongoing reflection and mutual support was probably the main reason for the improvements in the program during the second phase of development (Brown, Brown, and Sumra 1999; Mwaura 2002).

A volunteer regional advisory committee was created to oversee this new regional structure and had clear links to the three national boards through the inclusion of their national board chairs. The committee also included people with relevant areas of expertise, that is, early childhood development and Islam, and local Muslim leaders. This mechanism prevents the national boards from working at cross-purposes and provides for the cross-fertilization of ideas and problem solving approaches.

**Understanding the MRCs’ Approach to Community-Based Preschool Education**

This section outlines the core components and methodologies of the MRC approach to community preschool development.

**Building Trust and Encouraging Dialogue**

As an initial step, the MRC community development officers, often in conjunction with MRC trainers, spend some 6 to 12 months undertaking community awareness and mobilization activities in communities that both know about and have expressed interest in the program, as well as in communities located in new areas that may not be aware of the program. The officers hold a series of discussions with community leaders and members, individually and in groups, on the program’s key components, including the roles and responsibilities of each partner, and set up a management committee made up of both women and men. Community development officers train and support these committees for two years initially, with ongoing but less intensive support thereafter.

Eventually the MRC signs a contract with the interested community that outlines the terms and conditions of partnership and the responsibilities of all parties. This is done in the presence of the broader community to ensure transparency and awareness.

Communities open bank accounts specifically for their preschools and find suitable premises for the preschools. Existing madrassahs are used when possible, otherwise communities build their own preschools. Communities also identify local women candidates whom the MRC will train as teachers and principals. In addition, the MRCs work with communities to reach agreement on the level of fees parents will pay to enroll their children. These fees will go toward the costs of operating their preschools, and mainly cover teachers’ salaries and basic supplies. Finally, and where needed, MRCs assist communities as they register their preschools with the local authorities.
Training, Mentoring, and Providing Support

Once a preschool has been established, the MRC provides initial orientation training for a month that introduces the basic concepts of active learning, demonstrates how to set up an appropriate learning environment, and shows how to develop low-cost classroom materials. Thereafter teachers receive in-school support once a week for 78 weeks, and then two or three times a month for another 6 to 10 months or until the school graduates. In addition, for two years or longer, small groups of teachers meet each week at the MRC for joint planning and problem-solving sessions with MRC mentor trainers. Madrasa school committees also receive training in community mobilization, fund raising, basic accounting skills, management, and planning (see box 2).

Building Accountability through Ongoing Monitoring and Assessment of Progress

Every six months MRC staff evaluate preschools on the quality of teaching and learning, the interactions both between adults and children and among children, the extent of parent and community participation, the efficacy of preschool management, and the appropriate presentation of local cultural and religious values. The results are shared with the preschool management committees, which then use them to plan for the next six-month period. The evaluations demarcate expected performance levels and are a core part of the eventual graduation process.

The Regional Office holds regular meetings for program directors to discuss program and management issues. The Regional Office also organizes joint sessions for trainers and community development officers two or three times a year to review lessons and issues emerging from their work and to plan and develop new components. MRC staff have written training manuals for community development officers and trainers. All this helps create a reflective culture within the MRCs and the regional program. Such a culture requires nurturing and all those involved need to devote the requisite amount of time, which is not always easy given the conflicting demands on their time from communities and colleagues, not to mention their families.

Addressing Long-Term Sustainability

The MRCs have received cofunding from the AKF and one or more of the following: the Canadian International Development Agency, the European Commission, the Ford Foundation, the Bernard van Leer Foundation, the government of Kenya, the World Bank, and the Rahimtullah Trust (an East African philanthropic organization). Nevertheless, long-term funding remains a challenge.

The AKF also provides considerable technical assistance and advice through its own early childhood development and education experts and advises the MRCs on general organizational development. Ongoing attention to build the MRCs’ capacities and skills to ensure that they become effective local institutions remains a priority for the AKF for the coming years.

At the community level the MRCs, with assistance from the AKF, have tested approaches to ensure the sustainability of the preschools by piloting a mini-endowment
scheme across a selected number of preschools that have graduated. This mini-endowment scheme begins at the end of the two- to three-year period of initial capacity building of the community preschool and after achievement of the agreed levels for graduation.

At the time of contract signing each community receives the equivalent of US$1,000 as an initial seed grant for the purchase of classroom materials and basic school equipment, such as shelves, mats, and outdoor play equipment, and to top-up funds for refurbishment and construction. This grant is generally disbursed in small installments based on a plan agreed on with the community and in line with its cost estimates. In practice, the grant has also served as a useful mechanism for early assessment of the community’s ability to plan, budget, and implement activities related to its preschool.

In relation to the pilot mini-endowment scheme, each participating school receives a graduation grant of US$2,500. Communities also have the option of raising additional funds and the program matches these funds up to another US$2,500. Thus a community’s endowment fund could amount to as much as US$7,500 ($2,500 graduation grant + $2,500 community funds + $2,500 matching grant).

Box 2. Promoting Opportunities for Girls and Women

Since its inception, the Madrasa Early Childhood Programme has placed particular emphasis on ensuring that girls and women are offered opportunities to participate in and take on leadership roles in the madrasa preschools and the MRCs. This is because many of the girls and women in the participating communities would otherwise have limited opportunities outside the home, particularly those in rural communities. The program offers the following opportunities to women and girls:

- MRCs and communities monitor enrollment and recommend that girls make up at least 50 percent of total enrollment in each preschool.
- Local women who usually have completed at least Grade 8 and increasingly Grade 10 are selected and trained as preschool teachers and principals.
- Women must be represented on the preschool management committees, each of which is required to have at least three women members. The directors of the three MRCs are all women and all the MRC national boards and the regional committee include women.

This approach has led to a shift in attitudes toward women by local Muslim leaders as exemplified by the following quote from the Uganda MRC director:

The First Lady, the wife of the president, once approached religious leaders and asked them to identify Muslims working for the community. I was identified as one of them and invited in the office of the president for a meal. This came as a surprise but with a big message that MRC is recognized in higher levels than they thought. The reaction was like—who am I to be invited by the first lady? But it was not me, but the institution. (Mwaura 2001, p. 18)
In 2000/01 an initial group of 38 graduated schools from the three countries participated in the pilot scheme. Their mini-endowment monies were pooled within countries and then the region and invested in ways chosen by the communities from a list of options. Since then the communities have received back a 5 percent dividend on their investment each quarter that has helped them meet the running costs of their preschools. A handful of communities have paid in additional funds and/or have carried out fund-raising activities.

Early results indicate that even the limited amount of dividends help to cover some of the preschools’ costs, especially those in poorer communities. However, assisting communities and MRC staff to understand this new form of investment and the whole concept of sustainability involves significant challenges, and MRC staff and school management committees continue to require ongoing capacity building on resource mobilization options and methods.

It is too early to determine whether the pilot program has been a success and if so, whether it is replicable. The MRCs and the Regional Office continue to wrestle with such unresolved issues as choosing investments that are in accordance with Islamic principles and ethics, the interpretation of which can differ among communities; improving communication about communities’ investments; and determining the type of longer-term management and governance structure that might be required after the initial pilot phase finishes.

Lessons Learned

“In MRC we don’t talk of failure. We talk of challenges because we believe that every problem has a solution.” MRC staff member quoted in Mwaura (2001, p. 20)

The following features or characteristics—noted by MRC staff, external evaluators, the regional coordinator and researcher, and AKF—are critically important for program acceptance by parents and communities (this section draws heavily on Bartlett 2002; Brown, Brown, and Sumra 1999; Morgan and Muigai 2000; and Mwaura 2001).

The following characteristics are important at the community level:

• Two uncompromising “passions” are present. The first is the ongoing adaptation and use of active learning methodologies to improve the quality of the learning experience for children in marginalized Muslim communities. The second is communities’ commitment to ownership and self-sufficient independence of madrasa preschools, no matter how poor the community.

• High levels of trust and capacities are built with and within communities. The MRCs understand that in relation to listening to and working with the communities on their concerns and ideas for helping their children, all parties’ roles and responsibilities need to be clear. This requires regular support to and monitoring of local management committees, especially during the first two or three years, to continually reinforce community ownership and communities’ ability to manage ECD activities.
Success with one community often has positive knock-on effects. Replication and the building of trust with other communities is facilitated when they have a chance to see neighboring communities’ involvement and the program’s impact on their children. Word of mouth is a powerful communication mechanism.

Available local resources, including leadership capacity, are developed and used. These include human, material, and financial (including in-kind) resources. Women have proven to be strong leaders, and therefore critical resources for the program over time.

Communities are provided with systematic mentoring and follow-up support. Teachers, community leaders, and management committees all benefit when the implementation and absorption of ideas is facilitated and shared through group training exercises and ongoing in-school and in-community support.

Attention is given to preschools’ long-term financial sustainability. Achieving sustainability must be addressed and different strategies have to be tested and shared. This requires commitment and willingness on the part of all stakeholders, including donors.

Mutual accountability is promoted across teacher training outcomes and community development outcomes. Preschool teachers and principals are directly accountable to the school management committees, and communities’ support and public recognition of their teachers are both linked to the success of the preschools. The teachers’ livelihoods are linked to the success of the school management committees in mobilizing parent support for fees and in providing program materials. Finally, the community support of preschools is directly linked to residents’ perceptions of teachers’ performance and the benefits to the children.

The following characteristics are important at the MRC level:

- The MRCs were given flexibility as they developed their program approaches. Emerging needs and issues need to be discussed and addressed as programs mature, for example, by introducing community development officers into MRCs to strengthen the community development process. The space to be creative, to reinvent aspects of programs over and over, is essential.

- The program’s infrastructure, personnel, and management were allowed to develop over time. Establishing effective and relevant local organizations takes time to evolve and mature and requires vision and a long-term willingness to invest funds and technical support. Investment in the professional development and leadership capacities of MRC staff has been critical. In addition, the commitment of the Aga Khan and the AKDN along with later encouragement by other funders to invest in the program over time has been key.

- The establishment of a regional coordinating unit (the Regional Office) provided an overall framework for enabling technical inputs and support to the maturing MRCs. Growing programs and organizations can often feel isolated and without
adequate peer support mechanisms because of the pressures of moving forward with their own work. By linking the MRCs together in a mini-network that was coordinated by the Regional Office, a second level of support and the sharing of resources (including hiring consultants) was established and led to the identification of internal strengths and skills that could be shared across the region.

- The adoption of an ethos centered on high-quality education for children evolved into an MRC service culture, which over time pervaded the entire system. This has in turn enabled enthusiasm and commitment to deepen and also served as a catalyst for program development.

- The creation of a system of gentle competition and accountability across MRCs and communities was embedded in a strong support and mentoring network. The program’s experience suggests that this can help catalyze and ensure ongoing improvement and creativity.

Program Impact on Beneficiaries

The Regional Office has been carrying out a major research program over the last four years. The work of the regional researcher is threefold. First, the regional researcher is undertaking two research studies to assess and understand the effectiveness of the MRCs’ and their impact on their stakeholders, particularly the children. The results will subsequently be fed back to the MRCs to improve their effectiveness as well as to others working in the area of early childhood education in the region and internationally. Second, the researcher is working with other consultants and MRC staff to design a user-friendly management and information system that will

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<tr>
<td>Number of communities contracted/number of graduated madrasa preschools</td>
<td>66/51</td>
<td>69/64</td>
<td>50/38</td>
</tr>
<tr>
<td>Number of madrasa preschool teachers trained</td>
<td>431</td>
<td>531</td>
<td>133</td>
</tr>
<tr>
<td>Number of school management committee members trained (percentage of which are women)</td>
<td>555 (42)</td>
<td>571 (44)</td>
<td>307 (38)</td>
</tr>
<tr>
<td>Number of children enrolled in 2002 (percentage of which are girls)</td>
<td>2,423 (51)</td>
<td>4,336 (52)</td>
<td>1,952 (50)</td>
</tr>
<tr>
<td>Total number of children enrolled over time (percentage of which are non-Muslim)</td>
<td>11,917 (3)</td>
<td>21,958 (0.8)</td>
<td>8,632 (22)</td>
</tr>
<tr>
<td>Number of non-madrasa preschool teachers and trainers trained</td>
<td>500</td>
<td>604</td>
<td>571</td>
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Note: (percentages in parentheses)
Source: Madrasa Regional Programme statistics.
enable the program’s staff to create and use a relevant database for program monitoring and evaluation. Third, together with the regional coordinator, the researcher is strengthening staff capacity in monitoring, evaluation, and research within the MRCs. The AKF identified an external senior researcher from Oxford University to advise the researcher. In addition, a small advisory group made up of members from the wider regional committee with considerable research skills also oversee the researcher’s work.

Initial analysis of the data for the impact study, which focused on a sample of more than 720 children split into two cohorts and divided between madrasa and non-madrasa preschools, as well as a group of children who stayed at home, and 48 preschools equally split between madrasa and non-madrasa preschools, has begun, and further sophisticated analysis will be undertaken in 2004. The final collection of information from the second of two cohorts of children who entered Grade 1 in 2002/03 is complete (as of November/December 2003). The following results are therefore preliminary (updates on the analysis will be available in mid-2004).

Findings at the Preschool Level

The results to date show that the average scores are higher for madrasa preschools than for the other preschools on 9 of the 11 dimensions measured (using an adapted version of Harm and Clifford’s early childhood environmental rating scale, which aims to assess the quality of the learning and teaching environment). The difference is statistically significant in eight of the dimensions for both cohorts. Both madrasa and non-madrasa preschools appear to fall short in teaching early science concepts. While children are engaging in early science concepts through play, they do so without sufficient teacher support to extend this learning.

Findings Related to the Impact on Children

In addition to measuring the quality of the preschool environment, the impact study is also assessing the children’s cognitive, psycho-social, and general physical development from the time they enter preschool until they complete their first year in primary school (the latter was just completed for the second cohort of children in late 2003). Significant change is noted for all groups of children between the initial and later tests using univariate analysis. A main area of focus in 2003/04 is to merge the main datasets to look for links between outcomes (using regression and multivariate analysis) as a way to further understand how and whether children’s progress relates to preschool quality, family factors, and so on.

Future Program Development, 2002–06

Since 2001, the AKF and the MRCs have been debating plans for the next phase of development. They plan to make the important move from working largely within
preschool environments to working with families and children in the home and community. Here the provision of parenting support and education will become new components of the MRC approach. They also plan to do much more in relation to the impact of HIV/AIDs in the communities they serve and to strengthen the health and nutrition aspects of their curriculum.

In the coming years the program will undertake partnership and collaborative work with new communities and continue to support existing preschools. The latter follows from the MRCs’ realization that providing support for only two or three years is insufficient to help communities establish preschools, train the requisite numbers of teachers and committee members, and fund raise. Achieving sustainability is now viewed as a longer-term undertaking.

The MRCs will continue to share lessons and disseminate their work more broadly within their respective countries, across the region, and internationally. Each MRC has already been interacting with its country’s government (see the appendix to this article), including by helping governments develop national curriculum frameworks and guidelines and revising (where possible) requirements related to the registration of community preschools. Moreover, other nongovernmental organizations operating in the countries have visited the MRCs and the madrasa preschools and have requested assistance with training for early childhood development and community mobilization and development.

Linked to the dissemination of the madrasa program’s approach, another growing area of work will be related to the provision of training of trainers and of short courses for preschool teachers in response to growing demand from other communities, including non-Muslim communities. The MRCs have developed alternative short training courses for interested preschool teachers on a cost-recovery basis, which have been well received to date, and indeed demand seems to be growing. This has given them a better sense of how others view—and value—their work. While the funds generated by offering these types of courses will be limited, the MRCs hope such training will help diversify their sources of income.

The MRCs continue to develop strategies to sustain quality and organizational inputs once the basic intervention has finished. Across the three countries, communities that successfully completed the MRC program have developed independent graduate preschool associations to provide ongoing basic support and interaction between the schools. The MRCs are also training lead teachers and local community mobilizers for each school to take over the mentoring and leadership development previously provided by the MRCs.

Finally, the Regional Office continues to provide and organize technical inputs and professional development for the MRCs and will continue with its research work to gain a deeper understanding of the impact, effectiveness, and costs of the program.

On a broader front, AKF and MRC staff continue to receive a variety of visitors and other requests for information related to the program and possibilities for expansion, adaptation, and/or replication in both African and non-African countries. While reasons for this interest vary, one common issue relates to the desire by governments and donor agencies to effectively link and work with traditional or nonformal education
systems such as madrasahs to achieve their Education For All targets. On another front, some communities that have graduated from the program have asked the MRCs and AKF for assistance to extend their preschools to include primary education. These and other issues are under review with a view to developing a longer-term strategy.

Appendix. The MRCs as Advocates on Behalf of Communities

The following four challenges are examples of how the MRCs have, on the one hand, begun to build up community confidence and knowledge about how to address specific government processes and, on the other hand, begun to advocate directly with relevant government officials to ensure the implementation of their program.

Registration of Community-Based Preschools

In Uganda and Tanzania, the government process for registering preschools has often been confusing and unclear to communities. In both countries the categories allowed when registering a community preschool were either (a) government managed or sponsored, or (b) private, with some assumption that all private schools operate for profit. Officials viewed the madrasa community-owned preschools as private, because they were clearly not funded by the government. The fees for registering private schools were high, and indeed unaffordable by the poor Muslim communities trying to establish their own preschools. Moreover, the actual registration process was highly bureaucratic and took many trips to the relevant government office.

Preschool Teachers

The issue of preschool teachers can be divided in two components. The first component is who can be trained and, in particular, what level of prior formal education is required for those wishing to become preschool teachers in community-based schools? The second component is what content, type, and length of training is acceptable to those responsible for accreditation and registration? These issues remain unresolved in the three countries, though some progress is being made in Uganda. A critical issue is that the madrasa teachers often have not completed Grade 10, but do have the trust of parents.

The MRC training is a mix of training in the MRC center and training and mentoring in the teachers’ preschool classrooms over a two-year period, which amounts to as much, if not more, than some of the formal preschool teacher training courses run by the government, with the biggest difference being the MRCs’ focus on practice and application of theory rather than primarily on lectures. The MRCs are beginning to encourage debate in their countries about the need to be sensitive to the poorest and more marginalized communities in terms of setting initial standards and demonstrating that ongoing mentoring and supervision, and not just pre-service training, can promote quality and improve practice.
The Madrasa Preschool Curriculum

The madrasa curriculum is designed to encourage active learning and to build on local communities’ cultures and values; however, each of the three countries has a range of guidelines governing curriculum frameworks for early childhood education. In principle, this is often a positive thing. In practice, it tends to be regulated through the use of a one-size-fits-all approach, even if that is not the intent. In Uganda the MRC has assisted in the development of an overarching national framework that should accommodate the diversity of Uganda’s children, families, and communities as opposed to prescribed and narrow syllabuses and curriculums that all must use.

Quality Assurance

The MRCs are concerned that in most cases the same government school inspectors who review secondary and primary schools are also expected to oversee preschools even if they do not have any guidelines for or experience in working with preschools. Contradictory messages, an undermining of active learning, and the use of local women as teachers have occurred as a result. The madrasa experience across the three countries has shown that communities can monitor and oversee their own preschools as long as their capacity, skills, and tools needed to do so are built up over time. Defining and maintaining quality standards cannot be left solely to government inspectors or planners.

References


The Role of the Private Sector
Colombia’s Programa de Ampliación de la Cobertura y Mejoramiento de la Calidad de la Educación Secundaria (Program for the Extension of the Coverage of Secondary Education, or PACES) program provided more than 125,000 pupils from poor neighborhoods with vouchers that covered approximately half the cost of private secondary school. Vouchers were renewable annually based on satisfactory performance. Because many vouchers were allocated by lottery, the study team used differences in outcomes between lottery winners and losers to assess the program’s effects. Three years into the program, lottery winners were 15 percentage points more likely to have attended private school, had completed 0.1 more years of schooling, and were about 10 percentage points more likely to have finished eighth grade, primarily because they were less likely to repeat grades. The program did not significantly affect dropout rates. Lottery winners scored 0.2 standard deviations higher on standardized tests. Some evidence indicates that winners did less nonschool work than losers and were less likely to marry or to cohabit as teenagers. On average, lottery winners increased their educational expenditure by about 70 percent of the value of the voucher. As winners also worked less, they devoted more total resources to education. Compared with an equivalent expansion of the public education system, the voucher program increased annual government expenditure on education by about US$24 per winner, but the costs to the government and to participants were probably much less than the increase in winners’ earnings resulting from their greater educational attainment.
Background

The Colombian government established the PACES program in late 1991 as part of a wider decentralization effort and in an attempt to expand private provision of public services (King and others 1997). The program also aimed to quickly expand school capacity and raise secondary school enrollment rates (King, Orazem, and Wolgemuth 1998). The PACES program targeted low-income families by offering vouchers only to children residing in neighborhoods classified as falling into the two lowest socio-economic strata (out of six possible strata). Studies by Morales-Cobo (1993) and Ribero and Tenjo (1998) suggest that the targeting was largely effective in Bogotá.

At the time of our survey, PACES vouchers were worth only about US$190. The maximum voucher value was initially set to correspond to the average tuition of low-to middle-cost private schools in Colombia’s three largest cities. Schools charging less than the vouchers’ face value received only their usual tuition. PACES vouchers became less generous over time because they did not keep up with inflation. Our survey data showed that matriculation and monthly fees for private schools attended by voucher applicants in 1998 averaged about US$340, so most voucher recipients supplemented their vouchers with private funds. By way of comparison, in 1995 the average annual public expenditure per pupil in Colombia’s public secondary school system was just over US$350 (National Planning Department 1999), and public school parents in our sample typically paid tuition or fees of roughly US$58. Per capita gross national product in Colombia is around US$2,280 (World Bank 1999).

To qualify for a voucher, applicants must have been entering the Colombian secondary school cycle, which begins with Grade Six, and be 15 years old or younger. Prior to applying, students must already have been admitted to a participating secondary school, that is, one that would accept the voucher. Just under half the private schools in the 10 largest cities accepted vouchers in 1993. Participating schools tended to serve lower-income pupils and to have lower tuition than nonparticipating private schools. Relatively elite private schools appeared to opt out of the PACES program. The number of vouchers in use in any one year peaked at roughly 90,000 in 1994 and 1995.

Vouchers could be renewed as long as students maintained satisfactory academic performance and were not required to repeat a grade. As vouchers were awarded by lottery when the number of applicants exceeded the number of vouchers, we used a quasi-experimental research design to compare educational and other outcomes of lottery winners and losers. Subject to a variety of caveats, the resulting estimates provide evidence about the program’s effects on participants that are similar to those arising from a randomized trial.

Impact on Scholarship Use, School Choice, and Schooling

We found little evidence of any association between win or loss status and the individual characteristics measured in our data, which provides reassurance that vouchers
were indeed awarded randomly. The survey of three cohorts of applicants shows no significant differences between lottery winners and losers in terms of enrollment three years after application, with most pupils in both the winner and loser groups still being in school. At the time of the survey, enrollment rates were 0.83 for losers and 0.85 for winners in the Bogotá-95 sample, an insignificant difference. Most PACES applicants entered sixth grade in a private secondary school and most finished sixth grade whether or not they won a voucher, but lottery winners were 6 to 7 percentage points more likely than losers to have begun sixth grade in a private school and 15 to 16 percentage points more likely to be attending a private school at the time of our survey. The effect of winning the PACES lottery on the probability of private school attendance was even larger in seventh grade, probably because losers were more likely to have left private school by then.

These results suggest that the decision on whether to attend public or private school was sensitive to the variation in the price of private school induced by the program, while the decision on whether to attend school was not. This is consistent with a model in which those households most willing and able to pay for education send their children to private schools, a middle group of households sends their children to public schools, and those households least willing or able to pay do not send their children to school at all. In this case, no one is on the private school/no school margin, and so small subsidies to private education do not directly increase overall enrollment. However, because many public schools in Colombia were turning applicants away because of overcrowding, PACES is likely to have opened up places in public schools by reducing public school queuing.

Lottery winners completed more schooling than losers and were less likely to repeat grades. For example, lottery losers had completed 7.5 years of schooling at the time of our survey, but winners in the Bogotá-95 sample completed an additional 0.12–0.16 years (0.8 years in the full sample). Moreover, lottery winners were about 10 percentage points more likely than losers to have completed eighth grade, primarily because they repeated fewer grades. The effect on years of schooling and the lack of an effect on enrollment is primarily the result of a reduced probability of grade repetition for winners. The probability of grade repetition was reduced by 5 to 6 percentage points for lottery winners. Figures from Calderón (1996) show that, on average, 77 percent of recipients renewed their vouchers, and estimates from our data are similar. By way of comparison, the national high school promotion rate was about 70 percent.

Separate results by gender show moderately larger effects on educational attainment for girls. Note that while effects for boys are almost entirely due to grade repetition, the effects for girls appear to come from both reduced grade repetition and additional time spent in school.

The greater probability of eighth grade completion and of lower repetition rates for lottery winners seem like desirable outcomes. Indeed, high rates of grade repetition in Latin America are widely seen as symptomatic of poorly functioning public schools. But the interpretation of these effects is complicated by the fact that pupils who failed a grade were supposed to forfeit PACES vouchers. Private schools may therefore have had an incentive to promote pupils with vouchers even if their
performance did not meet normal standards for promotion. To explore this possibility, we looked at effects on test scores and noneducational outcomes.

**Effects on Test Scores and Noneducational Outcomes**

We administered achievement tests to a subset of the pupils surveyed, namely, children from the 1995 applicant cohort in three Bogotá neighborhoods. The tests were administered in 1999, approximately one year after our household survey and three years after the children had applied for the program. The test sample was drawn from applicants for whom we had survey data. Of the 473 invited, 283 were tested, an overall response rate of about 60 percent. The test response rate was about 5 percent higher for winners, but the difference in response rates by voucher status was not statistically significant. The personal characteristics of those tested were generally similar to those of the full Bogotá-95 sample. Our evaluation used La Prueba de Realización, a grade-specific, multiple-choice Spanish language achievement test for native Spanish speakers.

Lottery winners scored just over 0.2 standard deviations more than lottery losers, though this difference is only marginally significant (which is not surprising given the small test sample). According to U.S. norms for the same test, 0.2 of a standard deviation is roughly the score gain associated with one additional year of school (Cole Trent, and Wadell 1993). Therefore this effect should probably be seen as large, because subjects were tested three years after applying to the program. The effect on girls was larger and was more precisely estimated than the effect on boys.

As noted earlier, reduced grade repetition among lottery winners could theoretically have been caused by a reduction in promotion standards for lottery winners, as well as by increased learning or a change in school quality. Comparing the test scores of winners and losers who were promoted provides evidence that the grade repetition results were not due solely to schools’ lowering the bar for promoting winners. If the program itself did not result in achievement, but did lead schools to relax promotion standards for winners, then average test scores for lottery winners who were promoted should have been lower than average test scores for lottery losers who were promoted. In reality, the composite test scores of winners who were promoted were about 0.14 standard deviations greater than the scores of promoted losers, although the difference was not significant.

Another possible channel through which the program could have reduced grade repetition is increased effort by voucher recipients to avoid failing a grade and losing their vouchers. In this scenario, the program would have been just as successful if it had made payment to students conditional on satisfactory academic performance, with no element of school choice. This would imply that the primary incentive effect should be on those who are near the margin for passing on to the next grade; however, quantile regression estimates (not reported here) suggested that the increase in test scores was not confined to low quantiles of the test score distribution.

In addition to increased educational attainment and academic achievement, some evidence suggests that the voucher program affected noneducational outcomes. In
particular, lottery winners were less likely to be married or cohabiting and worked about 1.2 fewer hours per week outside school (again, mostly a difference for girls). The reduction in work may have been due to income effects for the household, the greater time demands of private school relative to public school, or increased incentives for lottery winners to spend time studying so as to avoid failing a grade and losing the PACES voucher. Both these results suggest an increased focus on schooling among lottery winners.

**Impact on Household and Government Expenditure**

Most lottery winners would have attended private school anyway, at least for a few years, and therefore reduced their educational expenditure in response to the program. By contrast, voucher winners who were induced to switch from public to private schools greatly increased their educational expenditure, because the voucher covered only about half the cost of private school. On balance, winners’ gross school fees exceeded those of losers by about 70 percent of the amount they received from the voucher. Winners paid higher fees because they were more likely to go to private schools, and because some winners who would have gone to private schools anyway switched to more expensive private schools. Moreover, lottery winners worked less, so that on balance, households winning the lottery actually devoted more resources to education than the voucher face value.

Given that not all winners stayed in school or kept the voucher, and that some losers obtained other scholarships, on average, winning households paid US$52 in additional school fees, had reduced earnings from child labor of US$41, and received an additional US$74 in scholarships. This suggests that, in some sense, households increased their resources devoted to education by US$19. We also estimated that the voucher program costs the government about US$24 more per winner that the cost of creating a public school place. This implies that the additional educational resource cost per lottery winner across society was approximately US$24 (government) + US$19 (households) = US$43. The comparison of costs and benefits should take into account that three years of costs were incurred prior to our survey. The total cost of the program can therefore be estimated by multiplying the annual resource cost times the three years for which winners received vouchers, for a total of about $3 \times US$24 = US$72 in additional public educational expenditure and $3 \times US$43 = US$129 in total resource costs to society. The actual costs are probably somewhat higher, however, because voucher take-up rates declined over time, with 88 percent of winners having ever used a voucher and only 49 percent using it in the survey year. Multiplying costs by 88 percent/49 percent for the first and second years yields an upper bound on the three-year cost of the program of about US$195 using the US$43 per year figure for the costs to society.

These costs are likely small relative to the benefits for participants. Even though lottery winners gave up current earnings, they completed an additional 0.12 to 0.16 grades and scored approximately 0.2 standard deviations higher on tests, which may
account for an achievement gain from winning the lottery as large as that associated with a full year of schooling. Our estimates using a recent Colombian labor force survey show returns to schooling of about 10 percent. If the gain from the program is only the economic return to an additional 0.12 years of schooling, the program raised winners’ wages by 1.2 percent per year, whereas if it is equal to that from a full year of schooling it raised wages by 10 percent. Annual earnings of parents in our sample were about US$2,400 per worker, and PACES applicants should be able to earn more, because the average parent had only 5.9 years of education, while the average applicant had already completed 7.5 years and was still in school at the time of our survey. We therefore assume the expected earnings of applicants to be US$3,000. Thus PACES seems likely to raise lottery winners’ wages by US$36 per year, and might raise wages by as much as US$300 per year if higher test scores have a grade-equivalent payoff. Discounted over applicants’ working lives, these benefits easily outweigh the social costs of providing additional school places through the PACES voucher system. The costs to participants and the government are likely to have been more than outweighed by the benefits of the voucher to participants in the form of the economic return to increased educational attainment and test scores.

A more complete cost-benefit analysis would take into account the program’s effects on nonparticipants. Pupils left behind in public schools may have been hurt by the departure of motivated classmates for private schools, as Hsieh and Urquiola (2002) argue, or alternatively, public schools may have responded positively to increased competition, a possibility considered by Bettinger (2001) and Hoxby (2000). Such general equilibrium effects cannot be assessed by comparing lottery winners and losers, but as the cost-benefit analysis for participants is clear-cut, and as only 15 percent of winners moved from public to private schools, any negative external effects on nonparticipants would have to have been extraordinarily large to outweigh the program’s benefits.

Conclusions

Governments in many developing countries are increasingly willing to experiment with demand-side subsidies and public-private partnerships to meet basic education needs. The impact of these programs and policy innovations is an open question. Colombia’s PACES program provides an unusual opportunity to assess the effect of demand-side education financing in a Latin American country where private schools educate a substantial fraction of pupils. The PACES program is of special interest, because many vouchers were assigned by lottery, so program effects can be reliably assessed. Our results suggest that lottery winners benefited from higher educational attainment, primarily as a consequence of reduced grade repetition, as well as from higher test scores and a lower probability of teen cohabitation or employment. Our estimates of the economic benefits to participants far exceed the estimated costs. Most of the results suggest that PACES vouchers had a stronger effect on the education of girls than on the education of boys.
Our findings suggest that demand-side programs like PACES can be a cost-effective way to increase educational attainment and academic achievement, at least in countries like Colombia with a weak public school infrastructure and a well-developed private education sector. A number of channels could account for the impact of PACES vouchers. First, lottery winners were more likely to have attended participating private schools, and these schools may have been better than public schools. Second, vouchers allowed some pupils who would have attended private schools anyway to attend more expensive schools. Finally, because voucher recipients who failed a grade risked losing vouchers, lottery winners had an incentive to devote more effort to school. The net effect is such that the benefits of voucher awards were more than enough to offset the costs.

We are currently assessing the longer-term consequences of voucher receipt. Our preliminary results indicate that the program increased secondary school completion rates and that college entrance test scores were higher for lottery winners than losers. These results also show test score increases in the upper tail of the test score distribution, suggesting that the effects reflect greater learning by high-achieving pupils and are not due solely to greater incentives for PACES recipients to avoid grade repetition.

Notes

1. Background information in this section is taken from Calderon (1996), King and others (1997), and unpublished Instituto Colombiano de Crédito, Educativo y Estudios Técnicos en el Exterior (Colombian Institute for Education, Credit, and Training Abroad) documents.

2. For example, Harbison and Hanushek (1992) and Psacharopolous and Velez (1993) use repetition rates as a measure of school quality in Brazil and Colombia.

Selected References

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Medicine has always been an individual enterprise. Since time immemorial, individuals who had the requisite skills and learning have provided curative care. A government role in health care was only envisaged when major epidemics broke out and it became evident that preventive health care was necessary. In India, the Bhore Committee’s recommendation for a multitiered health infrastructure was adopted and implemented, making India an early adopter of the new concept of government health infrastructure. The system was built on the premise that primary health care should be readily available to all, while more intensive care would be available at secondary and tertiary health care centers.

This nationwide health infrastructure was in place by the late 1980s. The government assumed that once this structure was in place, all villagers would have access to reasonably good health care when they needed it; however, when certain conditions, such as diarrheal disease, did not show up on health centers’ records to the extent expected, the government and the United Nations Children’s Fund carried out research to look into the issue. An unexpected finding from this (and from many subsequent studies of rural health care carried out in the late 1980s and early 1990s) was the dominant role of the private practitioner in the provision of primary health care.

Study after study showed the rural private practitioner (RPP) to be the chief provider of primary health care. A decade of research carried out during 1985–95 across statistically representative samples of villages showed that the private practitioner was the main provider of care for a range of problems. Indeed, villagers tended to consult the private practitioner as the first provider for any problem they could not handle at home. The few exceptions to this included pregnancy and childbirth, for which villagers believed that medical care was unnecessary and that traditional
methods would serve them well. The other exception was in case of prolonged illnesses, for which the cost of private care and the need for expertise led people to government hospitals.

Who Is the Rural Private Practitioner?

The ubiquitous nature of the RPP persuaded the government to obtain a profile of this provider of primary health care. To this end the government, along with the United Nations Children’s Fund, carried out three studies in different states. Villages were selected using robust random sampling methods. In each village, researchers asked mothers to show them where they could find the “doctor.” Those names that we got from mothers were accepted without question or judgment. If the mother thought of a person as the “doctor,” we interviewed that person as such. In this manner the researchers interviewed 804 RPPs and the following profile emerged:

- Virtually all the RPPs were men. The sample of 804 yielded just 1 woman practitioner. The RPPs’ average age was 38.
- Medical practice was the sole occupation for 45 to 60 percent of the RPPs. The others had additional occupations and providing medical care was often their second or “other” occupation. The first occupations ranged from farming to mail delivery to skilled artisanal work. Among older and less well-off RPPs, medical practice was one of many occupations. The younger and more prosperous RPPs focused their energies on this work alone.
- About 40 percent of all RPPs had attended secondary school, but had not studied beyond that, while 60 percent had studied beyond the secondary school level.
- Forty-eight percent had not received any training in medicine at all. The remainder had received training in some form of medicine, which included traditional Indian systems of medicine such as ayurveda, unani, and even homoeopathy; however, none of these doctors restricted themselves to the field in which they had been trained. Almost all practiced allopathic medicine, sometimes in addition to their first field and sometimes instead of it. In addition, of the 48 percent who had received no medical training, three-quarters practiced allopathic medicine.

The Private Practitioner Versus the Government System

The purpose of the three studies was to try to explain the factors that made villagers put so much faith in RPPs, often when a supposedly free government health center existed within easy distance. The studies found that the RPPs offered many advantages when seen from the perspective of villagers and their circumstances. The most valuable service that the RPP offered was “effective” treatment. Villagers defined effective treatment as that which resulted in symptoms subsiding in less than 24 hours.
Rural workers, often daily wage earners, could not afford the luxury of being ill. When they did fall ill they needed to be up and about almost immediately. Villagers also feared sickness because they had too often seen or heard of prolonged illnesses proving fatal. Thus economic and psychological factors put a premium on a quick cure. RPPs functioned essentially like business people in the business of providing health solutions. They therefore had a keen eye on customer satisfaction. Recognizing the need for speedy recovery, they catered to this need by providing strong drugs that almost always removed the problematic symptoms. However, the cures may have been superficial and not treated the underlying problems, and the overmedication may have done more harm than good in the long run. Nevertheless, villagers looked only at the immediate effects and were impressed and satisfied with the RPPs’ skills. RPPs made extensive use of modern allopathic drugs and injections, to the extent that an injection had become a symbol of good medical care. By contrast, villagers spoke of the mild medication they received from the government health centers, if they received any medication at all. They also complained that they received the “same white tablets” whatever their problem, and therefore lost faith in the government centers. Government centers also tended to give villagers prescriptions for the purchase of medicines from private pharmacists (thereby negating the promise of free medical care) instead of medicines. In addition, the nearest pharmacist was usually at a town located several miles away (thereby negating convenience). Rural patients preferred RPPs, who directly provided strong, effective medicines. However, the RPPs invariably provided medication, whether or not it was called for. They charged a markup on the cost of medicines that patients were unaware of. This margin comprised their income from this occupation, as they were shrewd enough to know that villagers would find the idea of paying fees objectionable. RPPs treated villagers with care and courtesy, which was not the case at government health centers, where the doctors saw patients for a brief time, asked no questions, and did not want to listen to the litany of woes that the patient wanted to talk about. From the RPP, villagers received the emotional and psychological satisfaction of being cared for by someone who listened to their problems with interest, asked relevant and pertinent questions, and gave them a patient hearing. They got time and attention from the RPPs, something that government center doctors never seemed to give.

Furthermore, villagers gave the RPPs money (immediately or later on, or perhaps in kind, but they did pay) in return for treatment, and this in itself conferred dignity. As paying customers the villagers had the confidence to ask questions, clear up doubts, and demand a speedy recovery. By contrast, as supplicants in government health centers, they had no voice and had to tolerate the treatment meted out, in both senses of the word.

While payment was involved in dealings with RPPs, private practitioners were flexible about the method of payment and the speed with which they expected payment to be made. They provided credit if needed. Often in smaller villages, villagers could also pay RPPs in kind by giving them grain or other produce, which was a boon for people whose monetary earnings were unreliable and meager. By contrast, government health centers, which were meant to provide free health care, were not
really free of cost. Not only did patients have to purchase medicines, but they also had to make unofficial payments to ensure some attention and care. These required ready cash, a difficult proposition for many villagers.

Waiting time at government health centers was significantly longer than at RPP clinics, and was caused primarily by staff absenteeism rather than excessive numbers of patients. In addition, the waiting time and “attention time” were disproportionate. Thus, after a long wait, patients saw the doctor for only a few minutes during which they were unable to ask questions and the doctor showed little interest. In addition, government centers adhered to rigid opening hours that overlapped with the patients’ working hours; therefore waiting at government centers meant forgoing a day’s or half a day’s wages. Therefore villagers bypassed government centers in favor of RPPs’ flexible consultancy hours. RPPs were willing to see patients in the evening or early morning, as needed, so that people could obtain care and still earn a living. The RPPs’ apparent single major disadvantage, the lack of formal qualifications, turned out not to be a disadvantage at all, because villagers assumed that if someone had the ability to cure their symptoms they possessed the requisite knowledge. The unique advantage of the government system, namely, doctors with medical training, was lost on the patients.

Medical Practice in Villages

The average RPP typically saw about 10 to 12 patients a day, most of whom suffered with respiratory complaints, fevers, or skin problems. The RPPs usually dispensed brand-name medicines that they opened, removed from their original packaging, and repacked in small paper packets. Often they made several small packets for pills to be taken at different times. This served the dual purpose of keeping the treatment mysterious as well as making it easier for illiterate patients to take the right dose at the right time. The markup on the medications usually ranged from 10 to 20 percent.

The RPPs’ main, and often only, source of medical information was the town pharmacist, and the RPPs and pharmacists usually met three or four times a month. This visit served two purposes. The RPPs replenished their stock of medicine and learned about the latest news and developments in the field of medication. Over time the pharmacist also gave advice about which medicine was good for what problem, which in turn informed the RPPs’ treatment the next time they were presented with that problem.

While the RPPs handled those problems that they could, they were also shrewd enough to know what they could not handle or what problems might become serious. These they referred to town doctors or to government hospitals, depending on the nature of the problem, the RPPs’ judgment about the period over which treatment could extend, and the estimated cost of treatment. Referral was clearly part of the RPPs’ practices and they handled such referrals routinely and quickly. All serious illnesses and gynecological problems were referred onward, as were any illnesses that they believed were beyond their abilities.

Based on the three studies and the 1991 census, projections indicate that India has approximately 1 million RPPs. In contrast, India has approximately 300,000 qualified
allopathic doctors (with a bachelor’s degree in medicine and surgery), mostly in urban areas. Estimates indicate that in 1995 the rural private practice sector took in about Rs 50 billion to Rs 55 billion (approximately US$1.1 billion). When added to the cost of rural treatment in urban hospitals, the aggregate size of the rural health care sector accounts for 22 percent of total health care expenditure in India.² It provides a livelihood for a million people and affects the health of some 700 million Indians.

Review of the Overall Rural Health Care System

The findings of the three studies and the parallel existence of an extensive government health infrastructure seem contradictory. It is not as if the health infrastructure has been redundant and served no purpose. On the contrary, it has achieved excellent results in the field of public health and has played a major role in preventive health care, as witnessed by the eradication of smallpox and the near eradication of guinea worm and polio. Its value has also been demonstrated in the national immunization program. During the last 20 years the health care system has been supplemented with the Integrated Child Development Services program, and this combination has often resulted in a high coverage of health and nutrition activity.

None of these achievements would have been possible without the public health system; nevertheless, this system has not served villagers’ primary health care needs as envisioned by the original planners. This system, which is meant to be free, accessible, and manned by qualified doctors, should have driven the unqualified RPPs out of business.

While these studies did not involve a detailed understanding of the government doctor’s perspective, the most likely major explanations are as follows:

- Government doctors posted to rural health centers tend to lack motivation. Unhappy with their rural postings, they often just mark time until they can move back to the city. In the success continuum, an urban posting is equated with greater success and a rural posting has retrograde connotations and might affect doctors’ self-esteem and social standing.

- Government jobs are secure and permanent, and promotion is not linked to merit, meaning that government doctors do not need to make any special efforts to advance. Without either the incentive of advancement or the disincentive of being fired for nonperformance, government doctors have no reason to exert themselves.

- Government doctors operate in an imperfect environment. Infrastructures break down, and even the most sincere government doctors face the frustration of inadequate medical supplies, absence of electricity, and other system breakdowns that can sap their motivation.

Today RPPs are, in practice, rural India’s primary health care system. This system is

- Widely accepted by villagers
- Culturally sensitive
• Self-financing and flexible
• Accessible to the poor
• Well distributed
• Highly oriented toward allopathic care and interested in modern medical science.

Thus the rural health sector is already privatized, and in many instances villagers defined the ideal doctor as a primary health care doctor in private practice. Villagers spoke highly of the fact that this person gave them the best of both worlds: the expertise of a trained doctor with the manner and courtesy of the private practitioner. When government doctors went into private practice, their demeanor changed and they behaved liked other RPPs. Former government doctors in private practice could provide the required solution to the problems inherent in rural primary health care outlined in this article.

The solution might lie in recognizing the strengths of the government and the private systems and finding a way to blend the two. The government system’s strength lies in the field of preventive care, management of public health issues, and population control. These cannot be left to private practitioners whose priorities and decisions are guided by business instincts. At the same time villagers need access to curative care, trained doctors, a ready supply of medicines, and medical advice.

The solution that presents itself is simple, has the potential to address all the foregoing issues, and involves making the optimal use of the trained personnel posted to village government health centers.

The health centers would employ government doctors with part-time responsibility for preventive care in return for infrastructure and a small salary. This preventive care would take about two hours of the doctors’ time each day, and they would be answerable for effective performance through regular monitoring of specific, measurable targets in public health, population control, and so on. The doctors could devote all the remaining time to private practice. The government centers would neither stock nor supply medicines or medical supplies. They would provide infrastructure in the form of buildings, beds, equipment, and utilities. The doctors would buy and stock all medical supplies with their own money and recover this investment by charging patients whatever the market will bear. The system would have to rely on market forces to control price and quality.

In this manner both needs would be served and government doctors posted to villages might find that the combination of income and status would make a village posting attractive for a few years. Regular rotation would have to be built into the system, whereby achievement of targets in public health and population would be rewarded with good urban posts.
Notes

1. This could be related to the traditional Indian idea of knowledge being shared, not sold. Thus gurus or priests traditionally did not charge a fee for imparting knowledge. They accepted a gift at the end of the training in keeping with their students’ ability to give. While the studies did not directly draw this link, the researchers believe that the RPPs understood this tradition well enough to not charge a fee for their service. Paying for medicines was an accepted idea and drew no resistance.

2. The rural population accounted for 74 percent of the national population in 1991. This lopsided ratio of population share and health care expenditure is a matter of concern.
The Role of Local Governments
Economic growth requires both public investment in basic infrastructure and strict control over public spending. Resolving this fiscal dilemma—engendering sufficient public investment without incurring excessive public debt—is essential for catalyzing the growth and poverty reduction impact of infrastructure investments. Policymakers have often addressed this dilemma from a centralized, macroeconomic perspective, that is, by maintaining control over aggregate public debt in relation to gross domestic product. This approach, while necessary, does not guarantee that the level of public investment chosen is optimal from the perspective of growth targets, nor does it ensure that those charged with implementing infrastructure investments—generally subnational governments and public utilities—have the incentive to manage these efficiently. Under such circumstances, central control could well prove to be an illusion.

Resolving the fiscal dilemma therefore requires a policy framework that will provide the appropriate incentives for the public sector to choose the optimal level of infrastructure investment and to ensure that it is efficiently financed and delivered. The incentives depend on the fiscal, financial, and institutional dimensions of infrastructure investment. Governments’ role in shaping each of these dimensions and their links with each other will determine the success with which the public sector will resolve the fiscal dilemma inherent in financing and delivering infrastructure.

Junaid K. Ahmad is regional team leader of the Water and Sanitation Program in the South Asia region, a lead economist, and a member of the World Bank’s World Development Report 2004 team.
Defining the Framework

The story begins with the public sector. Generally, in most countries, all tiers of government—central, regional, and local—and public utilities are responsible for financing and delivering some aspect of public infrastructure. The fiscal and financial elements of the framework determine the incentives for each tier of the public sector to manage its tasks efficiently. The third element of the framework is the institutional dimension of infrastructure investments.

Fiscal

Four components determine the fiscal incentives that influence the efficiency of public sector investments. These are (a) the allocation of expenditure responsibilities by tier of government, (b) the assignment of taxes by tier of government, (c) the design of an intergovernmental grant system, and (d) the budgeting and monitoring of fiscal flows between different tiers of government.

International experience suggests several important lessons about the fiscal dimensions of infrastructure investment. First, the wrong assignment of expenditure and tax responsibilities between different tiers of government may result in underinvestment in infrastructure. Second, the efficiency with which the public sector finances and delivers infrastructure is enhanced if subnational governments have access to own-taxes with the right to adjust tax rates. Indeed, political accountability, responsiveness to constituencies, and efficiency in the management of expenditures may be improved if, at the margin, subnational governments have to raise their own revenues through tax increases. This potential impact of own-taxes suggests that proposals for national tax reforms should include tax instruments that can be devolved or that introduce a system of surcharges on national taxes. Own-tax sources will, however, rarely meet the funding requirements of subnational governments, and the theory of fiscal decentralization does not suggest that each tier of government should be self-sufficient. Not surprisingly, intergovernmental fiscal transfers play a critical role in the financing of infrastructure investments.

Third, the design of fiscal transfers can influence the efficiency with which the public sector will manage the delivery of infrastructure. For example, legislation could make the allocation of fiscal transfers more predictable by allowing subnational governments to plan local expenditures more effectively. Or, to take another example, allowing a portion of fiscal transfers to be pledged into the capital markets would give such fiscal flows own-revenue properties.

Finally, the fiscal interdependence between different tiers of government suggests that the budgeting process and the monitoring of transfers are also important elements in ensuring the efficiency with which infrastructure investments are undertaken. Effective budgeting will, for example, increase the stability of the fiscal process, while careful monitoring by the central government may put additional pressure on subnational governments to manage public expenditures more efficiently.
In sum, a properly designed fiscal system that supports fiscal decentralization can increase the incentives for subnational governments to plan and manage infrastructure investments more efficiently.

**Financial**

Access to financial markets by subnational governments is important for several reasons. First, long-term financing is necessary given the lumpiness of infrastructure investment and the inefficiency of relying on pay-as-you-go schemes. Without access to long-term finance, investment in infrastructure may be suboptimal.

Second, as investments in infrastructure will benefit future generations, equity considerations suggest that future generations should also bear the cost of financing these investments. Financial markets offer this intertemporal linkage.

Third, financial markets play an important role in signaling the performance of regional and local governments. The accountability created by providing an own-revenue base for subnational governments is further strengthened by providing own-access to capital markets. Indeed, the implicit threat that poor policy decisions may force policymakers to raise own-taxes or pay higher capital costs is an important incentive in ensuring that the public sector manages investments efficiently.

How subnational governments access financial markets will determine the extent to which such markets will influence the efficiency of the public sector. Generally, access can be achieved through the central government (where the central government borrows on behalf of subnational tiers); through a public financial intermediary, for example, a municipal bank or fund; or through raising funds directly, for instance, by means of commercial bank borrowing or bond operations.

While borrowing through the central government certainly guarantees access to long-term finance by subnational governments, international experience suggests that the allocation of credit in this manner may eventually become embroiled in a political process. If this occurs, capital does not necessarily flow to the most productive uses, but to those who are politically the most astute, with the result that government borrowing is inefficient and subsequent investments are unproductive. This has the potential of slowly contributing to a loss of fiscal control as more and more borrowing is necessary to deliver a minimum level of public services. Intermediation by a public financial intermediary may also suffer from these drawbacks, with the additional disadvantage that the debt of public financial intermediaries is generally an implicit obligation of the central government.

By contrast, direct access to capital markets offers the potential for a more market-based relationship to develop and for a greater chance of enforcing a hard budget constraint. However, the primary concern, moral hazard, that is, the assumption by capital markets that borrowing by subnational governments is ultimately backed by the central government, may also apply in the case of direct borrowing from the private sector. Resolving this problem is critical for ensuring that financial markets provide the appropriate signals to subnational governments in relation to their investment decisions. The answer may be not to centralize borrowing, but to decentralize it even further.
**Institutional**

The assumption so far has been that subnational governments finance and deliver infrastructure, but a whole range of infrastructure services, such as water reticulation and garbage disposal, traditionally considered to be public goods can be funded via user charges or direct beneficiary taxes rather than using the general tax base. As a result, these services can be provided through independent service providers that are fully privatized or use private sector participation, for example, a concession of public assets. Technological advances and the emergence of international firms specializing in the delivery of infrastructure services now permit greater competition, both in the market and for the market, which can ensure that the private service provision of infrastructure does not give rise to natural monopolies.

Using privatized service providers has several advantages. First, the incentive to implement user charges is greater. This will foster a closer link with beneficiaries, a link that is often missed when other fiscal instruments, such as revenues from a general tax base or intergovernmental transfers, are used to finance the services.

Second, driven by profitability considerations, private entities have greater incentives for managing investments in an efficient manner, including gauging consumer demand, setting the appropriate standard of delivery, and responding to changes in the economic environment. The incentives to gauge demand will also ensure that the choice between making new investments and managing existing assets (operations and maintenance) will be determined less by political or bureaucratic priorities and more by forces of market demand, thereby assuring a greater probability of sustaining the investments over the long run.

Third, the problem of moral hazard may be effectively addressed by privatizing the financing and delivery of infrastructure: bankruptcy of the private service providers will enable other private sector parties to bid for their assets. The lack of competitive pressure and the threat of takeover in the public delivery of municipal services leaves open the issue of the central government’s implicit financial obligation and the assumption that one tier of government under financial duress will be supported by another tier. Seen from this perspective, the solution to the problem of moral hazard does not require intervention in the financial markets, but in the ownership structure of the service deliverer. In addition, given that private entities are the most decentralized units in an economy, the implication is that the problem of moral hazard is not a result of decentralization, but of insufficient decentralization. This view suggests that in restructuring intergovernmental fiscal relations, policymakers should look at the potential of privatizing public responsibilities as an important component of fiscal decentralization.

Independent service providers do not have to come from the private sector. The corporatization of public entities, that is, introducing standard commercial and tax laws, accounting criteria, and competition rules, would increase management autonomy and provide greater incentives to perform efficiently. In practice, this transformation is not always complete, because public organizations do not face adequate competition and are often saddled with noncommercial objectives. In addition, corporatization
may not attract private financial equity. However, it is an important step in providing better incentives to public agencies to manage investments more efficiently.

The Fiscal-Financial-Institutional Nexus

This article has argued that fiscal, financial, and institutional decentralization can provide incentives for more efficient management of infrastructure investments. How policy influences the linkages between these three dimensions of infrastructure delivery is also critical.

Linkage 1: Determining Access to Finance via the Fiscal Framework

The fiscal aspects of infrastructure investments—expenditure responsibility, revenue base (taxes and intergovernmental grants), and the budgeting process—provide the “collateral” for access to capital markets. Uncertainty in the fiscal rules of the game, for example, whether subnational governments have access to own-revenues, the predictability of the transfer system, or the legal basis for pledging revenues as debt payments, will reduce the probability of accessing the financial markets. Subnational governments’ lack of access to financial markets often results in government intervention in financial markets when the real issue is resolving the fiscal framework.

Linkage 2: Keeping the Fiscal and Financial Sectors Separate

Central government objectives often include facilitating access to finance by local governments or making capital more affordable, and they frequently centralize borrowing or establish public intermediaries to achieve these goals. If the objective is to provide such implicit subsidies, a preferable alternative would be for the central government to convert the implicit financial subsidy into an explicit fiscal grant and allow local authorities to pledge such transfers as collateral to access capital markets. Such lump-sum transfers would not distort the price of capital and would enable local authorities to establish a direct relationship with capital markets. Fiscal subsidies have the added advantage of being transparent and easily monitored and stand a greater chance of being held in check via the political process. More important, the government’s involvement in the financial sector may dampen the economic role of capital markets in allocating credit and signaling creditworthiness. It could therefore adversely affect the financial sector’s ability to promote economic efficiency and the accountability of local officials.

Linkage 3: Keeping the Fiscal, Financial, and Institutional Dimensions Separate

Resolving the problem of moral hazard requires an understanding of its causes. The size of subnational governments, the existence of externalities in the delivery of services, and the presence of uncertainty in the policy framework may be significant factors in
creating a moral hazard problem in relation to the financial sector. Large subnational governments, for example, metropolitan governments, raise the problem of too big to fail syndrome. Externalities suggest the existence of certain public goods of national importance, such as access to clean water and health benefits, that the central government would have the incentive to bail out. As suggested earlier, privatizing services where possible is an institutional option for resolving the moral hazard problem. It reduces the size of subnational governments. For instance, metropolitan governments would be responsible for a smaller subset of local public goods, and while it does not reduce the externalities associated with the good that is privatized, the possibility that the failure of a privatized entity will enable other private sector participants to bid for its assets suggests that the need for a public bailout would diminish.

The privatization route has the additional advantage of enabling service deliverers to access financial equity and to borrow in the capital markets. Because equity holders stand to lose in the case of bankruptcy, financial equity provides an incentive internal to the structure of the service provider to monitor its debt, thereby creating another layer of protection against moral hazard that is not present in a public system of delivery. In addition, equity participation not only reduces the current cost of services over a fully debt-financed system, it also improves access to and reduces the price of capital.

The portfolio of public goods that remains the responsibility of local governments—street lighting and parks, for example—creates much less of a moral hazard problem, because these goods do not require extensive capital investments, and as long as local governments have access to adequate tax bases, they can be financed from own-revenues. However, private financial markets can also help reduce the moral hazard problem. In particular, the availability of bond insurance provides an added mechanism for ensuring that central governments do not take on the role of banker of last resort. In the event of an issuer default, the bond insurers guarantee the timely payment of interest and principle in accordance with the issuer’s original payment schedule. In many developing countries the establishment of bond insurance agencies is a distinct possibility, and one that donors could well assist by capitalizing a financial entity to perform such a task. In sum, if privatizing public goods and creating bond insurance agencies helps reduce the problem of moral hazard, decentralization may add to fiscal stability.

Finally, fiscal uncertainty, for instance, in relation to the allocation of tax bases or the predictability of intergovernmental transfers, will influence the extent to which different tiers of government can access financial markets. Capital markets may even read the uncertainty as the national government’s way of centralizing fiscal powers and may then interpret subnational debt as a direct obligation of the central government. Defining the fiscal rules is therefore a necessary step not only in enabling access to capital markets, but also in avoiding the problem of moral hazard in relation to subnational government borrowing.

An important aspect of preventing uncertainty in the policy framework is to legislate the steps that would be taken in case of bankruptcy. Such legislation should be explicit about the costs to creditors and subnational governments of financial mismanagement; explain how services will be maintained, even if at a reduced level, while debt is being restructured; and outline the process by which management may be
replaced. The establishment of financial control boards, as in the United States, and court-ordered receivership, as in New Zealand, are examples of mechanisms that insulate the central government while ensuring that service delivery is interrupted as little as possible. In addition, legislation requiring full disclosure of public liabilities as they occur is critical to eliminate informational asymmetries and the ensuing uncertainty.4

Broadening the Framework

In applying the fiscal, financial, and institutional dimensions of the strategic framework for public investment, policymakers need to address several important issues: distributional considerations; thin capital markets, for example, in many of the African countries; need for a regulatory framework; and capacity constraints.

Distributional Considerations

Often policymakers and civil society actors challenge user charges and economic pricing of services on the grounds of equity or the inability of certain disadvantaged groups to pay. In these cases subsidies can be an important way for governments to increase access to infrastructure services by low-income households. This can, in theory, be achieved through the pricing mechanism, through grants to service providers, or through direct lump-sum transfers to households. In principle, separating the management of infrastructure from the provision of subsidies is preferable. In other words, governments should use fiscal transfers to households or service providers to increase access to infrastructure services, for example, by subsidizing connection charges, leaving pricing mechanisms to reflect efficiency concerns.

This approach also suggests that public ownership is not necessary to achieve equity goals. As long as budgetary flows for subsidizing households are guaranteed and well targeted, service providers and different tiers of government can concentrate on managing infrastructure on a commercial basis.

What it does imply, however, is that distributional objectives are financed by central tax bases while delivery is decentralized.5 This unbundling of financing and delivery does not suffer from the incentive incompatibility problems of general intergovernmental fiscal transfers as discussed earlier. Service providers (utilities and local governments) charge for their services on a full cost-recovery basis, while the financial relationship established in relation to the fiscal transfers is between households and central authorities, making the lines of accountability more transparent than would otherwise be the case.

Capital Market Depth

While some developing countries have relatively well-developed domestic capital markets, others do not. One approach for the latter group is to institute full public intermediation, for example, municipal development funds or infrastructure banks, to
centralize the capital budgeting process. The advantage of this approach is access to long-term finance at better terms than decentralized borrowing. If centralized borrowing is complemented by fiscal decentralization, then the objectives of establishing independent service providers will be partially achieved. However, international experience suggests that such centralized borrowing usually results in the political allocation of credit and, ultimately, has the potential to undermine even the limited autonomy of service providers achieved through the fiscal side. In addition, public intermediation is often detrimental to the development of private capital markets.

Alternatives

Given its drawbacks, if a government plans to pursue public intermediation, it will need to design the institutional mechanism adopted to ensure that (a) the capital borrowing by the entity responsible for lending for infrastructure investments is budgeted up-front and is an explicit part of the treasury’s liability, (b) the allocation mechanism is transparent and binding, and (c) a credible exit strategy is in place.

Even with these measures the government will have to consider alternative arrangements. For instance, in countries with a commercial banking system an alternative would be to provide long-term finance through discount facilities, whereby the discount facility only takes the maturity risk, while the commercial banks continue to retain the credit risk at the retail level. Findeter, a financial institution that plays the role of a discount facility in Colombia, provides excellent instruments to bring in private international capital, especially equity capital. Such an approach may also have the effect of facilitating the growth of a local capital market.

In countries without a domestic capital market, a preferable alternative may be to have central fiscal transfers provide the bulk of the resources and focus on developing a private commercial banking system. This approach keeps the fiscal and financial sectors separate and provides a good starting point for a municipal finance system.

Regulatory Framework

Preventing private monopolies, monitoring performance, and managing the privatization process require an effective regulatory framework. This is especially true given the economies of scale that characterize the delivery of many infrastructure services. Policymakers often use the absence of a regulatory framework as an excuse not to create service providers or initiate the process of privatization. Developing an effective regulatory framework is therefore an important element for establishing a sound basis for financing and managing infrastructure.

The design of regulatory frameworks and institutions should begin with an assessment of the possibility of changing the organizational structure of delivery of the service in question. Where possible, the restructuring should enable a competitive market structure to emerge and allow competition in the market to act as a regulator. For example, in the electricity sector privatization can enable competition in generation.
Where full competition is not possible in the market, competition for the market may be an option. For example, competitive bidding for a concession is possible in retail water delivery; but once the concession has been granted, a regulatory framework is needed to ensure that the concessionaire does not begin to act like a monopolist. This does not necessarily mean that a central regulatory agency is needed. Regulation can be enforced through contracts in the context of a well-functioning legal system. In addition, if the same sector has several providers, public sector monitoring of performance and regular publication of performance indicators, such as price increases, can provide the informal pressure that might reduce the need for a regulatory agency even when a fully competitive market structure does not exist.

If a regulatory agency is established, at least two design issues become important in ensuring the correct incentives for the delivery of infrastructure. The first is ensuring the independence of the regulatory body, and the second is deciding which tier of government should be responsible for what aspect of regulation and designing the coordination that is needed between the different tiers. Finally, in the context of multitiered governments, policymakers must take care that the regulatory regime adopted, especially a central one, does not undermine the objectives and accountability of a decentralized system.

**Capacity Building**

As with capital markets, some developing countries have a much greater institutional capacity than others. To address the increasing need of these countries for institutional capacity at the subnational level, the prevalent approach is generally limited to increasing the supply of training and technical assistance to civil servants at the central and local levels. This approach is slow and expensive, and probably cannot address the capacity gap. The key issues are the pace, effectiveness, and sustainability of capacity building and the creation of incentives so that institutions perceive enhanced capacity as vital to their survival.

An alternative to the supply-driven approach that is currently predominant is to focus on stimulating demand for increased capacity in such critical areas as budget management, tax policy implementation, and management of service delivery reforms. This demand may be stimulated by creating a market for the required capacities. This requires that local governments be given responsibilities, own-resources, and the autonomy to exercise their powers. Under these conditions, local governments will have greater incentives to seek out capacity support to fulfill their responsibilities. The central government can then support this demand by facilitating and enhancing the supply side of the market by organizing direct support to smaller local governments or clusters of local governments. Such support can be in the form of teams contracted to help local governments develop basic systems or of partnerships with local governments with greater capacity. This will also enhance the likelihood of a supply response as the private sector invests in increasing its own ability to respond to the emerging demand for institutional capacity as subnational governments take on expanding responsibilities.
Experience with local government reforms in countries as diverse as Colombia and Uganda have confirmed that a dynamic and positive relationship may indeed exist between decentralization and capacity enhancement. South Africa’s experience is particularly instructive. South Africa has a distinct advantage over many developing nations, namely, the presence of a set of tertiary educational, research, and training institutions that provide a strong base for a “retail market” in capacity building. Under these conditions, if customers have the resources, their latent demand can translate into effective demand for various capacity building programs. The basic premise of the local government implementation framework is notable. The approach does not assume what types of capacity building programs local governments need or deliver such programs directly. Instead, through the process of fiscal decentralization, funding is being made available for local governments to tap into capacity building programs currently being offered in the market. In addition, the implementation framework also focuses on learning and capacity building based on the comparative experiences of local governments themselves. To facilitate this process, a concerted effort is being made to provide funding for “learning through networks.”

This kind of decentralized and demand-driven approach to capacity building provides an ideal avenue for donor agencies to fund the strengthening of key educational, research, and training programs. This can be done at the wholesale level by strengthening the institutions themselves and at the retail level by improving public officials’ and nongovernmental organization representatives’ access. This latter point is important. Donor efforts to strengthen capacity by funding the demand-driven approach need to ensure that both the public and nongovernmental organization sectors have access to the opportunities. Such an approach would enable the institutional separation described earlier to be implemented in practice.

Conclusion

The futility of imposing macroeconomic controls over public infrastructure borrowing and delivery without addressing the incentives faced at the microeconomic level is perhaps best described by Hayek (1988, pp. 98–99):

But because the delusion that macro-economics is both viable and useful (a delusion encouraged by its extensive use of mathematics which must always impress politicians lacking any mathematical education, and which is really the nearest thing to the practice of magic that occurs amongst professional economists) many opinions ruling contemporary government and politics are still based on naive explanations of such economic phenomena as value and prices, explanations that vainly endeavor to account for them as “objective” occurrences independent of human knowledge and aims. Such explanations cannot interpret the functions or appreciate the indispensability of trading and markets for coordinating the productive efforts of large numbers of people” [emphasis added].

Perhaps Yeats was wrong.
Notes

1. Even with decentralized tax instruments, administrative costs and efficiency criteria suggest that tax administration and setting of tax bases (as opposed to tax rates) can remain a central function. Many countries are considering a national, but independent, tax administration as part of the fiscal decentralization process.

2. This raises several policy issues. For example, if promoting the accountability of each tier of government is an important policy objective, policymakers may need to reassess the general conclusion that the value added tax (VAT) is preferable to a sales tax, because the VAT may be administratively difficult to devolve. Or, to take another example, policymakers would need to reassess whether in a federal system, a combination of a central VAT and a provincial sales tax is superior to a central VAT and revenue sharing. In the case of a system of surcharges, national tax reform may also need to consider the coordination of national and subnational tax rates.

3. Therefore, if possible, governments should ensure the presence of multiple providers in the same sector with the ability to compete across jurisdictions.

4. New Zealand has a public registry that collects this information. Note that any legislation should mandate that both explicit and implicit liabilities, for instance, companies dipping into their own pension funds to finance expenditures, should be reported.

5. Central financing of distributional objectives follows the long tradition of public finance theory, which argues that the mobility of factors of production at the subnational government level reduces the ability of lower-tier governments to undertake redistributive measures. However, even if financing of redistribution is undertaken at the local level, the principle of transparent fiscal transfers still applies. This principle is also supported by a political economy argument that suggests that transparent subsidies can be better targeted than implicit subsidies and may create a political check on excessive patronage-based redistribution that impinges on economic efficiency.

References

People derive their livelihoods from employment; therefore employment, especially that of surplus rural labor, is China’s most urgent challenge in relation to its development and to poverty reduction in rural areas.

**China’s Dual Social Structure**

Under the centrally planned economic system, before China embarked on its economic reforms, the government’s first priority was heavy industry, while the light textile industry and tertiary industry were comparatively underdeveloped. This meant that an insufficient number of jobs was available to employ all urban and rural workers. In addition, during this period capital investment went mainly into urban industry, with little going to the agriculture sector.

Eighty percent of China’s population lives in rural areas. Prior to undertaking reforms, the government used administrative decrees and regulations to separate rural society from urban society. This resulted in a dual social structure whereby rural society was separate from urban society and mobility between the two groups was restricted. Huge numbers of rural laborers were kept out of the cities and forced to remain in the countryside. Their only employment option was low-efficiency agricultural production on the comparatively limited farmlands. The government’s agricultural policies also meant that production remained focused on grain, and diversification of the rural economy and the establishment of township industries were curbed. Thus for many years most rural people lived in poverty.
The Rise of Township Enterprises

The government embarked on rural economic reforms at the end of the 1970s. One of these reforms was the contracted responsibility system, which was put into effect at the household level in rural areas, with remuneration linked to output. Under this system farmers were given the right to manage and use farmlands as they saw fit. The former system based on peoples’ communes was abolished.

As agricultural production became more efficient, the problem of surplus rural labor became increasingly serious. Gradually, some surplus rural labor left the farms and started small businesses in the townships, thereby giving rise to rural enterprises. With the development of these township enterprises and of a diversified rural economy, more than 130 million rural surplus laborers were absorbed and more than 110 million jobs were created in nonagricultural production sectors. In this way surplus rural labor was no longer involved in agricultural production, but nevertheless remained in rural areas. The incomes of the rural population rose dramatically and township industries boomed. At the same time, the regulations governing the segregation of those living in urban areas from those living in rural areas remained unchanged. Nevertheless, the growth of township enterprises provided the first opportunity for rural labor transfer to those township enterprises and later became the precursor of labor transfer on a much larger scale.

Surge in Labor Migration

In the late 1980s and early 1990s the wave of migrant laborers surged for two main reasons. First, by this time the township enterprises had reached a sustained level of development and some changes had occurred in the general economic environment. Consequently, fewer new surplus rural laborers could be absorbed by local township enterprises. Second, with the deepening of China’s reforms and its increasing openness to the rest of the world, the eastern coastal areas and large cities began to develop rapidly and become increasingly prosperous. These newly developed areas have a great need for new labor resources. Local surplus rural laborers were absorbed immediately, but the need is still far from satisfied. With the inability to find jobs locally, surplus rural laborers began to flow from the underdeveloped central and western provinces to the comparatively developed eastern provinces and big cities.

At the beginning of this massive migration the flow of migrant laborers across regions was disorderly and resulted in many serious problems, for instance, public security issues. Because of the resultant social upheaval, some people insisted on using administrative degrees or regulations to block the flow of labor. Eventually the government adopted policies to direct and manage this flow. As a result, new opportunities became available for surplus rural laborers who were now allowed to seek jobs in urban areas on their own or to start their own businesses.

During the late 1980s to the early 1990s the total number of migrant rural laborers amounted to some 60 million to 80 million people, comparable to the largest migrations
in history. In general the flow of migrant laborers is market-oriented and positive in relation to the development of the national economy. First, it provides cheap labor resources for the more developed regions and large cities, while at the same time reducing the pressures caused by excess rural labor in the economically undeveloped regions. Second, the incomes of farm households increase. Third, many rural laborers acquire skills by working elsewhere, thereby increasing the level of labor quality in the underdeveloped regions when they eventually return. Finally, the underdeveloped provinces have accumulated funds for economic development. In Sichuan province for example, the total annual income remitted by migrant laborers from that province amounts to more than ¥20 billion, which exceeds the revenues of the entire province.

The incomes of migrant laborers are boosting the development of local economies in undeveloped areas and playing an important role in rural poverty alleviation. In the past the government allocated labor resources. The spontaneous labor migration indicates a shift from government-planned allocation to market-oriented allocation of domestic labor resources. This shift has accelerated the formation and development of China’s labor market. It has also helped spur reforms of many systems, for example, the recruitment system, the wage system, the training system, and the household registration system.

Township Economies

After a number of years of working in the economically developed areas, many rural laborers returned to their home towns, and using the experience they had gained started their own enterprises. Some are managing small or medium private or collective-owned township enterprises, and some have even become presidents of large enterprises.

In Sichuan province, for example, of the 10 million rural laborers who left each year from 1997 to 2001, some 400,000 former migrant laborers have returned and opened their own businesses. If the percentage of returnees is the same in other provinces, nationwide about 2.4 million former migrant laborers (of the 60 million who migrate each year) have returned home and started their own businesses. If the average enterprise employs 5 people, then taken together these enterprises have created 120 million jobs. Most of those enterprises are located in villages or small towns in the underdeveloped central and western regions of China and have become new focal points for local economic development. Many new business development zones have come into being in small rural towns where these kinds of enterprises are clustering together. This too is accelerating the development of these towns.

Current Employment Situation

The total number of surplus rural laborers currently amounts to 150 million, and supply in the labor market still exceeds demand. In addition, the urban unemployment rate
is rising and the number of surplus urban laborers is increasing. Another complication is that following its accession to the World Trade Organization, China is increasingly feeling the pressure from international competition in agricultural production. As a result, the general employment situation for rural laborers is not encouraging.

Nevertheless, China still has many opportunities to solve the problem of surplus rural laborers. In the 18 years since the first wave of migrant labor flows the authorities have gained experience in solving the associated problems and the process is a great deal more orderly than in the past. Nevertheless, the government alone cannot solve the problem of finding employment for 150 million surplus rural laborers.

A practical solution would involve three steps. First, surplus rural laborers migrate and work in developed regions. Second, they return home and start their own businesses. Third, with the industrialization of small rural towns and of agricultural production and with the development of the western regions, the demand for labor might match the supply.

All levels of government have passed numerous decrees and regulations to support and regulate the employment of both rural and urban surplus laborers. The authorities are taking steps to stimulate domestic market demand, to strengthen infrastructure, to accelerate the development of the service sector, and to train laborers. Great strides have been made in all these fields. While many difficulties remain, there is no doubt that China can solve its surplus labor problem.
Incentives and Innovations
In 2000 the international development community endorsed the Millennium Development Goals, which stress health as an integral part of poverty reduction. To reorient health systems toward providing health services that benefit the poor, policymakers need information on the following:

- Who is at risk for ill-health and what portion of this group is at risk of becoming impoverished?
- What are the health conditions of the poor and which health services will be of greatest benefit to them?
- What kinds of policies are reaching the poor effectively?

Policymakers have also long been concerned with improving their health systems’ performance in attaining public goals, many of which are related to addressing the needs of the poor and of other at-risk populations (Maynard and Bloor 1995). While numerous studies have assessed the impact of reforms in different settings (Durham and Kill 1999; Ron 1999), the frameworks and methods used to assess and measure the effects of changes in policies and strategies have varied. This has made separating the differences in measured impact from the differences in the analytical approaches difficult.

Consequently, the World Health Organization (WHO) embarked on a program to improve the scientific basis for such system comparisons and to ensure that its technical advice on health system development is based on the best available evidence. As they had requested, the program also aimed to help member states improve their capacity to obtain appropriate evidence, analyze it, and use it to improve the performance of their health systems. WHO’s framework focuses on outcomes, defines goals that are of intrinsic value, and gives prominence to distributional concerns.
The World Health Report 2000 (WHO 2000) defined health systems as including all actors, institutions, and resources that undertake health actions, that is, all actions whose primary intent is to improve health. The report identifies three intrinsic goals. First, a health system’s defining goal of improving health has two components: the system should seek to improve the average level of population health and to reduce inequalities in health among the population.

The second intrinsic goal is to make the health system more responsive to people’s legitimate expectations in regard to their interactions with the health system. For example, people should be treated courteously and their privacy should be respected. WHO is concerned not just with the average level of responsiveness, but also with inequalities in responsiveness among populations.

The third intrinsic goal is the fairness in financial contributions to the health system. Households’ contributions to the health system should represent an equal sacrifice. Equal sacrifice would mean that no household would become compromised or pay an excessive share of its income to finance the health system. Equal sacrifice also means that poor households should contribute a smaller share of their incomes than rich households.

WHO’s Approach to Health System Assessment and the Poor

Following the identification of these three goals of health systems, appropriate policies are needed to achieve them. Such policies encompass a wide range of activities among which health services play an important role. Despite arguments to the contrary, recent studies have shown that investments in health services make a difference to population health. Cross-country studies have indicated that government spending on health services in some 50 developing and transition countries is associated with lower mortality rates for infants and children (Gupta and others 1999). Furthermore, the health status of the poor in a given country appears to be sensitive to larger amounts of government spending on health services (Gupta and others 2001). Studies within countries regularly demonstrate the effects of particular health services on population health, whether the service involves treating parasites or tuberculosis, providing trained birth attendants, or modifying risky behaviors. Consequently, WHO argues that providing the right people with the right kind of care can make a considerable difference in attaining better health status, responsiveness, and financial fairness (Van Lerberghe and De Brouwere 2001).

WHO has recently started a systematic effort to estimate the impact of access to health services on health status. It examines inequality in health outcomes within countries and assesses its determinants. In particular, it uses information on child survival inequality based on the distribution of expected survival time for a population as a measure of total health inequality (Gakidou and King 2002a). This inequality is then decomposed into the portions attributable to inequalities in assets, education,
and access to health services. Preliminary findings suggest that health service access accounts for significantly more of the variations in health outcomes within developing countries than income or education. WHO is continuing to refine this and related methods of analysis and will apply them to more countries as it acquires additional primary data (for details of the methodology see Gakidou and King 2002b).

WHO is also using a database comprising demographic health surveys from more than 50 countries to document trends in health and access to health services disaggregated by income level. Thus seeing the effects of policies in recent decades on gaps between the rich and the poor, as well as on average levels, has become possible. This kind of disaggregation shows, for example, that child mortality among the poor and the nonpoor fell in the Dominican Republic and Egypt during the 1990s and that the improvement was larger for the poor. By contrast, the average decline in Bolivia’s child mortality rate during the 1990s was larger among the nonpoor, leading to a widening gap. Analyzing such trends should make it possible to assess which public policies not only contribute to improving population health status as a whole, but also to identify which policies contribute to reducing the gap between the nonpoor and the poor.

Evidence of Inequities

WHO is currently developing methods to combine and make maximum use of existing data from population surveys such as the demographic and health surveys and the living standards measurement surveys. To improve the quality and coverage of data, WHO is implementing the world health survey (WHS) to collect valid, relevant, and comparable information at a relatively low cost. In 2002–03 WHO collected data from 72 countries on health system outcomes, functions, and inputs. Data collection from all 192 member states will be completed in three years. This will provide information on the following areas:

- Health (description and valuation)
- Responsiveness
- Risk factors
- Coverage of interventions
- Health expenditures
- Mortality and causes of death
- Permanent income indicators.

WHO will use the WHS to supplement information provided through routine health information systems and other surveys where they are available. This will
help answer the following questions, which are crucial to pursuing the Millennium Development Goals:

- Who and where are the poor?
- What are the health conditions of the poor?
- To what degree are interventions designed for the poor?
- What are the characteristics of health service providers and what are the costs of provision?

In some countries the WHS will complement existing information, but in many it will provide the first primary data for looking at these questions in detail. One of the main goals of the WHS is to develop rigorous measures of health service coverage. Currently this term is used loosely to mean a variety of things in different settings. WHO hopes to make the term more precise by defining it in terms of the probability that individuals will receive a health service they need (Shengelia and others 2001). This definition will permit analysis of the various factors that affect this probability: supply of services, financial barriers, physical distance, and quality of care.

This method of collecting data and analyzing coverage takes a health system view, while focusing on individual interaction with the system and benefits from health interventions. In this way it captures the contribution of different access factors of both an individual and a system character. It also permits assessing the coverage of different interventions in combination. Finally, it permits much more precise analysis of inequalities in coverage across individuals, an important aspect of improving health services for the poor.

Another initiative that helps answer questions related to the priorities health systems give to different types of health care required by the poor is providing data on the cost-effectiveness of different interventions. To help countries improve their allocation of resources so as to have the greatest improvements in health, WHO has a program called CHOosing Interventions That Are Cost-Effective or CHOICE. The program uses generalized cost-effectiveness methods to produce cost and effectiveness estimates for more than 500 interventions. It is undertaking analysis for 17 country groupings created on the basis of epidemiology and health system characteristics.

CHOICE’s regional databases will include the raw cost and effect data as well as the method and calculations used to obtain the summary cost-effectiveness ratios. The costing template accompanying all interventions uses an ingredients approach: the quantities of resources used and the prices are recorded separately. Effectiveness data are presented in a similarly transparent format. Analysts from different countries will be able to modify any of the base assumptions to make them consistent with their own settings (Tan Torres-Edejer 2002). This information can be used to identify the allocatively efficient set of interventions.

Underlying the work on CHOICE are findings at the micro level in places as diverse as the United States and Sub-Saharan African countries that health can be greatly improved by reallocating resources to more cost-effective interventions (Murray,
Kreuser, and Whang 1994; Tengs 1997). WHO’s methodology focuses on interactions between interventions in terms of both costs and effectiveness. Interventions whose effectiveness is likely to be altered if they are delivered with another intervention are also analyzed singly and together. WHO believes that this approach approximates the practical situation policymakers face (Hutubessy and others 2002).

WHO stresses that cost-effectiveness information is only one of a set of criteria that a health system must address. Other relevant criteria are related to other health system goals, such as fairness of financial contributions, vertical and horizontal equity, and pro-poor policies. In many cases CHOICE will provide cost-effectiveness data that can help allocate resources in pro-poor and equity-enhancing ways.

Recent WHO analysis has demonstrated major inequities in health outcomes, many of which are associated with unequal access to required health services. Evidence shows that it is the poor who tend to suffer from limited access to the health services they need. WHO initiatives such as the WHS and CHOICE are providing data to support the technical analysis required for pro-poor policies.

Why Do the Poor Not Get Access to Health Services?

Poor people in modern societies are less likely to get health services when they need them than wealthier people, because they are disadvantaged in relation to both the public and private sectors. Except in the wealthiest countries, that is, the 20 percent of the world’s population who live in countries with incomes above US$7,000 per capita per year, public sector health services often lack sufficient financial resources, exhibit low productivity, and allocate funds according to political criteria that may have little to do with the goal of improving the population’s health. Such problems also manifest themselves in many wealthy countries. However, the private sector fails the poor in all countries because it responds to effective demand, that is, the individual’s or household’s ability to pay for services, and therefore concentrates on serving wealthier families or, when it serves the poor, by providing low-quality services that match the low fees paid.

Evidence of inefficient allocation and use of health funding is most clear in specific cases. For example, in a detailed study of a hospital in the Dominican Republic Lewis, La Forgia, and Sulvetta (1996) found that annual spending was almost 60 percent higher than the actual costs of providing the services that were delivered.

Inefficiency can also be inferred from cross-country comparisons. For example, mortality rates are weakly correlated with health expenditures, especially after controlling for other factors such as national income. This is especially true of infant and maternal mortality. Thus the same amount of funds spent on health in countries of comparable socioeconomic characteristics are yielding widely different population health status (Inter-American Development Bank 1996; World Bank 1993).

Similarly, countries with similar levels of income or health expenditure can differ widely in the degree to which they can protect their populations from catastrophic
medical expenses. For example, in the aggregate, out-of-pocket expenditures range from less than 20 percent of total health spending to more than 60 percent of health spending for countries with per capita annual incomes between US$1,800 and US$2,200 (WHO 2002). In addition, surveys indicate that the percentage of households that spend more than 40 percent of nonsubsistence income on health care ranges well above 1 percent in Indonesia and Latvia, but is less than 1 percent for households in Lithuania and Sweden (WHO 2001).

Focusing on the impact of high average health costs for the poor masks what may be even greater problems resulting from a lack of health insurance. Figure 1 shows the share of nonsubsistence household income spent on health care by income decile for three countries. In both Burundi and Latvia the poorest deciles pay a larger share of their budgets for health on average (as indicated by the line within each box), but are also exposed to greater variance of spending and greater risk, as indicated by the boxes that show the 25th and 75th percentile of spending, as well as the “whiskers” that mark the maximum and minimum health spending shares.

Therefore the data show that, after controlling for many factors, countries achieve large differences in health outcomes and financial protection for the poor for the same levels of health spending. This implies that much can be gained by applying health funds more efficiently.

The prevailing debates on health systems seem to suggest a trade-off between efficiency and equity; however, the inefficiency in most health systems is so great that both efficiency and equity could be improved at the same time. Those who suffer the most from inefficient health systems are the poor.

The poor are hurt by inefficient health system spending in several ways. First, when health systems spend funds inefficiently, they can provide fewer services. In the public sector, if running health clinics is unnecessarily expensive this may mean that fewer health clinics can be built and staffed. In the private sector, if purchasing brand-name drugs is more expensive than purchasing generics, less money will be available to pay for other private health services or for other things that improve health, such as nutritious foods.

Second, the poor are hurt by inefficiency when it results in poor services. Drug availability, training of medical staff, and health facilities are all frequently worse in health services available to the poor than in those available to wealthier groups. More efficient use of funds could release funds for training, additional staff, cleaning, and effective distribution networks.

Third, whenever a valuable service such as health care is subject to constraints, people use money and other resources to gain access to it. As the poor are relatively disadvantaged in terms of both money and other social forms of access, such as personal contacts and political forms of organization, the limited services available tend to go disproportionately to the relatively privileged groups in society. More efficient use of health funds could mitigate this problem by making better services more readily available, thereby relaxing the constraints.

Fourth, inefficient health systems have effects beyond access to health services. When people cannot get the care they require when they need it, they have to take
FIGURE 1.
Variation in Household Health Expenditure between and within Income Groups in Burundi, Latvia, and Romania

time off work, thereby reducing their families’ incomes; and the failure to obtain care may also reduce productivity in the workplace. In the aggregate, as health systems account for a significant portion of national income, any inefficiency has spillover effects on national productivity and international competitiveness. As one simple example, consider the impact of a health system financed through payroll taxes. Any waste in the use of such funds in the health system is effectively taxing employment without providing a benefit to society.

Thus the problem of providing universal access to required health care is tightly linked to the problem of improving the efficiency with which health systems spend their funds. Greater efficiency can result in a health system that provides more services of better quality to more people in ways that promote economy-wide improvements.

Agency Problems in Health

Inefficiency in health systems can be analyzed in many ways, but one of the most common is a principal-agency framework. This framework, which was applied to the health sector as early as 1963, looks at the relationship between a principal who hires an agent in order to reach some objective (Arrow 1963). The major finding in the literature is that whenever divergence between the principal and the agent arises in relation to objectives and uncertainty, or differences in information about the task become apparent, designing a contract that achieves an optimal outcome is difficult (Ellis and McGuire 1993; Newhouse 1978; Savedoff 1998).

The principal has a dilemma. In the simplest case, when an agent is assigned a task the principal must specify how the task is to be accomplished and then monitor to assure compliance with the orders. In such a case the principal assumes the risks of failure, because the agent is constrained to do only that which the principal ordered. However, the principal also assumes the cost of performance monitoring, along with the risk that the agent will not comply and that the monitoring will not detect this noncompliance.

Therefore the principal may look for other tools that either improve the information revealed by the agent or give the agent an incentive to perform better by assuming some or all of the risk of failure. Of course if the agent and the principal share the same objectives, none of this is necessary, but this perfect identification of interests rarely occurs. Nevertheless, measures that increase this identification of interests can also be an effective tool.

Different social institutions have emerged to address this agency problem. The armed forces use a command and control approach, with strong penalties, possibly including corporal punishment, for anyone who disobeys an order, along with indoctrination and training to encourage identification of soldiers’ interests with those of the commanding officers.

In construction, performance contracts are common whereby builders agree to a set price for delivering a building according to certain specifications. This allows the
person or entity that contracts the builder, that is, the principal, to avoid having to monitor the costs of construction. Builders assume the risk of any cost overruns in return for the possibility of good profits if they can keep costs down, while buyers limit their risk to the promised price.

In other cases principals use internal markets to assure that their agents are productive. For example, many large corporations create different divisions or profit centers within the same company. These divisions then compete directly or indirectly for budgets, bonuses, or advancement. Public service systems, such as Sweden’s health system, allow individuals to choose among different public service providers and use information about differences in performance to make decisions about rewarding providers.

In the private sector, firms typically use a variety of tools to motivate workers and improve productivity. They may use nonpecuniary forms of motivation, such as awards, team-building exercises, and flexible working hours. They sometimes pay directly for output, but this tends to occur only in firms with simple individual products, such as clothing, or in sales, where firms pay commissions. Of course, firms also use pecuniary motivation in the form of bonuses or more rapid career advancement for those judged to be better performers.

In the public sector, the tools available to private firms are often weaker or unavailable. Public health systems in particular tend to be extremely large, making it difficult to motivate workers through a sense of vocation and shared goals. When the employment contract is tied to civil service regulations, it tends to limit managerial discretion over recruitment, pay, discipline, and redeployment of staff. Finally, measuring outputs and performance is frequently difficult because the services provided are diverse, dispersed, and heterogeneous.

When looking specifically at the health sector, these problems are compounded even further. Health systems face the worst problems of both markets and bureaucracies. The market for health services faces problems of moral hazard, administrative and marketing costs, difficulty of mobilizing public resources, and variable quality and access. At the same time markets hold the potential for providing incentives for good performance, encouraging greater attentiveness to patients, and accommodating differences within the population. Countries’ public health bureaucracies often experience inefficient allocations of resources that raise costs, lack of transparency and accountability, restricted managerial discretion, and unresponsiveness to patients. However, public bureaucracies have the potential to increase health system efficiency through improved and rational resource allocation, explicitly redistributive policies across income and geographical groups, and lower overall administrative costs.

The question facing policymakers is how to maximize the potential of market and public sector mechanisms and minimize their defects in a way that serves the goals of public policy: improving the population’s health equitably. Most countries have made changes in their health systems to better reach this goal using many different approaches. Sometimes these changes are system-wide, and sometimes they address only specific parts of the health system.
Examples of Pro-Poor Reforms of Health Systems

Countries that have made changes that are specifically pro-poor can provide valuable lessons. Most of those that have done so successfully have explicitly addressed the agency problem in one way or another.

\textbf{Colombia: Encouraging Enrollment of the Poor}

Colombia introduced health reform in 1993 to create a national, universal insurance system (this section has been adapted from Savedoff 2000). At that time, only 8 percent of the poorest 40 percent of the population had health insurance. The country was spending more than 6 percent of its gross domestic product on its public health system, much of which went to the national social security agency that served only a minority of the country’s workers. The public health system, as it was structured and managed, had few incentives to enroll citizens in social insurance or even to encourage them to use health services, because more patients simply meant more work under the same budget. The reform explicitly created incentives for insurers to enroll citizens in insurance plans and for providers to improve their productivity, thereby increasing insurance coverage among the poor and increasing the number and quality of health services available to the population.

Law number 100 created a national, universal health insurance system with two forms of affiliation. For those with sufficient incomes, a payroll tax of 12 percent is collected and they are enrolled in a comprehensive insurance plan. For those with insufficient incomes, the government purchases the insurance. In both cases, the affiliated individual chooses a health insurance company whose ownership may be public, private, or mixed—and that may be run for profit or not for profit. The health insurance company, in turn, contracts health services with a network of service providers. These service providers may also be public, private, for-profit entities, or not-for-profit entities.

From the individual’s perspective, this is as far as it goes, but behind the scenes much more is going on. First, the government sets the premium that will be paid to each health insurance company for each individual, with a risk adjustment by age and sex. This premium is about US$140 per person per year (or about US$80 per year for the government-purchased insurance, which covers fewer services, but which will eventually achieve parity with the employee-paid system, with a concomitant convergence of unit costs). Therefore the health insurance company has the same incentive to sign up a poor person as a rich one.\footnote{Second, the government has an explicit fund mechanism for channeling resources from individuals whose 12 percent payroll contributions are greater than the premium toward those whose contribution is less. Third, the same fund channels a portion of the payroll tax (1 percent of the payroll tax) toward payment for those whose premiums are paid for by the government.}

As a result of these changes, health insurance coverage has increased dramatically, especially among the poor. In 1993 approximately 8 percent of the poorest two quintiles had insurance, compared with approximately 30 percent of those in higher
income categories. By 1998 insurance coverage had increased sixfold among the poorest two quintiles and more than doubled in higher income categories, increasing to 53 and 67 percent, respectively. About 8 million Colombians who had had little or no access to health insurance, particularly for high-cost treatments, received coverage as a result of the reforms (figure 2).

This is not to say that the Colombian reform has not had its problems, some resulting from the country’s political, military, and financial crises and others from the implementation of the reform. Difficulties have arisen in particular in defining roles and responsibilities for specific public health activities between the new insurance agencies and municipalities and in auditing and assuring a sufficient flow of finances through the system. Nevertheless, the mechanism for subsidizing demand has helped equalize access to health services across income classes by changing the incentives the system’s agents faced, that is, the health insurers and the health service providers.

**Haiti: Rewards for Pro-Poor Health Service Providers**

In Haiti, poor people generally do not get the kinds of preventive primary care services they need (this discussion draws on Eichler, Auxila, and Pollack 2000). Non-governmental organizations (NGOs) provide most of the primary health care and they are financed largely through grants from external donors or agencies, some of which are private philanthropic institutions and others of which are public agencies. External agencies provide about US$32 million per year, which represents approximately a quarter of all public spending on health in the country.

**FIGURE 2.**
Expansion of Health Insurance Coverage, Colombia, 1990–2000

![Graph](image)

In 1995 the U.S. Agency for International Development funded a five-year program in Haiti to provide budget support for 23 NGOs that provide primary health care services for disadvantaged populations. Under this payment system, NGOs were funded for documented expenditures up to a ceiling that effectively represented a negotiated budget. This kind of input-based payment provided little incentive to NGOs.

A preliminary review of the NGOs’ performance by Management Science for Health revealed wide disparities in their effectiveness in using these resources. For example, some NGOs achieved contraceptive prevalence rates of 25 percent, while others achieved less than 7 percent; some reached more than 40 percent of pregnant women in their regions with two or more prenatal visits, while others reached fewer than 25 percent; and vaccination coverage ranged from 7 percent of the target population to as high as 70 percent. These variations were not correlated with costs per visit, which ranged from as little as US$1.35 to more than US$50.

In 1999, after negotiating the budgets, the project manager sought to introduce some performance measures and to shift the funding incentives away from cost reimbursement to payment for performance. Three NGOs agreed to experiment with a contract that would provide them with a ceiling of 95 percent of their original budget in return for the possibility of being paid up to 105 percent if they could reach all the targets that were set in negotiation. Thus 10 percent of the funding was at risk. Depending on how many targets the NGOs met, a formula determined how much of this additional 10 percent would be awarded.

Seven targets were set, including the percentage of women using oral rehydration therapy to treat children with diarrhea, vaccination coverage, and the share of pregnant women with more than three prenatal visits. A baseline survey and end of year survey were contracted with an independent firm to monitor progress and to verify whether or not targets were met.

The NGOs met most targets by the end of the year. This included increasing vaccination coverage from an unweighted average of 33 percent to 72 percent of the target populations. In some cases the NGOs did not meet the targets but their performance had nevertheless improved. For example, correct use of oral rehydration therapy rose from 43 to 47 percent in one NGO, just short of the target, which had been set at 50 percent. In another NGO this indicator fell from 56 to 50 percent, while in the third NGO use rose from 56 to 86 percent, well exceeding the target of 64 percent. The three NGOs received 90 percent, 80 percent, and 70 percent of the bonus, respectively, representing 104 percent, 103 percent, and 102 percent of their originally negotiated budgets.

The changes engendered by this experiment went far beyond the specific attainment of targets. The NGOs’ staffs changed how they managed their organizations and services in important ways, and many expressed satisfaction that their tasks were oriented toward finding ways to improve performance rather than focused exclusively on documenting expenditures. Overall the experiment showed that addressing the agency problem by putting a relatively small share of funding at risk reoriented management and services, increased efficiency, and provided more and better services to the poor.
Conclusion

WHO’s current development of indicators provides countries with information about the aggregate performance of their health systems and thereby provides a first step in solving the agency problem, improving efficiency, and reaching the poor. WHO is also developing disaggregated measures for subnational regions; for variation across income groups; and for the effectiveness of specific health system functions, such as financing, human resource management, and coverage. When combined with case studies such as those presented here, policymakers have many tools to make their health systems perform for the poor.

Note

1. Even though the price is equal, the anticipated cost of caring for poor people may be higher because they are more likely to be exposed to less healthy conditions and have fewer resources to protect their health. Nevertheless, the equalization of premiums goes a long way toward leveling the health insurance company’s interest in getting members from all income classes.

References


The World Bank selected Bolivia as one of 18 countries eligible to apply for the Education for All Fast Track Initiative (EFA FTI). To receive financing under this initiative, by September 2002 Bolivia had to present a credible plan for reaching EFA goals. While Bolivia’s plan for the EFA Fast Track Initiative is still making use of some of the approaches described in this paper, the presentation of the plan itself has been delayed. This was due to three factors. First, the Ministry of Finance expressed reservations about the recurrent cost implications of the proposal, and given that the EFA Fast Track Initiative only finances the first three years of the plan, was reluctant to commit to a path that would have expenditure obligations much beyond the three-year period. Second, the Ministry of Education decided to embark on a lengthy process of consultation with civil society as part of its definition of a new strategy for the next phase of its Education Reform Program (ERP). Finally, a high turnover of ministers delayed the presentation of the proposal for the EFA Fast Track Initiative. However, the system dynamics approach described below was used to prepare Nicaragua’s proposal for the EFA Fast Track Initiative, which was submitted and received funding.¹ Nicaragua benefited from a workshop held in Bolivia in August 2002 for countries that were preparing proposals for the EFA Fast Track Initiative. At that workshop and in a subsequent training session, participants explored the idea of using the system dynamics approach as a tool to help identify the financing gaps required to reach medium-term targets in education. The particular way in which Nicaragua made use of this approach is described in Porta and Arcia (2003).

The key EFA goal of achieving universal primary education is one of the core Millennium Development Goals (MDGs). Because poor children are most at risk of not completing primary school, Bolivia’s credible plan must make education services work for poor people. This article describes how Bolivia is introducing a greater
results orientation within its plan. The approach includes the use of incentives and the application of certain innovative approaches that may be of wider interest.

Background

At the international level, multilateral institutions and bilateral aid agencies have promoted the use of poverty reduction strategy papers (PRSPs) to help guide what should be done, the Comprehensive Development Framework to help guide how different actors should work together, and the MDGs to help focus efforts. Putting these complementary approaches into practice holds the promise of making development assistance more effective in reducing poverty; however, the development community is still in the early stages of making these approaches operational and there is considerable uncertainty on how best to proceed.

Bolivia presents an interesting case study because it has already prepared a PRSP and has been working along the lines of the Comprehensive Development Framework for the last few years. It has had some experience in setting and tracking targets, but a results orientation has not permeated the Ministry of Education or the government. The possibility of entering the EFA Fast Track Initiative provides a strong incentive to work toward meeting goals.

Approach

Preparing a credible plan for meeting the EFA goals involves the following five broad areas of work:

- Identifying the nature of the problem more precisely
- Developing models that explicitly link policy actions with results
- Modifying existing education programs to achieve EFA goals
- Considering the relationship between EFA goals, other education sector goals, and broad PRSP goals
- Clarifying who will participate in defining goals, and determining how the goals can best be met and how progress toward meeting them will be tracked.

The plan will take a medium-term perspective. The objective is to develop a process whereby all authorities involved in education at both the national and municipal levels will work in a systematic fashion to reach the targets. The expectation is that these authorities will modify their actions over time as new information becomes available to them. Donors should coordinate their work and make funds available that can be used in a flexible fashion and can be reallocated as the Ministry of Education learns what actions have the greatest impact on key results.
Identifying the Nature of the Problem More Precisely

Bolivia’s primary school completion rate is 71 percent, but this nationwide figure masks considerable differences among municipalities and across income groups and ethnic groups. Figure 1 shows the differences in school attendance by consumption quintile and age. In contrast to many countries, gender differences are not pronounced in Bolivia.

A more complete picture of the nature of the problem will be necessary to target actions more effectively. Bolivia has invested considerably in developing information systems in the last few years and is now in a position to provide the required information. Data sources include census data, household survey data, school administrative data (which have recently improved significantly), and specific survey data on school and student characteristics.

The available data sources can also be used to identify school districts that are high performers and low performers. This is done by regressing district-level primary completion rates against districts’ characteristics. These regressions permit the identification of those districts that, given their characteristics, have relatively high primary school completion rates and those that have relatively low primary school completion.

FIGURE 1.
School Attendance by Consumption Quintile and Age, Bolivia, 2001

![School Attendance by Consumption Quintile and Age, Bolivia, 2001](image_url)

Source: Estimations based on the 2001 Living Standards Measurement Survey.
rates. Representatives of the Ministry of Education and donors will visit the extreme cases and try to ascertain what factors seem to be associated with the differences in performance.

This approach combines quantitative and qualitative analysis and should shed light on actions that could be undertaken in the poorly performing school districts to improve their ability to meet the EFA goals.

**Developing Models that Explicitly Link Policy Actions with Results**

When the government establishes a target, it must consider a set of actions that will be needed to reach that target. Typically that set of actions is not made explicit. There should be considerable advantages in making the link between proposed actions and their possible outcomes. To model the various dynamic processes that are involved in achieving a target, this approach uses system dynamics and a commercial software package for graphical dynamic simulation (*iThink*, see http://www.hps-inc.com). The system dynamics approach can be thought of as an extension of the logical framework approach with the added advantage that it is inherently dynamic and graphical and forces one to explicitly specify how actions are linked to outcomes.

Figure 2 shows the type of simulation that the government will be able to run using the dynamic simulation software. For example, the government will be able to see what the effects of increasing the student-teacher ratio would be on overall costs. At the current student-teacher ratio of 24, Bolivia may not have enough money to finance needed

**FIGURE 2.** Example of Simulation: Student-Teacher Ratio and Annual Expenditures on Teachers’ Salaries, Bolivia, 2000–12

improvements and may have to move closer toward the norm of 40 suggested by the World Bank. Given demographic trends, the model suggests that Bolivia could achieve a significantly higher student-teacher ratio within seven years simply by controlling the hiring of new teachers. It does not need to incur the costs of firing current teachers.

The interface layer of the software’s operating environment allows users to easily change policy variables, modify underlying assumptions, and trace out the effects on results by running simulations. Figure 3 illustrates the type of interface that can be used to run these simulations.

What underpins the simulations is a model of the different dynamic processes that interact to produce a result. The *iThink* software provides a useful organizational framework for integrating a range of submodels and subprocesses. This range of submodels is linked in a graphical way to a high-level map that allows the user to zoom up (or down) between different levels of detail. Figure 4 is an example of a high-level map identifying these processes. In contrast to many simulation models, the logic of the model is not a black box. The logic is presented in a way that nonexperts (with a bit of training) can follow. In each section users can drill down and use graphical tools to describe the factors that determine the outcomes. Once the processes have been described in this graphical fashion, the software writes a series of nonlinear difference equations that are used to generate the simulations.

FIGURE 3.
Example of an Interface Layer

![Example of an Interface Layer](image-url)

The reason for using such a software tool is that once one gets beyond two or three interrelated dynamic processes, it is otherwise impossible to intuit what the result might be. The graphical interface is tremendously useful, as it allows planners to work with experts who really know how a process works and come up with a representation of the process. The software keeps track of the interrelations across the different processes.

Because decisions about education are taken at both the national and school district levels, the interaction among decisions taken at both levels will have to be represented. The heterogeneity of conditions in different school districts will also have to be reflected. What drives outcomes in urban school districts might be considerably different than what drives outcomes in rural, predominately indigenous, school districts. At the national level analyzing the effect on EFA goals (and on costs) of the following will be important: (a) carrying out proposed actions described in the Ministry of Education’s strategic plan for 2004–07, and (b) applying norms for six key parameters recommended by the EFA Secretariat. At the school district level analyzing the likely effects of carrying out recommendations suggested by the qualitative analysis of high- and low-performing school districts will be important.

In the course of doing this work knowledge gaps will become apparent. Given these knowledge gaps, ranges will have to be set for unknown parameter values to
determine the sensitivity of the final outcome to this range of values. The software readily allows this. Once the parameters with the greatest impact on EFA goals have been identified, an action plan will be developed to close the knowledge gap. This will be done in conjunction with Washington-based staff of the World Bank Education Network, among others.

Of course, decisions will always have to be made under conditions of uncertainty. Uncertainty could be reduced by following a systematic approach to a decision problem, closing some of the key knowledge gaps, and making use of some of the tools used in a business setting that are also appropriate for the important task of reaching EFA goals.

**Modifying Existing Education Programs to Achieve EFA Goals**

While the system dynamics approach can help identify actions that school principals, school district officials, mayors, and officials from the Ministry of Education and other sectors need to take, these actions must be considered in light of the existing set of programs. Some of these programs may have to be modified to achieve the EFA goals more rapidly and some complementary programs may have to be introduced.

Bolivia currently does have programs at the municipal and national levels. Municipalities have their own sources of financing and can decide how much they want to spend on education. They are responsible for financing the infrastructure for education, but not for paying teachers’ salaries. Recently, each municipality developed a municipal education plan; however, these plans are still focused on inputs rather than on outputs and do not give priority to universal completion of primary education.

At the national level, Bolivia has an education reform program that covers areas such as curriculum reform, development of testing and information services, teacher training, and administrative reforms. The program is supported by a group of donors that works in a coordinated way by carrying out joint supervision missions and sharing the costs of financing activities defined by the Ministry of Education. The ministry’s overall strategic plan has specific targets for intermediate actions, but has not yet linked these intermediate actions to final outcomes.

Bolivia has also developed a program to finance education improvement projects and indigenous education improvement projects. The program was developed in part to allow municipalities and school groups to customize the overall ERP to their own particular needs. Based on an initial diagnosis of their particular conditions, local groups can propose education improvement projects that provide additional inputs not currently provided by the core ERP or that are not provided in the mix desired by the local groups. The corresponding municipality and the central government co-finance these education improvement projects. By effectively lowering the cost of investments in education through cofinancing, the central government uses the program to increase the overall investments in education made in each municipality. The program was also developed to increase participation by teachers, parents’ associations, and local mayors in the education reform.

Recently, the government extended the concept of providing education improvement projects to indigenous populations to allow them to customize the ERP to suit
their needs. This is in addition to the already strong emphasis given to intercultural and bilingual education, which is a central element of the ERP. A particularly interesting feature of this program is that it works with traditional indigenous leaders rather than with local politicians. As with the education reform program, the emphasis has been focused more on inputs than outputs; however, the data to show indigenous leaders where they stand with regard to primary completion rates and to enlist their assistance in identifying what actions they think would be critical to improve the outcomes are currently available. The mechanism established to finance indigenous education improvement projects could be modified to finance these actions.

Thus several ways to put greater emphasis on achieving EFA goals are available: through municipal education plans, through the national ERP, and through the education improvement projects. However, complementing existing programs with incentives for communities that are directly tied to meeting the goal of universal primary completion may be necessary. These incentives are best implemented at the level of the school nucleus (a group of eight or nine schools that share common resources). All communities that achieve specified school attendance targets could be eligible to receive an investment that would be difficult for them to receive through normal channels. For example, the prize might be a cultural and entertainment center or a telecenter with satellite Internet connections. The reward does not have to be strictly related to education as long as it is something the communities value. The incentive system could make use of a lottery. Poor communities may prefer a less than certain probability of receiving a large payoff to the certainty of receiving a smaller payoff. Microcredit programs have used group pressure to ensure compliance, and even though using group pressure to achieve socially desirable goals is less common, it may prove to be just as powerful.

**Considering the Relationship between EFA and Other Goals**

One important part of the work will be to address potential conflicts among competing goals. Conflicts could arise between

- EFA goals and other education sector goals
- EFA goals and national priorities expressed in the poverty reduction strategy
- EFA goals and municipalities’ priorities.

The Ministry of Education, in close coordination with the Ministry of Finance, will have to work out the compatibility between EFA goals and other education sector goals, for example, those related to higher education and secondary education.

Following the principle of country ownership, some might ask why not simply take the goals related to education in the country’s own poverty reduction strategy, even if it does not contemplate achieving universal primary education by 2015. The reality is that few multilateral institutions or bilateral agencies are willing to subscribe to a concept of complete country ownership. Such a concept would require external assistance to be put in a blind trust, with the same amount being made available irrespective of a
country’s specific priorities. A more reasonable approach is to recognize that the international donor community and individual countries may have different preferences, and the specification of the MDGs signals the nature of international donor priorities to developing countries. Combining country actions taken toward achieving the MDGs with financing on more generous terms, as with the EFA Fast Track Initiative, provides an even stronger signal. Given the different implicit prices associated with financing to achieve different MDGs, developing countries are then free to decide whether to modify their priorities and give more emphasis to the MDGs.

Just as priorities between the international donor community and a specific country might differ, the national government and different municipalities may have different priorities. The mechanism used to resolve differences within a country is similar to the one that appears to be evolving at the international level. However, the rules of the game are much clearer in Bolivia than in many other countries, because it has had many years of experience working with conditional fiscal transfers. Municipalities are presented with a menu of eligible activities (similar to the categories of MDGs) and are provided with a set of implicit prices for each different activity (co-financing rates). The municipalities are free to choose what they would like to receive in cofinancing, subject to a fixed upper limit.

While the system has the potential to work well, two main difficulties are inherent in its operation. First, the national level has not set clear priorities, so the signals it sends to the municipalities are weak. Second, the national level does not have up-to-date information about how the municipalities spend their money. If conditional transfers are to be used to bring municipal investment decisions in line with national priorities, not having information on what the municipalities actually do is a serious deficiency.

To date the fiscal transfer system has focused on bringing about a more progressive distribution of expenditure, but it has not advanced nearly as far in determining how to signal sectoral priorities to the municipalities. For effective implementation of the credible plan to achieve EFA goals, this issue will have to be considered explicitly.

**Defining and Tracking Goals**

Finally, an important element in the organization of the work is for the Ministry of Education to identify who should be involved in preparing the plan for reaching the goals, in reviewing the plan, and in tracking progress. Clearly the plan is more likely to succeed if local authorities, including traditional indigenous leaders, are involved in the process. All donors should also be involved, building on the excellent donor coordination that exists in Bolivia’s education sector.

Including representatives of the Mechanism of Social Control in tracking plan progress would be useful. Bolivia has developed an interesting system of municipal-level oversight committees that are responsible for reviewing municipal investment plans. Even though they do not always operate as intended, the committees are a valuable resource that could help keep the focus on results. Other groups could also be brought into the process: universities, think tanks, and teachers’ unions.
Conclusions

The International Conference on Financing for Development held in March 2002 in Monterrey, Mexico, and initiatives such as the EFA Fast Track Initiative suggest a new direction for external assistance whereby the industrial countries might be prepared to provide higher levels of assistance provided that results can be demonstrated. Bolivia’s experience in trying to achieve the key EFA goal of universal primary education will provide one potentially useful example of how to try to achieve a specific target, but additional examples will be needed. By providing a series of examples, the World Development Report 2004 could help point the way to greater results orientation in development work.

Note

1. For more information about Nicaragua’s experience, contact Emilio Porta at portae@mecd.gob.ni.

References


Most donor agencies, including industrial country governments, have recently rushed to adopt the so-called decentralized approach to development, which includes participatory processes designed to involve beneficiaries in the definition and implementation of development projects and programs. To persuade their constituencies or supporters that the new strategy works well, they need rapid and visible results. Moreover, they have sizable financial resources at their command that they want to disburse within a short period. The temptation to spread them widely to reach as large a number of village communities as possible is great. Such a rush is problematic insofar as communities need to evolve and be institutionally strengthened if they are to achieve the objectives of the participatory approach: economic growth, democratic governance, sustainability, equity, and protection of the poor.

The risk is high that the participatory approach will be subverted and deflected from its intended purpose (see Platteau forthcoming; Platteau and Abraham 2002, forthcoming). It is revealing, for example, that the World Bank’s social funds program has recognized that the lack of capacity building, especially the building of organizational skills at the community level, and the lack of project ownership by beneficiary groups are among the program’s main limitations. As a consequence, the program remains too driven by a supply-led approach rather than being responsive to the needs of rural people as a participatory approach should be (Narayan and Ebbe 1997; Tendler 2000).

The most serious problem arises because few strong and experienced local communities or organizations actually exist, especially in poor countries such as those of Sub-Saharan Africa. Agencies eager to embark on participatory development on a large scale are greatly tempted to ask communities or specific groups within them to “elect” leaders. For a reason well explained by Esman and Uphoff (1984, p. 249),

Jean-Philippe Platteau is on the Faculty of Economics at the University of Namur, Belgium. He is also the director of the Center for Research on the Economics of Development.
however, such a solution is bound to produce perverse results and to be self-defeating:

The most prominent members are invariably selected and then given training and control over resources for the community, without any detailed and extended communication with the other members about objectives, rights, or duties. Creating the groups through these leaders, in effect, establishes a power relationship that is open to abuse. The agency has little or no communication with the community except through these leaders. The more training and resources they are given, the more distance is created between leaders and members. The shortcut of trying to mobilize rural people from outside through leaders, rather than taking the time to gain direct understanding and support from members, is likely to be unproductive or even counterproductive, entrenching a privileged minority and discrediting the idea of group action for self-improvement.

If acting through local leaders enables outside agencies to channel considerable amounts of resources toward rural communities in a short span of time, it increases the probability that local elites, which the process has reinforced, will misuse these resources. In lineage-based societies, local chiefs and elders from dominant lineages are ideally positioned to capture the benefits of decentralized development programs or projects. Instead of continuing to act as father figures and clinging to their traditional duties of guaranteeing people’s livelihoods, redistributing wealth, and settling conflicts in a way that maintains the existing social order, the erstwhile elite become greedy individuals who show little restraint in enriching themselves at the expense of their community given that they are actually legitimated by outside actors, and in some areas they have been accustomed to just doing that since colonial or precolonial times (Bayart 1989). By virtue of their dominant positions they can therefore manipulate participatory methods by subtly representing their own interests as community concerns expressed in the light of project deliverables (Mosse 2001). For example, in Senegal, along the Petite Côte and in Casamance in particular, municipal bodies or rural councils used the new prerogatives accorded them under a decentralization scheme to become involved in dubious dealings, such as selling rural lands to touristic and other business interests without consulting the communities concerned as they should have done.

The traditional elite are not the only category of people to benefit from the newly channeled resources, because members of the elite are frequently involved in tactical alliances with educated people and politicians operating outside the village domain. Thus in Sub-Saharan Africa chiefs often co-opt new elites in their village associations, for example, by creating neotraditional titles that they then sell to the new rich eager to acquire a political base in the countryside (Bayart 1989; Geschiere 1994).

The urban rather than the rural elite may be responsible for initiating the process that deflects a participatory development program from its intended purpose. Consider the rapid proliferation of national nongovernmental organizations (NGOs) that are created at the initiative of educated, unemployed individuals; politicians; or state employees who may have been laid off as a result of structural adjustment measures. These people, acting as development brokers, have been quick to understand that the creation of an NGO has become one of the best means of procuring funds from the
international community (Bierschenk, de Sardan, and Chauveau 2000). It is thus ironic that budget cuts made in the public sector at the behest of international, multilateral organizations may have the effect of inducing bureaucrats to capture resources intended for grassroots entities, possibly by the same international organizations. As Conning and Kevane (1999, p. 20) point out in the context of non-African countries, NGOs often constitute “an opportunistic response of downsized bureaucrats, with no real participation or local empowerment,” and inevitably program officers themselves become involved in the creation of community institutions (see also Bebbington 1997; Meyer 1995).

The following example illustrates why donor agencies in the West should not underestimate the aforementioned difficulties. In the late 1990s a certain Western European development NGO established a relationship with a village association in a Sahelian country. This association, which is a federation of several peasant unions, had been initiated by a young and dynamic schoolteacher, the son of a local chief. The NGO decided to follow a gradual participatory approach consisting of strengthening the association institutionally before channeling financial resources to it. This decision was the outcome of a carefully worked out diagnosis. It brought to light important weaknesses of the partner association that had to be corrected before genuine collaboration could take place: proclivity to view aid agencies as purveyors of money that could be tapped simultaneously, lack of analysis of local problems, absence of a strategic vision for future action, and loose and undemocratic character of the association (ill Defined objectives and roles and responsibilities of office bearers, absence of internal rules and reporting procedures, and so on).

After two years during which the Western NGO had provided institutional support in the form of guidance to improve the internal functioning of the partner association and to help define development priorities and the best means to achieve them, it made funds available for different types of investment. Within the limits of the budget set for each prioritized investment, the association could choose the project it deemed most useful. The local association established a special committee to prepare rules regarding the use of the budget and enforce abidance to such rules by different projects. In this way it hoped to appropriate the process of decisionmaking, preparation of project proposals, and programming of the activities involved, all activities traditionally undertaken by foreign donor agencies. The Western NGO decided that it had to provide continued support at different levels (technical, administrative, organizational, and methodological) to help achieve effective project implementation.

Despite all these efforts to strengthen the local partner association, things turned out badly. Thanks to the collaboration of two active members of the association’s general assembly and the local accountant, the foreign NGO discovered that the leader of the African association (the schoolteacher) had committed serious financial and other malpractices, including falsifying accounts, over-reporting invoices, and tampering with the quality of building materials in collusion with contractors. The NGO reacted by calling on the local committee to address these manifest violations of the rules. To its great surprise no punishment was meted out to the culprit by the local association, whose general assembly even re-elected the
leader in open defiance of the request made by the Western NGO. The general assembly claimed that its two dissident members had been driven by envy and decided to fire the accountant.

This example clearly demonstrates that poor people are inclined to support an elite community member on the grounds that they have benefited from that person’s leadership efforts. In this case most community members consider the leader’s appropriation of a disproportionate share of the benefits of the aid program for himself to be legitimate. Indeed, they think that without his efforts their own situation would not have improved at all in that he created the village association that had to be formed in order to be eligible for external assistance.

In a context where the ability to deal with external sources of funding is concentrated in a small elite group, ordinary people’s bargaining strength is inevitably limited, hence their ready acceptance of highly asymmetric patterns of distribution of program benefits. If the intervention of the elite results in an improvement of the predicament of the poor, however small the improvement, the poor tend to be thankful to their leader because the new outcome represents an improvement over their previous situation and do not begrudge the leader’s greater benefits. Thus in the foregoing example, the villagers think the foreign NGO’s withdrawal of its support for the existing team was highly unfair and that it humiliated their leader by depriving him of the jeep, scooters, and so on previously put at his disposal.

As for the leader himself, during a conciliatory meeting organized by the high commissioner of the province he openly admitted to having used a significant portion of the money entrusted to him for his own personal benefit; yet he did not express any remorse, because he perceived it as his right to appropriate a large share of the funds. Did he not devote considerable energies to setting up the local organization and mobilizing the local resources as required by the foreign NGO? By attempting to curb the leader’s power to allocate funds in the way he deemed fit, the NGO exercised an intolerable measure of neocolonialist pressure. The leader voiced this criticism even though the NGO had paid him a comfortable salary to reward his organizing efforts.

Similar stories abound, and I myself have had several similar experiences while working with local groups, NGOs, and associations through aid agencies based in Europe. It is not hard to imagine that the same thing can happen when aid agencies are official organizations with much less experience in, and are less well suited for, participatory development.

A rush toward community-based development not only runs the risk of creating and reinforcing an opportunistic, rent-seeking elite, but it also involves a serious bias in the selection of communities. Indeed, communities within easy reach of major metropolitan centers tend to be privileged even though they are not the most needy precisely because of their easy accessibility. They are better off because they have good access to markets, education facilities, and information. Such communities are also more likely to be able to set up an appropriate collective structure and elect a leader with some knowledge of more than one language.
Mechanism for Disciplining Local Leaders

Consider the following three-agent decision framework (for details see Platteau and Gaspart 2003a,b). At the top is an altruistically motivated donor agency, labeled A, that wants to disburse a given amount of funds. At the bottom are the individuals, or the grassroots level, labeled G, who are the intended beneficiaries of this aid effort. Between the two is a local leader, labeled L, who tries to organize the individuals into a group or association for the sake of securing the funds on offer. The participatory character of the program mandates that beneficiaries are organized into a collective to be eligible for funds. In other words, the donor agency will not disburse funds unless it has received evidence that a cohesive group of intended beneficiaries exists through which these funds can be channeled. Yet at the same time the donor agency is ill informed about what is happening at the grassroots level, and the local leader exploits this information for his own benefit. In other words, the leader can lie to the donor agency about how the funds are being disposed of, pretending that they have safely reached the grassroots level—while in actuality they have been largely misappropriated.

In dealing with G, L is essentially playing an ultimatum game. That is, L has the first move because he makes a proposition to the G group that he has formed or helped form about the way to share the funds offered by A. G must accept the transfer or forsake it. The nature of the game is such that A will not disburse the money unless an agreement has been struck between L and G to the effect that the former is empowered to represent the latter. The prediction of economic theory in such a situation is that the agent with the first move will make a proposal whereby he or she appropriates most of the funds on offer, while the agent with the second move will accept it because getting something, however small, is always better than ending up with nothing. That the grassroots level may actually behave in the way anticipated by economic theory is borne out by the prior example.

In the setting of a one-period interaction framework, in anticipation that the local leader will embezzle most of the funds, the donor agency should refrain from disbursing money. (The agency is assumed to have a good grasp of the game being played.) An appropriate mechanism is clearly required to discipline the leader. One such mechanism is competition. This would imply that funds are channeled through, say, two groups organized by two different leaders. The members of G would then be able to switch groups if they found that their leader was exploiting them beyond any reasonable level. This solution is, however, fraught with problems. Some projects involve the production of indivisible local public goods, such as a village school or dispensary, a rural road, or irrigation infrastructure. By channeling resources through different organizations, the coordination and pooling of resources required to produce such public goods would be made extremely difficult. The situation will be even worse if an intense rivalry develops between the competing leaders, as often occurs in rural societies, and if such an outcome can be averted, the risk arises that the leaders may collude, thereby negating the beneficial effect of competition.
Another, potentially more effective, mechanism is suggested by the aforementioned story of the Western NGO and the schoolteacher. It consists of repeating the aid transfer over several periods so as to bring sanctions into play in the event that the leader misappropriates funds. Of course, this is possible only if technology to detect fraudulent practices is available. A reasonable assumption is that the probability of detecting a dishonest leader increases with the extent of the embezzlement. For example, if the facilities intended for use by G have not been constructed, detecting fraud is easier than if the technical standards for construction have been violated so that the leader can pocket the money thus saved. The idea is therefore that if L is found to have misappropriated the first tranche of aid money channeled through the local organization that L leads, A will punish the recipients by withholding payment of the second tranche. The shortcoming of such a leader-disciplining mechanism is obviously that both L and G are punished in the event of a detected fraud. This does, however, have some logic, as the implied threat can be expected to induce G to watch the leader and monitor the leader’s actions.

The funding agency has to choose how to divide the resources it wants to allocate to a particular community or group between the first and the second tranches. On the one hand, A would like to spend as much as possible during the first period, because it is impatient to see the results of its intervention. Such a motive may actually arise from two different kinds of considerations. First, A’s behavior may be guided by the desire to see the poverty of G alleviated as soon as possible. Second, A may also be eager to demonstrate the usefulness of its actions to the general public or to the national or international organizations that are the ultimate purveyors of its financial resources, so as to be able to mobilize their support again in the future. On the other hand, A wants to defer disbursement of as much as possible of the aid money until the second period, because late payments serve to discipline L. In other words, the higher the relative amount of the second tranche, the more L is encouraged to use the first tranche according to A’s prescriptions, that is, for the benefit of G. However, the amount granted under the first tranche must be enough to effectively test L’s behavior.

A also chooses the level of tolerance it will display in relation to L, that is, it determines the extent of fund misappropriation beyond which it will follow through on its threat of not disbursing the second tranche.

Knowing the amounts of the first and the second tranches as well as A’s tolerance level, the leader chooses how to apportion the funds disbursed by A between himself or herself and G during the first and second periods. As for G, they decide on the minimum shares of the aid money that will accrue to them in the first and second periods. If L does not accept these shares, they quit the local association, thereby signaling to A that participatory development is not feasible in this village.

During the first period, L’s choice in relation to the division of the funds is guided by the risk of detection of resource misappropriation and the ensuing threat of losing access to the second tranche. As for G, they have no real bargaining power during this period, because they confront a take it or leave it choice. The continuation of the game beyond the first period ensures that G are no longer simple followers in the decision sequence. Yet under the threat of not receiving any benefit at all, if they act
rationally they should accept a low share of the donated funds even during the second period. The effectiveness of the whole mechanism is therefore undermined if G cannot exercise genuine leverage in negotiations with L.

The problem arises from the finite duration of the game envisaged so far. Repeated game theory shows that socially efficient outcomes will occur only if the framework of interactions has an infinite or indeterminate duration. Fortunately, it is likely that G will not accept that their share of the aid money in the second round is less than what they received in the first round. Such behavior on the part of G stems from fairness considerations if they consider it unfair that L enhances his or her income from aid transfers over time when this is done at their expense. Alternatively, this behavior arises from long-term rational concerns if they are keen to defend their future interests because they anticipate that other games are going to be played later.

In such circumstances, a sharing norm tends to be established and L has to abide by it, which implies that L must set an intertemporally constant division rule. Such a norm serves the function of granting G genuine bargaining power during the second round. Indeed, G can now compel L not to lower their share of the proceeds even though L faces no more risk of being detected by A because the game is discontinued at the end of the second period. In short, the portion L grants to G will be the maximum share compatible with an acceptably low risk of detection at the end of the first round, and this share will be applied again during the second round.

The assumption that L is constrained by the normative behavior of G has surreptitiously added a long-term horizon to the mechanism. That is, the two-period game presented earlier is actually the reduced form of an infinitely repeated game. This is also true because of another feature of the mechanism: the assumption that A's threat of punishing an association led by a dishonest L is credible. Such punishment carries a cost for A, because the funds earmarked for a failing community-based project can be re-allocated only at a cost. Establishing links with a community involves significant setup and other transaction costs and A will have to incur these again if it has to select a new community in place of a failing one. Thus for the threat of fund withdrawal to be credible, A must derive gains, presumably long-term gains, by strictly enforcing its threats. Again, this assumption amounts to embedding long-term considerations that are played over an infinite or indeterminate period of time into the mechanism.

Modeling the leader-disciplining mechanism provides three main results (for more details see Platteau and Gaspart 2003a). First, the more impatient the donor agency, that is, the more it discounts the benefits enjoyed by the target population during the second period, the lower the share accruing to the grassroots level and the smaller the relative amount of the second tranche. To put it in another way, rushing to help the poor is counterproductive.

Second, the less effective fraud detection technology is, the lower the share accruing to the grassroots level, but the larger the relative importance of the second tranche. This is because late disbursement conditional on good behavior in the previous round acts as a substitute for a low-performing detection technology. Furthermore, the satisfaction level of the donor agency decreases when such technology is less effective.
Third, the greater the difficulty of recycling development funds, say because of intense competition between donor agencies for access to well-functioning communities, the lower the share accruing to the grassroots level and the smaller the second tranche in relative terms.

The model can be used to simulate the share of aid money accruing to the poor, henceforth referred to as $s$, and the share of the total aid budget disbursed in the second round, labeled $g$, under different sets of assumptions about parameter values. For example, (a) if the level of effectiveness of the detection technology is minimum; (b) if for the donor agency one unit of aid money that reaches the poor in the second period is worth only 40 percent of the value associated with one unit of money going for immediate relief of poverty (that is, which reaches the poor in the first period); and (c) if only 40 percent of the aid money can be recycled in the event of fraud detection followed by withdrawal of the second tranche, then $s$ is about 33 percent, while $g$ is as high as 77 percent. The probability of fraud detection is then equal to 0.44. If the values of the parameters mentioned under (b) and (c) are raised to 0.80 instead of 0.40, and if the effectiveness of detection is eight times as high as the minimum level, $s$ works out to 75 percent, while $g$ is 66 percent. The probability of detection rises to 0.5. At equilibrium the leader unduly appropriates an excessive share of aid money, and as a result fraud is likely to be detected.

Conclusion

In a situation where elite capture is a possibility, participatory development is more likely to succeed, that is, reach the poor more effectively, if it is carried out by donor agencies that are patient, are equipped with good systems for detecting fraud, and are not subject to intense competition from rival agencies. Unfortunately, the present rush toward community-based development; the massive entry into the field of agencies with little experience in participatory approaches; and the pressing need for quick and visible results, especially on the part of new entrants, are ominous trends that undermine the prospects for poverty alleviation.

Clearly, competition between donor agencies can yield perverse results when they engage in participatory development, not only because competition is likely to make fund reallocation more costly in the event of project failure, but also because impatient agencies may drive patient ones to attach greater weight to more immediate results. The situation is actually made worse by the fact that many donor agencies do not implement the sort of two-stage, leader-disciplining mechanism discussed in this article. This irresponsible attitude stems either from ignorance (they do not understand the game that is being played) or from cynicism (they have a good grasp of the game, but are ready to lie to their finance purveyors in order to stay in business whatever the risks incurred in the long run). The situation becomes particularly problematic if the work of serious donor agencies is undermined because they are tempted to give up gradual and conditional disbursement procedures and opt for the easy way of trusting whichever collective structures spring up to mobilize externally provided financial resources.
This kind of perverse evolution unavoidably leads to an erosion of the share of funds accruing to the poor and to the strengthening of opportunistic elites. In addition, it slows down learning processes whereby communities acquire experience about how to defend their rights and monitor their leaders’ actions. Donor agencies should not underestimate such learning effects or the impact of training and capacity building programs, because the more illiterate the poor and the less able to watch their leaders and force them to behave, the smaller their actual share from aid money will be compared with the agreed share.

This deleterious process could be averted if good donor agencies were incited to resist competition from agencies with bad characteristics, thereby forcing the latter to adjust their behavior in a direction favorable to the poor. One way to achieve this is by introducing a rating of donor agencies to be used by the ultimate purveyors of financial resources. Such a rating should not be based on failures (fraud detection), because agencies would then be encouraged to conceal such failures from the scrutiny of auditors. However, using measures of outputs, such as improvements in the standard of living of the poor, may be excessively costly. Moreover, such measures could introduce biases in the selection of communities by agencies. Donor agencies’ disbursement procedures and the duration of their participatory projects appear to provide the most convenient yardstick. Not only are such characteristics relatively easy to observe, but they also offer the advantage of not creating perverse incentives for the agencies.

Note

1. Whereas state officials often put state assets to private use in the past, the same officials can now manipulate local NGOs or other types of associations to gain access to cars, computers, telephones, foreign travel, and various other perquisites.

References

The word “processed” describes informally reproduced works that may not be commonly available through libraries.


Modes of Financing
The development of education in Tanzania has been guided by both macroeconomic and sectoral policies. The education and training policy was the starting point for the development of education in contemporary Tanzania, boosted by two macroeconomic policies formulated in the late 1990s, namely, the poverty reduction strategy paper and the Tanzania Development Vision 2025. The vision clearly defines the role of education in Tanzania’s long-term development strategy as follows (section 4.1, vii):

Education should be treated as a strategic agent for mind set transformation and for the creation of a well educated nation, sufficiently equipped with knowledge needed to competently and competitively solve the development challenges which face the nation. In this light, the education system should be restructured and transformed qualitatively with a focus on promoting creativity and problem solving.

The government has forged ahead by giving education top priority in resource allocation. The education sector is currently receiving 25 percent of the government’s recurrent budget, compared with less than 20 percent in the 1990s. The challenge the education sector is facing is how to ensure effective utilization of and accountability for the increased funding for providing good quality education.

In 1999–2001 the government undertook a number of sector-specific annual studies along the lines of public expenditure reviews, with an emphasis on assessing sector resource allocation and efficient utilization of such resources. These studies identified a wide range of budget formulation, execution, and accounting problems that not only undermine the services the education sector provides, but also have a negative effect on governance and stability.

With the support of the donor community, the government has developed initiatives to overcome these problems by implementing a number of reforms at both the macroeconomic and microeconomic (institutional) levels designed to improve the management of public finance. These include enhancing overall economic management;
reforming tax administration; and strengthening the Controller and Auditor General’s Department, the budget process, and the government accounting framework. This article will focus on modes of financing the education sector.

**Role of Education in Socioeconomic Development**

Education plays a major role in strengthening human capabilities and reducing poverty. The government recognizes that investing in human capital is central to the attainment of a good quality of life. In addition, education can

- Improve people’s health and nutrition; reduce petty crime; and help reduce population growth by promoting low fertility rates, child spacing, and smaller families
- Improve health services and environmental conditions, improve governance, and stimulate greater democratic participation in civic life
- Help bring about economic development
- Raise awareness and change values to reduce bigotry, reinforce a country’s national identity and unity, strengthen communities, and promote democracy and the importance of safeguarding human rights.

Thus given the potential of education, it is one of the main pro-poor sectors and one that must be adequately and appropriately financed.

**Modes of Financing the Education Sector**

The government has used a variety of approaches to finance the education sector, including the government budget, budget support, the project approach, basket or pooled funding, community funding, the Education Fund, and district education trust funds. These different financing arrangements have complicated and had adverse effects on the planning, financing, and management of the entire sector that might have been avoided with a more unified strategic approach.

**Government Budget**

The government budget is the largest source of education financing. Direct government financing accounts for nearly 100 percent of all recurrent expenditures in education and about 20 percent of development expenditures.

**Budget Support**

The budget support mode of financing requires that all financial resources from various stakeholders to assist the education sector be channeled through the government
budget. The idea behind this approach is to improve the predictability of the government budget and to maintain a unitary accounting and payment system.

This mode of financing allows the government to maintain a system for tracking expenditures and carrying out audits at both the central and local government levels. This permits the Ministry of Finance to analyze budgetary effectiveness at the central, sectoral, and district levels and identify factors behind leakages in the expenditure system. The system has two components: the platinum system and the commitment expenditure system.

The platinum system provides finance models that can be used to keep track of all aspects of accounting, management, monitoring, and tracking of funds via the Internet. The commitment expenditure system mandates that all funds must be committed before expenditure is effected. Once funds have been committed they cannot be appropriated for other uses.

In parallel to these systems the government is developing a computerized audit system. The aim of this initiative is to modernize the current audit system so that it is in line with the computerized accounting and payment system.

The Project Approach

The project approach to education financing has resulted in two main problems. First, predicting the level of resources that will be allocated to the education sector is difficult, because such funds are not disbursed through the normal government budget. Second, managing and accounting for such funds through the government’s finance management system is also difficult.

The project approach mode of financing calls for each project to have its own management and reporting system. In districts and communities with many stand-alone projects, local governments are overwhelmed by numerous consultations and reporting requirements.

The project mode of financing greatly complicates the coordination of education system financing. It complicates efforts to integrate the funds from different projects into a coherent government financial management procedure to ensure effective financing of the education sector.

Basket and Pooled Funding

The government views the basket funding and/or pooled funding arrangement as an interim measure because it indicates a mutual understanding among Tanzania’s development partners to manage their resources collectively, but for the moment still outside the government’s budget management system. Though better than the project financing approach, this approach still creates problems, because it requires two parallel systems for financial management. On the one hand, the pooled funding approach demonstrates development partners’ lack of faith in the government’s financial management system. On the other hand, it also indicates that donors have not yet reformed their financing policies in such a way that they can provide full budget support.
The pooled fund partners who have signed the memorandum of understanding under the Primary Education Development Plan (PEDP), which is currently being implemented, are the governments of Canada, Ireland, the Netherlands, and Norway; the European Union; and the government of Tanzania as represented by the President’s Office, Regional Administration and Local Government (PO-RALG), and the Ministry of Finance and Culture.

Even though this mode of financing is transparent, it is also time consuming because of the large number of consultations required before approval to spend funds is granted. It also denies accounting officers the power to make decisions about specific expenditures.

**Community Funding**

The community funding mode of education financing calls for effective involvement and participation by communities. When communities understand their obligations as owners of primary schools they can contribute toward school development, either in cash or in kind.

The secret behind continued and improved community contributions is accountability and transparency in the use of funds. With appropriate systems for collecting funds, using funds, and reporting on their use, even district councils are encouraged to disburse money from council coffers to assist weak and poor communities.

In relation to the community mode of financing, better-off communities should be encouraged to contribute more to assist relatively poorer communities. This should be promoted on the basis of collective responsibility for the development of education.

**The Education Fund**

The government set up the Education Fund to provide more monies to the education sector. Following the Education Fund Act of 2001, the Education Fund is to be used to improve the quality of, the access to, and the equality of education at all levels.

Finances for the Education Fund are expected to come from the government (funds will not exceed 2 percent of the annual government recurrent budget, less the amount payable in defraying the national budget) and from grants, loans, and bequests. This mode of financing is, however, quite new and will not be fully operational until all management issues have been worked out.

The newly created Tanzania Education Authority will be responsible for operating the Education Fund. The authority shall keep accounts and records, and its annual accounts will be audited by a competent and qualified auditor registered under the Auditors and Accounts (Registration) Act of 1972.

**District Education Trust Funds**

The district education trust funds are a recent education financing innovation initiated by local governments to broaden the financial base for primary and secondary education
and help alleviate the shortage of central government funds. The demand for basic education has increased greatly, and traditional means of financing are unable to cope with current demand. At the same time, communities demand high-quality education. To address these demands district councils had to find innovative approaches to financing basic education outside the normal local government budget.

Financing for the funds comes from contributions by individuals, organizations, and associations and from district councils themselves—from development levies. The idea of education trust funds started with a small number of pioneer councils. Over time more than 50 percent of councils have adopted the concept and the remainder are at various stages of getting such funds set up.

Councils have used district education trust funds to support academically able children from poor households; build community secondary schools; and award scholarships to outstanding performers in national, regional, or district examinations.

**Strategic Resource Allocation in Education Financing**

The macroeconomic policy on decentralization by devolution at all levels of government has guided the education sector in its development of the PEDP. The most important features in the implementation of the PEDP that are pertinent here are the devolution of powers and funds.

The PEDP has empowered communities through legislation, regulations, and resources to manage funds for primary education. Apart from funds for capacity building, monitoring and evaluation, procurement of textbooks, and teachers’ salaries, all remaining funds—about 85 percent of PEDP funds—are disbursed to the primary schools. Schools receive all development funds for classroom construction and 60 percent of capitation grant money. This is a revolution in education management decentralization and part of the endeavor to give more power to local communities in planning, managing, and administering their primary schools.

Despite such achievements, the education sector faces the following three major challenges:

- Ascertaining accountability at the school level
- Assuring the capacity to manage such large resources at the school level
- Carrying out monitoring and evaluation activities to ensure the effective utilization of such funds and of other resources by Tanzania’s 12,065 primary schools.

The Ministry of Education has not yet found the solutions to these challenges, but has begun to address them in collaboration with all stakeholders in education.

**Conclusion**

An appropriate and correct mode of financing is critical in making services work for the poor. The Tanzanian government expects that through budget support and with
the accomplishment of the various initiatives it has undertaken, the donor com-
nunity will develop confidence in the government’s accounting and payment system; 
abolish its current parallel system of funding; and use the central government’s pay-
ment, accounting, and auditing system for the benefit of poor people.

References

For Norway, 2002 marked 50 years of development cooperation. Norwegian development aid has traditionally incorporated a range of modalities. A basic problem has often been the lack of a comprehensive country program. Instead Norway has tended to engage in a large number of individual projects and programs through bilateral, multilateral, public, private, and nongovernmental organization/community service organization channels. This has led to a complex system in which priorities have often been subject to the Norwegian political lobby and have frequently been tied to Norwegian interests. This has resulted in islands of successes in a sea of failures.

In addition, despite the shared understanding in Norway’s development community that the progress of a sector is more important than individual projects, in relation to its contributions, Norway has tended not to take sufficient account of what other donors have been contributing to the same sector.

The strategy of the bilateral agency the Norwegian Agency for Development Cooperation (NORAD) in the early 1990s was to focus on national ownership and responsibility and to give preference to sector rather than project support, a strategy that emphasized recipients’ orientation and responsibility. NORAD’s new strategy for 2000–05 strengthens the focus on national ownership and underscores the need for stronger donor coordination. In recent years NORAD has also intensified the shift to program rather than project support. Detailed internal guidelines for program support were developed in 2000. NORAD has provided budget support to Mozambique since 1996, to Malawi since 1998, and since 2000 to East Timor and Tanzania.

Today NORAD participates in various forms of programs and coordinates its assistance with that of other donors in most countries in which it is working. In 2001 NORAD provided a total of NKr 107 million (US$13 million) to support six sector programs and NKr 47 million (US$5.8 million) for various subsector programs and pooling arrangements. Several other programs are still in the planning phase.
Another new cooperation mechanism is silent partnerships, where NORAD provides cofunding through another donor or receives funds from another donor. For example, in Malawi NORAD cooperates with the Swedish International Development Authority, which channels all Swedish development support to Malawi through NORAD.

In March 2002, the Norwegian government released Norway’s Action Plan toward 2015 for Combating Poverty in the South, the guidelines for Norwegian development cooperation aimed at reducing poverty. The action plan confirms the focus on genuine national ownership of plans and programs, as well as the need for increased donor coordination to reduce the administrative burden on partner countries. The action plan states that Norway will continue to scale down project assistance and increase sector program and budget support, based on partner countries’ own priorities and poverty strategies.

The basic goals of the plan are as follows:

- Development assistance is inadequate. Norway plans to increase its official development assistance from 0.9 percent of gross national product to 1 percent by 2005. Norway will forgive all debt owed it by countries eligible for the heavily indebted poor countries initiative.

- When supporting poverty reduction, policies are sometimes more important than aid. The Norwegian government will therefore examine its policies in relevant areas and change them if necessary. Better policy coherence will be crucial, especially in relation to trade issues.

- As human rights are an integral part of development, capacity must be built in both public institutions and civil society to promote and protect human rights. Poor people’s own efforts to combat poverty must be supported.

- National poverty reduction strategy papers and the Millennium Development Goals must guide Norwegian development cooperation. Assistance that runs counter to these will be phased out and the shift from project to budget support will continue.

- Norway will support a stronger voice for poor countries, which will enable them to have more influence over matters of vital importance to them in multilateral organizations.

- Governance in Norway’s partner countries must be improved. Norway will support capacity building to improve crucial public management institutions, including public supervision bodies, and will strengthen nongovernmental watchdogs such as the media and nongovernmental organizations.

- Improvement in education and health is essential. Norway will contribute to good education and health services and to the fight against HIV/AIDS to induce growth and to improve people’s—especially women’s— incomes and work opportunities.
• Development will not take place without peace and security. Norway will contribute to reducing the conflict potential, help end conflicts, and promote peace building to stabilize postconflict situations and improve the lives of civilians.

The question asked at this conference is which aid modalities are the most efficient? No general answer is possible: it depends on local circumstances and conditions at all levels of society. A country’s economic, social, and political dimensions are crucial, but what has often been lacking on the part of donors has been a better understanding of a country’s or community’s political economy: politics matter.

Strong evidence also suggests that development aid will have little effect without ownership. Thus one of the most important challenges is to secure genuine national ownership of a country’s strategies and plans. This entails complex national processes, and to succeed a better understanding of these processes is clearly needed.

A related challenge is the need to build capacity and competence in partner countries’ administration, that is, institution building is needed at all levels: local, regional, and national. As donors we need to earmark more funds for capacity building. We also need to strengthen systems and institutions that can absorb and sustain aid flows. Here a long-term perspective is needed. A top-down approach is not conducive to sustainable development.

Stronger ownership of implementation is also important. Donors must be willing to use partner countries’ own administrative procedures and systems and not build parallel structures that risk undermining what already exists. The harmonization of procedures by all donors involved is crucial.

The Monterrey consensus is a positive step, but also represents a challenge. The stronger focus on governance is important and timely, but we must avoid this resulting in another set of conditionalities imposed by donors.

Increased coordination among donors and sharing of tasks is called for by all donors engaged at the country level.

Norway needs to adapt its own capacity to this new development agenda and to build the relevant competence in its development administration. This implies providing increased capacity and support to Norway’s embassies, because of the increased workload inherent in program and budget approaches. In particular, Norway needs more macroeconomic capacity as it becomes increasingly involved in sector programs and budget support. Embassies are also expected to participate more actively in national dialogue with donors. This calls for another type of expertise than that provided by the traditional project or technical adviser.
Reducing poverty and improving people’s living conditions are among the major challenges of this century. The Millennium Declaration, which is based on a broad consensus of heads of government and national leaders, has confirmed this objective. Implementing the declaration will have major implications for investment finance given its call for national governments, international donors, and the private sector to make considerably more funds available for investment in social infrastructure.

Mobilizing Finance for Social Infrastructure

Kreditanstalt für Wiederaufbau (KfW) will add to its annual commitments for development cooperation (around €1.3 billion in 2002, just under one-third of which is for social infrastructure) using funds mobilized by KfW in the international capital market and by further developing its financing instruments.

Another option for mobilizing financial resources or reducing the need for funds is to improve the effectiveness of financing for social infrastructure by improving the allocation of funds through targeting and relating outputs to inputs and by ensuring the long-term sustainability of social infrastructure. The need to increase efficiency is not new. International discussions deal with this subject over and over, but further improvements are still necessary. This article takes a closer look at the long-term sustainability of the infrastructure financed based on KfW’s experience gained during the United Nations Water Decade and the 1990s.

What Experience Has Been Gained to Date?

Performance evaluation is an important aspect of KfW’s activities. KfW conducts a systematic and critical evaluation of all projects financed under German financial
cooperation. Such evaluations help KfW to continuously improve its work. Final evaluations, which are always carried out several years after a project has commenced, look at projects’ developmental effects. The aim is to obtain a picture of projects’ strengths and weaknesses and to derive lessons that can be applied to other projects in the future. In this connection the sustainability of a project is a central issue. KfW’s evaluations include assessment of the following three most important elements of a project’s sustainability:

- Ecological sustainability
- Economic sustainability
- Socioeconomic sustainability.

One area of pivotal importance to poverty reduction is residential water management. KfW’s 2001 annual report on the results of financial cooperation emphasizes this service sector based on the evaluation of projects in Sub-Saharan Africa. The results confirm experience gathered from a variety of similar projects in the region and elsewhere.

The impediments to projects’ long-term developmental effectiveness mentioned in the evaluation reports can be roughly broken down into the following categories:

- Factors inherent to projects
- General institutional and sectoral policy conditions
- Exogenous political or economic factors.

Most problems fell into the second category. For all the projects evaluated, the cooperation involved a project-executing agency from the public sector, that is, a public authority or a public utility company. Frequently, however, these institutions and their management were subject to far-reaching political influence and the institutional incentives did not support a reliable and hygienically safe system of water supply and wastewater disposal. Customers are often inadequately supplied. As a result their willingness to pay fees is low and the necessary fee increases cannot be enforced for political reasons. The income produced is often insufficient to cover the costs of repair and extension of the facilities, which are maintained only inadequately. This is the beginning of a vicious circle (see figure 1).

How Can the Sustainability Risks Related to Institutional Conditions Be Reduced?

KfW is convinced that restructuring the incentive system toward greater local responsibility is critically important to ensure the sustainable provision of social infrastructure. The following are required for a locally based incentive structure:

- Decentralized, customer-oriented structures
- Commercialized structures that focus service units or utility companies on their actual tasks, thereby avoiding conflicts of goals caused by competing political interests
Cost recovery aimed at having the economic sustainability of services ensured by the people immediately affected and, in the water and sanitation sector, at supporting the economical use of water.

Two KfW projects illustrate these points.

**Rural Water Supply in Tanzania**

When the rural water supply project began, only one-third of the district’s population was supplied with hygienically safe drinking water. The remainder had to obtain their water from springs and surface water, which were dirty and unsafe and led to a high incidence of water-borne diseases. The financial cooperation project involved financing infrastructure and a hygiene campaign. The project-executing agency during the implementation phase was an executive committee composed of church members and regional authority representatives. During the course of project implementation a user-based, autonomous organization took over as executing agency.

KfW's Evaluation Department reviewed this project in early 2002. It found that the project had fully achieved its objective of significantly reducing water-borne diseases. Even more important was the excellent condition of the facilities financed, which had operated for four years without any external support. KfW believes that the locally based incentive structure was the main reason for this. The project is characterized by a customer orientation, by a range of services targeted at users’ needs, and by user fees that ensure cost recovery.
Urban Water Supply and Wastewater Facilities in the Republic of Yemen

Yemen has among the scarcest water resources in the world. Only half of the urban population has access to hygienically safe drinking water. Most of the remainder buy water from private traders. This type of water supply is extremely expensive, and people also run the risk of receiving water of inferior quality. As regards the disposal of feces, most people use private cesspools. Wastewater in general is discharged into the streets to evaporate or seep away. Water-borne diseases rank in first through fourth place among the most frequent diseases.

KfW financed infrastructure facilities for water supply and wastewater disposal under a program involving eight provincial towns. The German Agency for Technical Cooperation provided intensive assistance to the project-executing agency in establishing autonomous branches and introducing a cost-covering tariff system. The project also included public awareness campaigns to prepare the population for the financial cooperation measures.

In six of the eight towns the infrastructure facilities financed have been in operation for four years. The decentralized branches have taken up the challenge implied in the new structure and are, for the most part, perceived positively. With one exception, the operating costs are covered from user fees, with collection efficiency between 80 and 90 percent.

KfW believes that the locally based incentive structure accounts for this positive result. As with the Tanzanian example, the facilities are characterized by a customer orientation, a range of services that satisfy users’ needs, and a high cost-recovery ratio.

What Are the Implications for Future Financing Challenges?

Additional finance must be mobilized. Donors face the challenge of having to ensure the effective use of available funds and mobilizing new funds. An essential element of meeting this challenge is to ensure the sustainability of financed infrastructure and to make services work well for poor people. This includes developing adequate incentive systems, which help make infrastructure facilities fulfill their purpose on a sustained basis. If guaranteeing the provision of basic services with existing structures is impossible, locally based incentive systems should serve as a safeguard. Thus the customers are the decisive control instrument and not just passive recipients.

This paper has focused on experience gained in relation to residential water supply and sanitation, but many of the lessons learned can also be applied to other areas of social infrastructure and can be partly transferred from the micro level to the macro level in relation to the principles and functions of incentive structures. The strengthening of customer orientation in relation to customer control of service delivery is an aspect common to several approaches and concepts, such as private sector participation and output-based aid, that donors have discussed intensively in recent years.
Over the last decade consensus has emerged that poverty is multidimensional. Income, health, education, gender equality, and a sustainable environment are now seen as integral elements of human well-being. Nowhere is this consensus better reflected than in the Millennium Development Goals (MDGs), an unprecedented agreement by the development community about the goals of poverty reduction (see box 1). The MDGs range from income poverty (living on less than US$1 a day) to child mortality and primary education, gender equality, maternal mortality, and safe water and sanitation. As each goal has measurable targets to be reached by 2015, this also means that the MDGs enable the development community to monitor its progress toward poverty reduction.

Unfortunately, without concerted action many countries, especially those in low-income Africa and South Asia, will not reach these goals by 2015 (Sahn and Stifel 2003; World Bank 2002). How then can we accelerate progress toward the MDGs? At least two findings stand out:

- **Growth alone is not enough.** While per capita gross domestic product growth has a significant effect on health and education outcomes, just as it does on poverty reduction, the magnitude of the effect is much smaller for human development indicators than for income poverty. For instance, the growth elasticity of poverty is between 1 and 2, whereas the growth elasticity of infant mortality is between 0.1 and 0.2 (Pritchett and Summers 1996) and that of primary school enrollment is around 0.4 (Schultz 1987). According to current growth projections of gross domestic production per capita, economic growth alone would enable five out of the world’s six developing regions to reach the goal for reducing income poverty (see table 1). However, that growth will enable only two of the regions to reach the education goal of all children completing primary school, and none of them to reach the child mortality goal.
Increasing public expenditures is not enough. As growth alone may not be sufficient, many observers have called for an increase in the financial resources going to health and education in order to accelerate progress toward the five MDGs that fall in this category. However, considerable evidence indicates that if current patterns of allocation and use continue, increasing public expenditures in health and education will not, on average, improve outcomes in these sectors. For example, cross-country evidence shows that public expenditures have no significant effect on health and education outcomes when a country’s level of per capita gross domestic product and a small number of socioeconomic variables are controlled for (Filmer 2001; Filmer and Pritchett 1999; Filmer, Hammer, and Pritchett 2000). To be sure, such cross-country regressions at best only indicate what the average relationships are. In some countries and in some programs within countries, public spending has had a powerful effect on outcomes. Nevertheless, the finding that increasing public expenditures is not enough is particularly troubling, because the international community has also called for an increase in domestic and external financing to accelerate progress toward the MDGs (Devarajan, Miller, and Swanson 2002). If current patterns of public expenditure productivity continue, this additional financing is unlikely to be enough to allow the world to reach the MDGs.

Why does public expenditure tend to have such a limited effect on health and education outcomes? The problem can be broken down into at least four components. First, governments may be spending on the wrong goods or the wrong people. A large portion of public spending on health and education is devoted to private

### TABLE 1.
Economic Growth Alone Is Not Enough to Reach All the Millennium Development Goals

<table>
<thead>
<tr>
<th>Region</th>
<th>People living on less than $1 a day</th>
<th>Primary school completion rate</th>
<th>Under-five mortality</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Target (%) 2015 growth alone</td>
<td>Target (%) 2015 growth alone</td>
<td>Target (per 1,000 births) 2015 growth alone</td>
</tr>
<tr>
<td>East Asia</td>
<td>14 4</td>
<td>100 100</td>
<td>19 26</td>
</tr>
<tr>
<td>Europe and Central Asia</td>
<td>1 1</td>
<td>100 100</td>
<td>15 26</td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td>8 8</td>
<td>100 95</td>
<td>17 30</td>
</tr>
<tr>
<td>Middle East and North Africa</td>
<td>1 1</td>
<td>100 96</td>
<td>25 41</td>
</tr>
<tr>
<td>South Asia</td>
<td>22 15</td>
<td>100 99</td>
<td>43 69</td>
</tr>
<tr>
<td>Africa</td>
<td>24 35</td>
<td>100 56</td>
<td>59 151</td>
</tr>
</tbody>
</table>

Note: Elasticity assumed between economic growth and income poverty is –1.5, primary school completion rate is 0.62, and the under-five mortality is –0.48.

Source: Devarajan (2002); World Bank (2003b).
goods, ones where government spending is likely to crowd out private spending (Hammer, Nabi, and Cercone 1995). Furthermore, most studies of the incidence of public spending in health and education show that the benefits accrue largely to the rich and middle class. The share going to the poorest 20 percent, where it can make the most difference, is almost always less than 20 percent (table 2).

Second, even when governments allocate public funds for the right goods or the right people, the money fails to reach the frontline service providers. In Uganda in the early 1990s, the share of nonwage recurrent expenditures for primary education actually reaching primary schools was only 13 percent (Reinikka and Svensson 2001). The grants received varied considerably across schools, but larger schools and schools with wealthier parents received a larger share of the intended funds per student, while schools with a higher share of unqualified teachers received a smaller share. These findings are comparable to similar studies in Ghana, Tanzania, and Zambia (for reviews see Dehn, Reinikka, and Svensson 2003; Reinikka and Svensson 2003).

Third, even when money reaches the primary school or health clinic, the incentives to provide the service are often weak. The service providers may be poorly paid and hardly ever monitored. They respond to incentives from the central government bureaucracy, which is mostly concerned with inputs rather than outputs. The clients, meanwhile, be they schoolchildren, parents, patients, or expectant mothers, have limited knowledge and even less power to hold service providers accountable.

Fourth, even if the services are provided effectively, households may not take advantage of them. For economic and other reasons, parents pull their children out of school or fail to take them to the clinic. This demand-side failure often interacts with the supply-side failures to generate a low level of public services and outcomes among the poor.

The World Development Report 2004 is aimed at making services work for poor people so that developing countries, with the help of donor countries, can make greater progress toward the MDGs. This paper is an introduction to that report. The next section examines cases where policies have resulted in better service delivery, as

### Table 2.

**Benefit Incidence of Public Spending**

(percentage of public spending on health and education going to the poorest and richest fifths)

<table>
<thead>
<tr>
<th>Country/year</th>
<th>Health</th>
<th></th>
<th>Education</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Poorest 20% of population</td>
<td>Richest 20% of population</td>
<td>Poorest 20% of population</td>
<td>Richest 20% of population</td>
</tr>
<tr>
<td>Ghana (1992)</td>
<td>12</td>
<td>33</td>
<td>16</td>
<td>21</td>
</tr>
<tr>
<td>Guinea (1994)</td>
<td>4</td>
<td>48</td>
<td>5</td>
<td>44</td>
</tr>
<tr>
<td>Kenya (1992)</td>
<td>14</td>
<td>24</td>
<td>17</td>
<td>21</td>
</tr>
<tr>
<td>Madagascar (1993)</td>
<td>12</td>
<td>30</td>
<td>8</td>
<td>41</td>
</tr>
<tr>
<td>South Africa (1994)</td>
<td>16</td>
<td>17</td>
<td>14</td>
<td>35</td>
</tr>
<tr>
<td>Tanzania (1992/93)</td>
<td>17</td>
<td>29</td>
<td>14</td>
<td>37</td>
</tr>
</tbody>
</table>

Source: Castro-Leal and others (1999).
well as the reasons why in other situations they have not. The following section uses these examples to develop a framework for identifying public actions that could result in better service delivery outcomes and describes what research has to say about the different elements of the framework. Finally, the paper highlights some of the critical, unanswered questions in this area.

Throughout the paper (and the report) the focus will be on health, education, and water services, because these are critical to achieving the human development MDGs. While other inputs, such as roads and electricity, can have a significant effect on health and education outcomes, we focus on those services that are transaction intensive, where the problem of organizing and delivering the service is crucial. Many of the lessons derived from frontline service delivery in health, education, and water are, however, applicable to other services as well.

Some Examples of Making Services Work for Poor People

The four reasons why public expenditure has such a weak relationship with human development outcomes provide a framework for examining successful and unsuccessful attempts at improving service delivery. The first reason—that governments may be misallocating resources—stems from the usual argument that governments should intervene only in the case of market failure or a redistributive rationale. Note that this is an argument for government financing of these activities, not necessarily for government provision.

Despite the evidence on externalities in primary education and health, private financing of primary education and health in developing countries is substantial (figure 1). Clearly private demand for these services exists, even, or maybe especially, among the poor. Furthermore, the presence of government failure may undermine the classic arguments for public financing based on market failure. In India, where 80 percent of health expenditures are private, the poor frequently bypass free, public clinics to use fee-based private services, because the latter are often better equipped, including with medical personnel (World Bank 2001). Observers have noted a similar phenomenon when clinics or schools levy user fees for recurrent expenditures, such as textbooks or medicines (Burnett and Kattan 2002; Litvack and Bodart 1993). In Kenya parents pay for all such recurrent expenditures in primary schools. To be sure such user fees have in some cases prevented poor families from having access to health care and education, but as the Litvack and Bodart study of Cameroon showed, the introduction of user fees increased use of the local clinic by poor people. Previously they had to travel long distances to the nearest town because the local clinic lacked essential medicines and instruments.

Support for user charges for social services also comes from cross-sectional estimates showing small, and sometimes perverse, price elasticities for education demand (see, for example, Jimenez 1987). When major policy changes take place, however, evidence from a number of cases where user fees were abolished points to a different outcome. Perhaps the most remarkable feature of the 1997 universal primary education initiative
in Uganda was the doubling of overall enrollments following the abolition of school fees (Appleton 2001). Similar enrollment surges occurred as a result of comparable initiatives in Kenya and Tanzania in the 1970s and more recently in Malawi in 1994, when enrollments rose 50 percent following the abolition of primary school fees (Reddy and Vandermoortele 1996). Yet data from Uganda before the removal of fees show small (and indeed perverse) estimates of the price elasticities for enrollments, when in fact the actual response of enrollments to the abolition of fees was extremely strong. Similarly, randomized experiments from Kenya show that a nongovernmental organization (NGO) program that provides school uniforms—the most significant private cost of education in Kenya—increased years in school by 17 percent and grade attainment by 15 percent (Kremer, Moulin, and Namunyu 2002).

Payments by households or local communities address the second weak link in the chain as well, namely, the problem of central government allocations not reaching service providers. The provision of health and education services in particular involve substantial nonwage recurrent expenditures, such as textbooks, chalk, medicines, and syringes, yet these are the very expenditures that leak from initial government allocations to delivery agencies. At least two other factors contribute to the underfinancing of these expenditures. First, much donor financing, including all World Bank investment operations, only pays for capital expenditures, and domestic resources cover recurrent expenditures. However, governments rarely take their ability to cover
the recurrent costs into account when deciding on a donor-financed investment project (World Bank 1997). As a result, the African landscape is littered with schools without chalk and textbooks and clinics without medicines. In Uganda, when the World Bank and other donors switched their assistance to untied budgetary support, the recurrent budget was able to accommodate the increase in the teaching force needed to lower the student-teacher ratio, which had reached 100 to 1 after the introduction of universal primary education.

The second factor that contributes to the underfinancing of nonwage recurrent expenditures is that within recurrent expenditures the lion’s share goes to wages and salaries. With their political power, teachers and doctors are able to protect their incomes when there is pressure for budget cuts. Thus the only things left to cut, are nonwage operations and maintenance expenditures. Many governments have responded by creating a second class of teachers who are outside the civil service and are paid less with fewer benefits. Experience in several West African countries shows that many people are willing to take these jobs: a recent announcement in Senegal generated 30,000 applicants for 1,000 positions. While the evidence on student performance is mixed, over time these contractual workers have come to dominate the public education service in some countries, for example, Benin.

Citizens can counter the political power of teachers’ unions or the local bureaucratic or political capture of public funds if they have the information to lobby for a better mix of inputs or for ensuring that budget allocations are actually received. The Uganda case illustrates the impact that the collection and dissemination of quantitative data can have as a tool to mobilize “voice” (Hirschman 1970). Providers and policymakers tend to brush aside complaints about services based on isolated experiences as anecdotal or acknowledged at best as partial evidence, but when systematic comparative data support public feedback they are difficult to ignore, and as the Uganda case shows, can stimulate public action.

When evidence of the degree of leakage became public knowledge in Uganda, the central government enacted a number of changes: it began publishing information about the monthly transfers of public funds to the districts in newspapers, broadcasting information about the transfers on the radio, and requiring primary schools to post information on inflows of funds (Reinikka and Svensson 2001). The objective of this information campaign was to promote transparency and increase public sector accountability in two different ways. First, the central government signaled that it had more information about local governments’ actions than was the case previously. Second, by giving citizens access to information on the capitation grant program for primary schools, it empowered schools and citizens to monitor and challenge abuses of the system. Initial internal assessments of these reforms a few years later show that the flow of funds improved dramatically (Republic of Uganda 2000, 2001).

In relation to the third reason why public expenditure has such a weak relationship with human development outcomes, even if the mix of current and capital spending is about right, because these services are transaction intensive, people have to make services work (Pritchett and Woolcock 2002). Many of the problems confronting service delivery have to do with the incentives facing service providers.
To begin with, many services require skilled personnel: qualified doctors, trained teachers, and so on. Not only are many countries short of these skills, but the levels of remuneration and poor working conditions, especially in remote rural areas, mean that getting qualified people to work there is difficult. The vacancy rate for clinics in such remote areas as central Kalimantan, Indonesia, is more than 40 percent and for West Papua it is 60 percent, whereas in Bali or Jakarta it is less than 2 percent (World Bank 1994).

More fundamentally, effective service delivery involves more than just being able to hire skilled staff. It requires that they show up for work and perform their duties in a reasonable fashion. This is probably the biggest constraint to making services work for poor people. Because service delivery is poorly monitored, if at all, service providers do not feel accountable. Typically they are employees of the central government, which sends them a paycheck regardless of whether they perform their functions. The symptoms of this problem are apparent everywhere: absenteeism in schools, nurses hitting mothers during childbirth, drunk teachers, and so on. Many governments have tried to address this problem by contracting out the services to NGOs or private organizations, which are then held accountable for performing the contract. Three examples illustrate this point.

In Cambodia, where 30 years of civil war had depleted the country’s physical and human health infrastructure, the government introduced a program of contracting with NGOs to manage district health services (Bhushan, Keller, and Schwartz 2002).
It introduced two types of contracting: contracting out, where the NGO could hire and fire staff, set wages, and procure drugs on its own; and contracting in, where the NGO managed the district from within the Ministry of Health, could not hire and fire staff (although it could transfer them), and had to obtain drugs from the government. The 12 districts, with populations ranging from 100,000 to 180,000, were randomly assigned to contracting out, contracting in, or the standard government management that acted as the control group. A before and after survey of both households and health facilities (carried out by a third party) revealed a clear pattern: districts that contracted out registered the biggest improvement, with those contracting in next, and the control group last (figure 2).

The decade-long civil war in El Salvador left its education system, especially in rural areas, in a shambles. Recognizing the difficulty of getting urban teachers to serve in these relatively remote areas, the government introduced the Educación con Participación de la Comunidad en el Salvador (EDUCO or the Education with Community Participation in El Salvador) program, whereby local community organizations, known as community education associations, could hire teachers on one-year

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**FIGURE 2.**
Relative Performance of NGO Contracting Schemes, Selected Health Indicators, Control and Contracted Districts of Cambodia, 1997–2001

EPI, FIC Expanded program of immunization, full immunization coverage.

renewable contracts, pay the teachers, and manage a small fund for school supplies (Jimenez and Sawada 1999). Each community education association had a contract with the Ministry of Education that set personnel guidelines, including criteria for hiring teachers. The community education associations met with all the parents once a month and regularly visited schools and teachers. The result is that EDUCO is associated with an increase in net enrollment rates from 76 percent in the 1980s to 85 percent in 1995. More important, student and teacher absenteeism was significantly lower, and surveys attributed this to the increased community participation in schools. Finally, evidence indicates that EDUCO was also associated with an increase in student learning and with higher mathematics and language scores (although only the former was statistically significant).

The municipality-run water and sanitation system in Cartagena, Colombia, was plagued by chronic inefficiency, excessive political interference, poor maintenance, poor service delivery, and weak commercial and financial management. To address these problems the government decided to liquidate the water authority and offer a contract for operations and maintenance as well as for some of the new investment needed. The government signed a 25-year contract with a Spanish water company that included performance criteria in relation to service improvements. The result has been a substantial increase in the quality of water and sanitation services in Cartagena. All the performance indicators show a marked improvement: the number of water connections rose by almost 50 percent, the continuity of service went from 7 to 24 hours per day, the number of new connections in poor areas went up by 98 percent (Libhaber 2002b), and customer waiting time at the service facility dropped from 30 to 14 minutes. A similar concession in Cochabamba, Bolivia, however, had less favorable results (Libhaber 2002a). Three months into the contract the water utility informed farmers that it was significantly increasing their water tariffs. Riots broke out and two people were killed. The government cancelled the contract, and the utility is now being managed by a users’ association.

Finally, many governments have experimented with demand-side interventions to address the fourth weak link in the chain: households not taking advantage of effective service provision. One example is the Female Secondary Scholarship Program in Bangladesh. Under this program a girl gets a stipend, deposited directly into a bank account in her name, provided she can show that she is attending secondary school, maintaining passing grades, and is unmarried. The school in turn will receive a transfer proportional to the number of girls enrolled. While the program has yet to be evaluated rigorously, preliminary estimates indicate that it has had a sizable impact on secondary enrollment rates among Bangladeshi girls. Another more celebrated example is the Education, Health, and Nutrition Program of Mexico, which has been extensively analyzed. This program gives cash transfers to families as long as they regularly visit the health clinic and send their children to school. Most of the analyses (Gertler 2000; Schultz 2001) show significant improvements in the health and education status of these poor families; however, whether these improvements were due to the cash transfers or to the fact that they were conditional on clinic visits and school attendance is unknown.
Elements of a Framework for Analyzing Service Delivery

The examples outlined illustrate both the potential of and the challenges inherent in making services work for poor people. To understand the problem better we now propose a simple framework for examining various ways of improving service delivery. The framework posits that the service delivery chain can be unbundled into a series of paired relationships.

**Policymakers and Service Providers**

Even when policymakers are benevolent, they face the problem of ensuring that service providers have the proper set of incentives to provide the service effectively. For services that can be easily measured, and therefore monitored, policymakers may choose to write a contract with service providers. This is more typically the case in water and sanitation, where policymakers can specify the number of water connections and other monitorable performance indicators. As a result, such contracts are more common in water and sanitation than, say, in education. The Cartegena water concession is a case in point. (The unsuccessful Cochabamba privatization failed for other reasons, not because the contracts were difficult to specify.) For the same reason there are fewer private sector concessions in education than in water and sanitation. The health sector can make use of contracting, but it is often tailored to particular activities. Recall that in Cambodia, health services contracted to NGOs were fairly carefully circumscribed, for instance, in the contracting-in approach NGOs could not hire or fire workers.

**Clients and Service Providers**

The second critical principal-agent relationship is that between clients and service providers. As many of the examples illustrate, clients’ roles in relation to oversight and accountability can often improve service delivery. The EDUCO program in El Salvador showed how parents’ associations or local communities could improve learning outcomes by visiting schools and monitoring teachers. When clients pay to obtain the services, such as user fees for certain health and education services, this is a particular relationship between providers and clients and one that observers have had considerable experience in modeling. Demand-side interventions that provide cash transfers to clients to use in obtaining the service also fall into this category (although the decision of who gets the transfer depends on the underlying political economy).

**Clients and Policymakers**

The third relationship is that between clients (or citizens in general) and policymakers. The reason this relationship is important is because policymakers do not always act in a benevolent fashion. When policymakers have different objectives than citizens, the latter can resort to various incentive mechanisms to change policymakers’
behavior. This is the realm of political economy, a vast field that we will not enter into here. However, one of the areas where this relationship becomes salient is when citizens or clients use voice to influence policymakers. The Uganda example of disseminating information about the leakage of funds increased citizens’ voice on public expenditure decisions. Political economy considerations are also important in understanding why the incidence of public spending is not always pro-poor. Sometimes policymakers have to marshall support from the middle class in order to provide some support to the poor (Gelbach and Pritchett 2000).

**Aid Donors and Policymakers**

Because donors provide financing for development (including delivery of services) they set certain requirements on how the money is to be used as is the case for any contract. What is commonly perhaps less appreciated is that the nature of the contract between donors and policymakers affects the delivery of services by (frontline) providers to clients. Specifically, as mentioned earlier, the requirement by some donors that they only finance capital investments results in the underfinancing of recurrent expenditures, especially nonwage operations and maintenance, which in the health and education sectors in particular strongly influences expenditure outcomes. In addition, donors often insist that recipient countries follow donors’ procedures for financial management and procurement. As a result, some countries have to comply with many different sets of procedures, typically one set for each donor, overwhelming their scarce administrative talent and capacity. In some cases donors set up their own project implementation units, which draw this scarce manpower away from the government and undermine financial management in the rest of the government. An important feature of the Burkina Faso district health program was that donors pooled their resources into a common fund, so that the district health agencies only had to comply with a single set of financial management procedures (Naimoli and Vaillancourt 2003).

**Concluding Remarks**

The framework outlined here provides a way to examine options for improving the outcome of public services for the poor. The different examples cited all addressed, to different extents, the relationships between policymakers and service providers, service providers and clients, and clients and policymakers. In each case the projects were able to improve outcomes by addressing a particular problem in the relationship, such as the ability to monitor performance. To be sure the real world is much more complicated than these simple examples and frameworks suggest. Just as transferring lessons from the water sector to education may be difficult, expecting an innovation that worked in El Salvador to also work in Ethiopia would be foolhardy.

Furthermore, the examples and framework cited here only deal with the problem of designing and implementing a program to improve service delivery. Difficult as that may be, it omits at least two other important issues. The first is the transition to the
new system. As the Cochabamba and Cartegena examples show, more or less the same program to privatize water can have dramatically different consequences because of the way in which the change is introduced. In Cochabamba the water utility raised tariffs almost immediately, thereby undermining support for the reform. Our framework does not address how these innovations come about. In many cases they are spontaneous, arising out of particularly difficult situations or inspired by a visionary leader. They almost never occur as the result of a well-thought-out, long-term plan. If the donor community is to help countries with dysfunctional service delivery systems improve, it needs to better understand the process through which these changes occur.

The second issue that has been left out is the sustainability of changes. An innovation such as contracting out health services to NGOs or community oversight of schools may yield significant results in the near term, but can it be sustained in the long run? Even if these improvements help countries reach the MDGs, what happens after 2015? For example, the Bangladesh secondary school scholarship program for girls, while it appears to have helped secondary enrollment among girls may later on turn into an entitlement program that the government cannot afford. How can such programs be designed so that their effects will continue to be felt in the long run without undermining the public budget?

While these questions may seem overwhelming, they cannot be neglected. The international community is in a period of unusual ambition and commitment in relation to poverty reduction. The ambition is reflected in the MDGs, the commitment in the recent increase in foreign aid based on improved policies and institutions in developing countries. For the ambition and commitment to be fulfilled, exceptional progress is called for, especially in the area of human development, because we are even further away from those targets than in some other areas. With additional resources and reasonably good, growth-promoting policies in place, the donor community needs to focus on the remaining major challenge: making services work for poor people.

References

The word “processed” describes informally reproduced works that may not be commonly available through library systems.


Appendixes
Appendix 1. Program

International Bank for Reconstruction and Development
The World Bank

Development Policy Forum
German Foundation for International Development (DSE)*

Workshop

MAKING SERVICES WORK FOR POOR PEOPLE

in preparation for the

WORLD DEVELOPMENT REPORT 2004

Grand Hyatt Hotel, Berlin
08 to 10 July 2002

PROGRAMME

In cooperation with the German Federal Ministry for Economic Cooperation and Development (BMZ).

*InWEnt (Capacity Building International) was established in 2002 through a merger of the German Foundation for International Development and Carl Duisberg Gesellschaft.
Monday, 08 July 2002

6:00 p.m. Welcome and Opening: Aims and Objectives

Speakers: GUDRUN KOCHENDOERFER-LUCIUS, Director, Development Policy Forum, DSE
RITVA REINIKKA, Co-Director, World Development Report 2004, World Bank

7:00 p.m. Dinner at room ‘Renzo Piano’
Speech: WOLF-DIETER EBERWEIN, Professor, Social Science Research Centre Berlin (WZB), Germany

Tuesday, 09 July 2002

Part I: Modes of Delivery

09:00 a.m. Session I: The Role of Altruistically Motivated Organizations for Making Services Work for Poor People

Chairperson: HANS-PETER SCHIPULLE, Deputy Director-General, BMZ, Germany

Speakers: DANIELE GIUSTI, Executive Secretary, Catholic Medical Bureau, Uganda
JEREMY HOBBS, Executive Director, Oxfam International, United Kingdom
THOMAS PHILIPSON, Professor, University of Chicago, United States
ANWAR POONAWALA, Director, Aga Khan Fund for Economic Development, France

12:00 p.m. Keynote: NICHOLAS STERN, Senior Vice-President and Chief Economist, World Bank “Making Services Work for Poor People”

12:30 p.m. Lunch Buffet at room ‘Renzo Piano’

01:45 p.m. Speech: BORIS Y. NEMTSOV, Leader of the Right Forces Union Faction, State Duma, Russian Federation
02:15 p.m. **Session II: The Role of the Private Sector**

Chairperson: HEMA VISWANATHAN, Senior Vice President, Indian Market Research Bureau, India

Speakers: KETSO GORDHAN, Executive Director, Rand Merchant Bank, South Africa  
MICHAEL KREMER, Professor, Harvard University, United States  
GUY PFEFFERMANN, Chief Economist of the Corporation and Director, Economics Department, International Finance Corporation (IFC), Washington, D.C.

04:30 p.m. **Session III: The Role of Local Governments**

Chairperson: NICHOLAS STERN, Senior Vice-President and Chief Economist, World Bank

Speakers: JUNAID AHMAD, Lead Economist, World Bank  
CHANDRA BABU NAIDU, Chief Minister, Andhra Pradesh, India  
YUZHAO WANG, President, China Foundation for Poverty Alleviation, China
Wednesday, 10 July 2002

08:30 a.m.  **Session IV: Incentives and Innovations**

**Chairperson:** KLAUS KOENIG, Professor, German University of Administrative Sciences, Speyer, Germany

**Speakers:** ORVILL ADAMS, Director, Department of Health Service Provision, World Health Organization (WHO), Geneva
JOHN NEWMAN, Resident Representative, Bolivia, World Bank
JEAN-PHILIPPE PLATTEAU, Professor, University of Namur, Belgium
COLIN TALBOT, Professor, University of Glamorgan, United Kingdom

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Part II: Modes of Financing

10:30 a.m.  **Session V: Modes of Financing**

**Chairperson:** BORIS PLESKOVIC, Administrator, Research Advisory Staff, World Bank

**Speakers:** JAMES ADAMS, Vice-President, World Bank
MWATUMU MALALE, Permanent Secretary, Ministry of Education and Culture, Tanzania
OLAF SEIM, Advisor, Multilateral Affairs Department, Ministry of Foreign Affairs, Norway
THOMAS WOLLENZIEN, Director, Development Cooperation Strategies, KfW, Germany

12:30 p.m.  **Closing:**  **Conclusions**

**Speakers:** SHANTAYANAN DEVARAJAN, Director, *World Development Report 2004*, World Bank

01:00 p.m.  **Farewell Lunch Buffet at room ‘Renzo Piano’**
Appendix 2. Participants

Final list—July 2002

James ADAMS
Vice President
The World Bank
1818 H Street N.W.
Washington, D.C. 20433
United States
Phone: +1-202-473 4084
Fax: +1-202-522 3381
E-mail: jadams2@worldbank.org

Orvill ADAMS
Director
Department of Health Service Provision (OSD/EIP)
World Health Organization (WHO)
20 Av. Appia
1211 Geneva 27
Switzerland
Phone: +41-22-791 2889
Fax: +41-22-791 4747
E-mail: Adamso@who.int

Junaid AHMAD
World Development Report 2004 Team
The World Bank
1818 H Street N.W.
Washington, D.C. 20433
United States
Phone: +91-11-2469-7762
Fax: +1-202-522 3235
E-mail: jahmad@worldbank.org

Shantayanan DEVARAJAN
Director
World Development Report 2004
The World Bank
1818 H Street N.W.
Washington, D.C. 20433
United States
Phone: +1-202-473 7691
Fax: +1-202-522 3235
E-mail: sdevarajan@worldbank.org

Wolf-Dieter EBERWEIN
Head
Working Group on International Politics
Social Science Research Center Berlin
Reichpietschufer 50
10785 Berlin
Germany
Phone: +49-30-2549 1564
Fax: +49-30-2549 1561
E-mail: eberwein@medea.wz-berlin.de

Ketso GORDHAN
Executive Director
Rand Merchant Bank
1 Merchant Place
Johannesburg
South Africa
Phone: +27-11-282 8475
Fax: +27-11-282 8329
E-mail: ketso.gordhan@rmb.co.za

Daniele GIUSTI
Executive Secretary
Uganda Catholic Medical Bureau
P.O. Box 2886
Kampala
Uganda
Phone: +256-41-266 508
Fax: +256-41-266 091
E-mail: ucmb@afsat.com

Jeremy HOBBS
Executive Director
Oxfam International
Suite 20, 266 Banbury Road
Oxford OX2 7DL
United Kingdom
Phone: +44-1865-313 639
Fax: +44-1865-313 770
E-mail: jeremy.hobbs@oxfaminternational.org
Gudrun KOCHENDOERFER-LUCIUS  
Managing Director  
InWEnt - Capacity Building  
International, Germany  
Hallerstrasse 3  
10587 Berlin  
Germany  
Phone: +49-30-43996 338  
Fax: +49-30-43996 220  
E-mail: gudrun.kochendoerfer@inwent.org

Klaus KOENIG  
Professor  
German University of Administrative Sciences Speyer  
Freiherr-vom-Stein-Straße 2  
67346 Speyer  
Germany  
Phone: +49-6232-654 369  
Fax: +49-6232-654 306  
E-mail: k.koenig@dhv-speyer.de

Micheal KREMER  
Professor  
Department of Economics  
Harvard University  
Littauer Center 207  
Cambridge, MA 02138  
United States  
Phone: +1-202-797 6247  
Fax: +1-202-797 6181  
E-mail: mkremer@fas.harvard.edu

Mwatumu J. MALALE  
Permanent Secretary  
Ministry of Education and Culture  
P.O. Box 9121  
Dar Es Salaam  
Tanzania  
Phone: +255-22-211 3139  
Fax: +255-22-211 3271  
E-mail: ps.moec@twiga.com

Chandra Babu NAIDU  
Chief Minister of Andhra Pradesh  
C Block, 4th Floor  
Room No 404, Secretariat,  
Hyderabad, Andhra Pradesh  
Hyderabad  
India  
Phone: +91-40-345 5205  
Fax: +91-40-345 4828  
E-mail: cmap@ap.nic.in

Boris Y. NEMTSOV  
Leader of the Right Forces Union Faction  
State Duma  
1, Okhotny Ryad Str.  
103265 Moscow  
Russian Federation  
Phone: +7-95-292 5557  
Fax: +7-95-292 1818  
E-mail: yakushina@duma.gov.ru

John NEWMAN  
Resident Representative Bolivia  
The World Bank  
Casilla 8692  
La Paz  
Bolivia  
Phone: +591-2-244 3555  
Fax: +591-2-212 9880  
E-mail: jnewman@worldbank.org

Guy PFEFFERMANN  
Chief Economist of the Corporation  
Director, Economics Department  
International Finance Corporation (IFC)  
2121 Pennsylvania Avenue, N.W.  
Washington, D.C. 20433  
United States  
Phone: +1-202-473 0786  
Fax: +1-202-974 4306  
E-mail: gpfeffermann@ifc.org
Tomas PHILIPSON
Professor, The Irving B. Harris Graduate
School of Public Policy Studies
Department of Economics
University of Chicago
1155 E. 60th Street
Chicago, IL 60637
United States
Phone: +1-773-702 9128
Fax: +1-773-702 0926
E-mail: t-philipson@uchicago.edu

Jean-Philippe PLATTEAU
Professor, Faculté des Sciences
économiques, sociales et de gestion
Université de Namur
Rempart de la Vierge, 8
5000 Namur
Belgium
Phone: +32-81-724 860
Fax: +32-81-724 840
E-mail: jean-philippe.platteau@fundp.ac.be

Boris PLESKOVIC
Administrator
Research Advisory Staff
The World Bank
1818 H Street, N.W.
Washington, D.C. 20433
United States
Phone: +1-202-473 1062
Fax: +1-202-522 0304
E-mail: bpleskovic@worldbank.org

Anwar POONAWALA
Director, Aga Khan Fund for Economic Development
Secretariat of His Highness the Aga Khan
Aiglemont
60270 Gouvieux
France
Phone: +33-3-4458 4000
Fax: +33-3-4457 9717
E-mail: anwar.poonawala@aiglemont.org

Ritva REINIKKA
Co-Director
World Development Report 2004
The World Bank
1818 H Street N.W.
Washington, D.C. 20433
United States
Phone: +1-202-473-3328
Fax: +1-202-522-1154
E-mail: rreinikka@worldbank.org

Hans Peter SCHIPULLE
Deputy Director General
Global and Sectoral Issues
Federal Ministry for Economic Cooperation and Development (BMZ)
Friedrich-Ebert-Allee 40
53113 Bonn
Germany
Phone: +49-228-535 3750
Fax: +49-228-535 3755
E-mail: schipull@bmz.bund.de

Olav SEIM
Advisor
Multilateral Affairs Department
Ministry of Foreign Affairs
Postboks 8114 Dep
0032 Oslo
Norway
Phone: +47-2224 3932
Fax: +47-2224 3790
E-mail: olav.seim@mfa.no

Nicholas STERN
Senior Vice President for Development Economics and Chief Economist
The World Bank
1818 H Street N.W.
Washington, D.C. 20433
United States
Phone: +1-202-473-3774
Fax: +1-202-522-0906
E-mail: nstern@worldbank.org
Colin TALBOT  
Professor  
Weir House  
University of Glamorgan  
Llantilio Crossenny, NP7 8SU Wales  
United Kingdom  
Phone: +44-1443-482 310  
Fax: +44-1600-780 126  
E-mail: ctalbot@glam.ac.uk

Hema VISWANATHAN  
Senior Vice President and Country Manager  
Indian Market Research Bureau  
“A” Wing, Mhatre Pen Building  
Senapati Bapat Marg  
400 028 Mumbai  
India  
Phone: +91-22-432 3500  
Fax: +91-22-432 3800  
E-mail: viswanathan@imrbint.com

Xingzui WANG  
Deputy Executive Director  
China Foundation for Poverty Alleviation  
5th Floor, South Building, 36 Shuangyushu Xili, Haidian District  
100086 Beijing  
P.R. China  
Phone: +86-10-8287 2688 106  
Fax: +86-10-6252 6268  
E-mail: xingzuiw@fupin.org.cn

Yuzhao WANG  
President  
China Foundation for Poverty Alleviation  
5th Floor, South Building, 36 Shuangyushu Xili, Haidian District  
100086 Beijing  
P.R. China  
Phone: +86-10-8287 2688 616  
Fax: +86-10-6252 6268  
E-mail: sos@fupin.org.cn

Thomas WOLLENZIEN  
Director  
Development Cooperation Strategies  
KfW  
Palmengartenstr. 5-9  
60325 Frankfurt am Main  
Germany  
Phone: +49-69-7431 2818  
Fax: +49-69-7431 3746  
E-mail: thomas.wollenzien@kfw.de

Juergen ZATTLER  
Head of Division  
World Bank, IMF, Debt, Financial Architecture  
Federal Minister for Economic Cooperation and Development (BMZ)  
Friedrich-Ebert-Allee 40  
53113 Bonn  
Germany  
Phone: +49-1888-535 3710  
Fax: +49-1888-535 3695  
E-mail: zattler@bmz.bund.de
The World Bank

Stephen COMMINS
Social Policy Specialist
The World Bank
1818 H Street N.W.
Washington, D.C. 20433
United States
Phone: +1-202-473-3470
Fax: +1-202-522-3235
E-mail: scommins@worldbank.org

Deon FILMER
Senior Economist
The World Bank
1818 H Street N.W.
Washington, D.C. 20433
United States
Phone: +1-202-473-1303
Fax: +1-202-522-1153
E-mail: dfilmer@worldbank.org

Jeffrey S. HAMMER
Lead Economist
The World Bank
1818 H Street N.W.
Washington, D.C. 20433
United States
Phone: +1-202-458-1410
Fax: +1-202-522-1154
E-mail: jhammer@worldbank.org

Shekhar SHAH
Governance Adviser
The World Bank
1818 H Street N.W.
Washington, D.C. 20433
United States
Phone: +1-202-458-0442
Fax: +1-202-522-7132
E-mail: sshah@worldbank.org

Agnes SOUCAT
The World Bank
1818 H Street N.W.
Washington, D.C. 20433
United States
Phone: +1-202-473-4027
Fax: +1-202-522-3235
E-mail: asoucat@worldbank.org

Rapporteur

Carla BERKE
Consultant
The World Bank
1818 H Street N.W.
Washington, D.C. 20433
United States
Phone: +1-202-387-0705
E-mail: carla.berke@verizon.net

Ingomar HAUCHLER
Board of Trustees
Development and Peace Foundation
Gotenstrasse 152
53175 Bonn
Germany
Phone: +49-40-4607 2586
Fax: +49-40-4677 5959
E-mail: Ingomar.hauchler@t-online.de

Observer

Markus BERNDT
Economist
Federal Ministry for Economic Cooperation and Development (BMZ)
Friedrich-Ebert-Allee 40
53113 Bonn
Germany
Phone: +49-1888-535 3709
Fax: +49-1888-535 4709
E-mail: berndtm@bmz.bund.de
Programme Coordination Team

InWEnt Development Policy Forum
Hallerstr. 3
10587 Berlin
Germany
Phone: +49-30-43996 341
Fax: +49-30-43996 250
E-mail: ef@inwent.org
http://www.dse.de/ef/ef-e.htm

Joachim MUELLER
Senior Project Manager
InWEnt Development Policy Forum
Phone.: +49-30-43996 361
Email: joachim.mueller@inwent.org

Irene FEDERWISCH
Project Manager
InWEnt Development Policy Forum
Phone : +49-30-43996 340
E-mail: irene.federwisch@inwent.org

Claudia SCHAEFER
Project Manager
InWEnt Development Policy Forum
Phone.: +49-30-43996 357
E-mail: claudia.schaefer@inwent.org

Mani JANDU
Conference Coordinator
Phone: +1-202-473/3103
E-mail: mjandu@worldbank.org

The World Bank
1818 H Street N.W.
Washington, D.C. 20433
United States
Phone: +1-202-477-1234
Fax: +1-202-477-6391

Conference Service:

Meet Consulting
Tilo Weiser
Choriner Str. 8
10119 Berlin
Germany
Phone: +49-30-44 35 96 05
Fax: +49-30-44 35 96 05
E-mail: tiloweiser@meet-consulting.de

Peggy Gloede
Conference Assistant

Mario Koelling
Conference Assistant

Axel Rueckemann
Conference Assistant

Caroline-Lucy Ulbrich
Conference Assistant
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Introductory remarks by Gudrun Kochendörfer-Lucius and Boris Pleskovic; an opening address by Wolf-Dieter Eberwein; keynote addresses by Nicholas Stern and Boris Nemtsov; papers by Daniele Giusti, Jeremy Hobbs, Kathy Bartlett and Anwar Poonawala, Michael Kremer, Hema Viswanathan, Junaid Ahmad, Yuzhao Wang, Orvill Adams and William Savedoff, John Newman, Jean-Philippe Platteau, Mwatumu Malale, Olav Seim, and Thomas Wollenzien; and concluding remarks by Shantayanan Devarajan and Ritva Reinikka.