

Reforming Public Service Delivery¹

Timothy Besley* and Maitreesh Ghatak
London School of Economics, London WC2A 2AE, UK

This paper reviews some issues relevant to the delivery of public services. It reviews some of the debates and flags some issues that are significant worldwide, especially in Africa. It emphasises how the debate has moved along in terms of defining the relative responsibilities of the public and private sectors for delivering public services. It also discusses the role of incentives among politicians and bureaucrats in service delivery. In a broader context, there is a need to understand the role of mission-driven delivery and the role of competition in public services. The paper argues for a focus on accountability in part through rigorous evaluation of service delivery and basing policy on sound first-principles.

JEL Classification: H4, P16, O55

1. Issues and Motivation

Improving public service delivery is one of the biggest challenges worldwide. Public services are a key determinant of quality of life that is not measured in per capita income. They are also an important plank of poverty reduction strategy. It is a particular challenge in Africa, given the low quality of service provision and the pressing needs of the poor.

Organising public service provision is deemed to be a core function of government. However, how that responsibility should be discharged is open to debate. These goods and services have important benefits not captured in market returns. They are subject either to externalities (e.g., preventive care in the case of

¹ This paper was prepared for a plenary session on services in Africa for an AERC meeting held in Johannesburg on 4 December 2005.

* Corresponding author: Timothy Besley, London School of Economics London WC2A 2AE, UK. E-mail: t.besley@lse.ac.uk

epidemics) or have equity or minimum service objectives (health, education and welfare). Given these features, it is well known that the market underprovides them as market allocation based on willingness to pay and the price system does not internalise externalities.

The standard view in economics was that the private sector provides private goods efficiently, and the public sector steps in to provide public goods and services and uses taxes or subsidies to correct externalities. The traditional focus of theoretical public economics has typically been on setting taxes and public expenditure levels. It has not paid a lot of attention to the mechanism of public service delivery. This has become increasingly unsatisfactory for several reasons.

First, evidence on government failure has been mounting. The World Bank's 2004 World Development Report points out that governments in developing countries spend, on average, only one-third of their budget on health and education. Moreover, very little reaches the poor because of leakage (due to administrative costs as well as corruption). On top of this, there is rampant absenteeism and poor quality service on the part of teachers and health workers.

Secondly, there is an increasing recognition of the fact that government intervention should not be equated with direct provision by government. Several organisational alternatives, such as public-private partnerships and contracting-out, have been considered.

Thirdly, there is also a growing acknowledgement of the fact that there exists a large space between the market and the government that is occupied by voluntary non-profit organisations (often called NGOs in the context of developing countries) that play an important role in filling up the vacuum created by the twin problems of government and market failure.

To understand the challenges faced in reforming public service provision, theoretical as well as empirical work is needed. We need good theory to structure our empirics and to think through the logic of cases where evidence is limited. We need evidence to evaluate the relevance of our theoretical framework, and also to see what works at the ground level.

Recent work (see Besley and Ghatak 2006 for an overview) is beginning to understand the problem of effective public-service delivery by drawing on ideas from the literature on new political economy and on the economics of organisations and incentives.

This applies economic methods to study what improves the quality of government. The new political economy literature is providing a better understanding of how the government works. The economics of organisation and incentives is trying to understand incentive issues in public organizations, such as bureaucracies. It also helps us to think about organisations that belong neither to the government nor to the market, such as NGOs.

In this paper, we will draw on some of the recent theoretical work on the new political economy and theory of public organisations, as well as empirical work in the context of other developing countries. Our hope is that some of the issues emerging from research in other regions will be relevant in moving the policy debate forward in Africa. We feel that while the exact issues vary from place to place and service to service, there are some general issues worth examining carefully. It is also important to discuss some aspects of research methodology that can be used to give some insight into attempts at public service reform. The main issue is to understand what institutional arrangements have a comparative advantage in dealing with the problems that arise in public service provision.

The paper is organised as follows. In the next section, we discuss the broader context of public service delivery in Africa. We then discuss the role of three main actors in the sphere of delivery: politicians, bureaucrats and private delivery through NGOs. We discuss the incentives of these actors for delivery and provide criterion for their optimal use in Section 3. In Section 4, we cover several conceptual issues that arise from the non-market nature of the relationships between these actors and the beneficiaries of services, namely accountability, mission design, the role of competition and evaluation. Section 5 concludes the paper.

2. The Context of Service Delivery

Before any service could or should be delivered, it is necessary to find out whether policies have the desired impact and how citizens respond to them. The main tradition in the analysis of public service provision has been to study how people respond to policies and to gauge who are the beneficiaries from various public programmes. There are some areas of economic policy where there is a fair degree of consensus on what constitutes good policy. For example,

in macro policy, there is broad consensus that very large budget deficits, overvalued exchange rates and very high inflation rates are undesirable. Even then, the means to achieve this remains open to debate. For example, whether central banks should be independent is still debated.

In the area of public service delivery, there is a broad consensus regarding the main policy objectives—to have a well educated and healthy population. Again, the question is what is the best way of delivering this end. Consider the case of primary education. Here there are debates about the best way to incentivise teachers, whether to prioritise availability of textbooks etc. For this to be debated, it is necessary to have some persuasive evidence on the costs and benefits of particular intervention strategies. A good example is Duflo (2001) who studies an Indonesian school construction programme and estimates the effect on human capital attainment.

Another key pre-condition for service delivery is adequate funding. Although it is difficult to get numbers on a comparable basis, there is a wide range of spending levels across countries. To illustrate this, Table 1 gives some numbers regarding spending levels on education and health from a variety of African countries according to official statistics. We observe that public spending levels vary significantly from around 4% of GDP up to 9%. Although these numbers look small compared with the OECD average of about 12%, they are well above the average public spending in South Asia.

However, there are several problems with this direct comparison. First, public spending and outcomes are not necessarily related. This can be made clear with a simple example. World Bank data show that public spending on education in Malawi and Ethiopia was increased by similar amounts between 1980s and 1990s. However, the outcomes in these two countries varied dramatically. Primary school completion stagnated in Ethiopia, moving from 22% in 1990 to 24% in 1999 while it rose from 30 to 50% in Malawi.

Secondly, it has to be kept in mind that public spending numbers do not reflect the overall spending level on public services as there is significant private spending on some of the public services—especially on health. As can be seen in Table 2, private spending on health exceeds the public spending levels significantly in some African States. Looking at Africa as a whole, for the median country, public and private spending are roughly equal.

Table 1: *Public Spending on Education and Health in 2002/03*

	Public spending (% of GDP)			GDP (p. c.)
	Education	Health	Sum	
Angola	4.71	2.79	7.5	740
Benin	3.26	2.04	5.3	329
Burundi	4.72	0.72	5.44	102
Cameroon	3.81	1.21	5.02	646
Congo, Republic	3.21	1.27	4.48	934
Cote d'Ivoire	4.56	0.71	5.27	573
Eritrea	4.03	2	6.03	177
Ethiopia	5.9	3.45	9.35	101
Kenya	6.99	1.66	8.65	418
Madagascar	2.85	1.23	4.08	223
Malawi	6.03	3.27	9.3	146
Morocco	6.43	1.69	8.12	1339
Niger	2.33	2.27	4.6	160
Senegal	3.59	1.99	5.58	444
South Africa	5.08	3.24	8.32	3171
Swaziland	6.99	3.32	10.31	1346
Togo	2.63	0.92	3.55	243
Zambia	1.99	3.28	5.27	326
Middle East & North Africa	4.55	2.26	6.81	1672
Sub-Saharan Africa	3.38	2.53	5.91	523
East Asia & Pacific	3.18	1.86	5.04	1160
South Asia	2.38	1.15	3.53	497
OECD	5.63	6.61	12.24	28054
LDC (UN classification)	2.98	1.64	4.62	290

Source: World Bank data from WDI online; Data are for the years 2002 or 2003 except for Angola, Cote d'Ivoire, Madagascar and Zambia (2001); means in Sub-Saharan Africa, LDC's (2000) and Middle East & North Africa (1999); column 5 is GDP per capita (constant 2000 US\$) in 2003.

Table 2: *Public and Private Spending on Health in 2003*

	Expenditure (% of GDP)		
	Private	Public	Total
Angola	0.4	2.4	2.8
Benin	2.5	1.9	4.4
Botswana	4.7	0.7	5.4
Burkina Faso	2.6	3	5.6
Burundi	2.3	3.3	5.6
Cameroon	3	1.2	4.2
Congo, Dem. Rep.	3.3	0.7	4
Cote d'Ivoire	2.6	1	3.6
Egypt	3.7	2.2	5.9
Eritrea	2.4	2	4.4
Ethiopia	2.5	3.4	5.9
Ghana	1.4	3.1	4.5
Kenya	2.6	1.7	4.3
Lesotho	1.1	4.1	5.2
Madagascar	1	1.7	2.7
Malawi	6	3.3	9.3
Morocco	3.4	1.7	5.1
Mozambique	1.8	2.9	4.7
Nigeria	3.7	1.3	5
Niger	2.5	2.2	4.7
Rwanda	2.1	1.6	3.7
Senegal	3	2.1	5.1
South Africa	5.2	3.2	8.4
Swaziland	2.5	3.3	5.8
Togo	4.2	1.4	3.6
Uganda	5.1	2.2	7.3
Zambia	2.6	2.8	5.4
Zimbabwe	5.1	2.8	7.9
Median ^a	2.6	2.2	4.7

Source: World Bank data from WDI Online.

^aMedian calculated separately for each column.

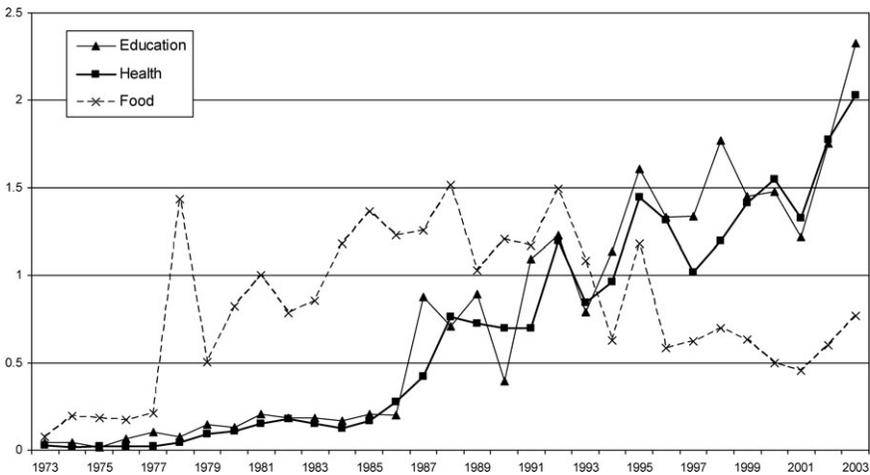


Figure 1: *Bilateral aid commitments for Sub-Saharan Africa (in 2002 US\$ pc)*

Thirdly, services in Africa are to a significant part financed by development aid to the continent. Figure 1 shows how aid funding for education and health in Sub-Saharan Africa have increased over time. The increase is especially striking as it is not a general trend in development aid. For comparison, Figure 1 depicts the changes in funding for food. Comparing the broad trends, we see that funding priorities have shifted towards health and education since the late 1980s making the delivery of these services an issue of increasing importance.

The significant variation in outcomes and sources of public service funding points to the diversity of settings in which public service delivery takes place. As a first step, it is important to analyse the general issues arising in delivery. This paper will therefore focus on the question of how to best deliver a service in a general setting. This encompasses issues of efficiency in service delivery, problems of corruption in which resources intended for delivery are siphoned off to other uses, and service priorities—deciding what the pressing needs are for beneficiaries.

3. Incentives for Service Delivery

Public services are delivered by a nexus of relationships between beneficiaries, politicians and service providers (such as bureaucrats,

doctors, teachers etc.). If we want services to match the best interest of the beneficiaries, we have to analyse the incentives that govern the behaviour of politicians and service providers. Consider the example of health care provision. Do doctors have good incentives to focus on the most socially worthwhile treatments? Are preventative measures in health care given sufficient priority? If no, then what is the best organisational structure to deliver health care that achieves this priority?

Three actors are particularly important for service delivery in the African context: politicians, bureaucrats and non-profit organisations. In this section we will focus on these actors and analyse their incentives in service delivery. Only once these are well understood can we have any hope to make recommendations on how a particular services should be provided.

3.1. *Politicians*

Broad issues of policy and finance typically lie in the domain of politics. Thus, appropriate levels of financing and effective delivery depend effectively on functioning political institutions. Debates about these institutions often focus on two issues of representation and accountability. These reflect the two broad conflicts of interest that politics resolves. Issues of representation refer to conflicts of interests that arise between different groups of citizens while accountability concerns conflicts of interest between the governors and the governed (the principal-agent problem). The modern political economy literature looks at the way in which political institutions affect these two dimensions of political conflict.

The conflict between different groups of citizens is particularly hard to resolve in ethnically fragmented African states. Easterly and Levine (1997) show in a cross-country study of African states that ethnic diversity is negatively correlated with public provision of roads, electricity and education. This conflict is often not effectively resolved by the set of political institutions in place [see Easterly (2001) for an analysis and cross country comparison].

The problem of political selection—picking either honest or competent politicians—is also an issue. How important politician selection is for targeting of services is highlighted by recent research conducted on constitutional changes in India (see Pande, 2003; Besley *et al.* 2004a,b). In 1993, the Indian constitution instituted a

three-tier structure of local government by introducing the entity of a 'Gram Panchayat' which typically constitutes between 1 and 5 villages. A certain fraction of seats on the council of the Gram Panchayat were reserved for women and low-caste groups. Reservations affected the targeting of public resources across caste groups significantly. On top of this reservation effect, Besley *et al.* (2004a) find evidence of targeting policy activism towards the villages of elected officials. While gender reservation did not matter in this study, Chattopadhyay and Duflo (2004) find evidence for an effect on women's reservation policy in the context of the Indian state of West Bengal.

The issue of representation is similarly complex. Political representation is enforced through electoral sanction in democracies. A politician is typically not contractually obliged to do very much—promises during electoral campaigns are not binding *ex post*. One way to guarantee that politicians behave well is either to select good politicians—those who are sufficiently publicly spirited—or else to use sanctions against them if they under-perform. Legal sanctions are only viable in quite extreme circumstances—for example, if a politician is tried for corruption. The main mechanism of enforcing good performance is holding frequent elections. How important this effect is for growth is shown by a recent study of electoral competition in the United States (see Besley *et al.* 2005).

An important issue concerning both representation and accountability in public service delivery is the choice between centralised and decentralised provision.² There are a number of theoretical reasons why provision may differ in centralised and decentralised systems of finance and provision. The first among these is the possibility of tailoring policies more effectively to heterogeneous populations and improving accountability. However, decentralised government may be less able to reap scale economies and internalise spillovers across jurisdictions. Whether decentralisation is a good idea from a theoretical point of view will depend upon the nature of the service. However, local governments are often at the mercy of local power elites in developing countries, and this is an additional factor in evaluating the costs and benefits of decentralization in these settings (see Bardhan 2002).

² See Treisman (2002) for a general discussion.

3.2. *Bureaucrats*

The case of service providers in bureaucracies is quite different from that of politicians. These individuals can be held to account using more formal contracts and standard methods used in the private sector. This, in principle, means that contracts can be detailed with the use of incentive pay and performance targets as the basis of job retention. There has been much more interest recently in the potential for such formalised incentive arrangements to improve the quality of public service delivery. For example, a number of countries have experimented with incentive pay for teachers conditioned on test scores or attendance. One of the big policy issues right now is how far such initiatives work and should be extended more broadly into all areas of the public sector. This is a controversial topic and needs sound arguments and evidence to be resolved.

Whether provided in state or private organisations, individuals needed to be motivated to provide goods that achieve collective benefits. There is plenty of evidence that some individuals are motivated to contribute to the collective good. There are a number of different explanations for this. Individuals could be altruistic caring about the benefits that they achieve for others. This could also be ideological, with individuals believing that their private actions fulfil some wider objective (religious or political). Outside of economics, this is given the general label of public service motivation (Francois 2000). Behavioural economists have urged going beyond the narrow conception of a self-interested economic agent, and emphasised the importance of the motive to reciprocate and the desire for social approval (Fehr and Falk 2002). The role of incentives is to harness these feelings and to put them to the social good in an efficient manner.

The traditional model of state provision assumes away incentive problems. It supposes that the government can stipulate and enforce a level of provision, implicitly assuming that individuals who work in the public sector needed little direct motivation to pursue the social good. Rewards depended little on performance. The implicit assumption was that teachers, health care professionals and bureaucrats are publicly spirited and that this was enough (see Legrand 2003).

Under the billing of the New Public Management, there is now much more attention paid to incentives in the public sector. The two central propositions are (i) that beneficiaries need to be given more say in the provision of public goods and services and (ii) incentives for public servants needed to be more high powered—explicitly linking outputs and inputs. At some level, this is compelling. After all, it seems to mirror the model that prevails in the private sector. Beneficiaries or consumers have the right to choose among different providers, and workers and managers receive bonuses for generating higher profits.

Elements of this philosophy of incentives and targets now affect debates in all parts of the world. But before embracing this new paradigm, it is important to remember where it came from. It was born out of efforts to decrease the size of the public funds going to public goods and services while preserving service levels. The prevailing view was that the public sector was getting rents that could be extracted and converted to better service levels.

But if the aim is efficiency in delivery, it is important to note that the fundamental problems of providing public services have nothing to do with who owns or operates the organisation that provides the service, public, private for-profit or non-profit. Instead, they stem from important differences between public and private goods, which imply that incentive issues are somewhat different and a mechanical application of what is efficient in the private sector is likely to be misleading.

First, in many cases, the goods are complex and as a result the objectives of the relevant organisations are somewhat imprecise. For example, the objective of a school is to provide good education, but this is much harder to define compared to say, production of rice or provision of banking services or even some public services such as garbage removal or power supply. This means that in these cases it would be hard to find good performance measures.

Secondly, the reason why such goods are complex is because they involve several dimensions. For example, good education involves students being able to achieve high scores in standardised tests, but also encouraging a spirit of creativity, curiosity and inculcation of good values. The former is easy to measure but if teachers are rewarded just on the basis of the performance of students in tests, this might lead to an excessive focus on test-taking skills at the expense of the other components of a good education. This makes

provision of incentives hard when employees have to perform multiple tasks (Holmstrom and Milgrom 1991). Similarly, if hospitals are given incentives to cut costs, they are going to sacrifice quality by refusing to treat certain types of illnesses or being excessively selective in using expensive medical procedures.

Thirdly, there may be many competing views on the right way to provide public goods—not just on the optimal level of provision, but crucial aspects of project design. For example, should a school run by a non-profit be allowed to teach religious material or just science and mathematics? This affects the extent to which agents working together to produce public goods and the beneficiaries have congruent objectives.

What do these considerations imply about how agents providing public goods should be rewarded?

In terms of standard incentive theory, it is well known (see, for example, Dixit 2002) that in these environments, low-powered incentives are likely to be optimal. If performance measures are noisy, then making rewards very sensitive to performance does not give effective incentives, and imposes unnecessary risk on the employee. If the employee has to do several tasks, and some of these have good performance measures and not others, then making her pay sensitive to the good performance measures will cause her to substitute effort away from the other tasks, and could result in a loss of efficiency.

The fact that providers may be intrinsically motivated is also very important. This may reinforce the tendency towards low-powered incentives. If the employee receives a non-monetary reward from doing her job well, then clearly she can be paid both a lower wage and her pay does not have to be made very sensitive to her performance. Of course, the incentive structures offered for providing public goods may affect who chooses to work within the public goods producing sector. Lower wages may act as a screening device: attracting only those workers who have a desire to achieve the social good. A higher wage or more incentive pay may then erode the notion of public service careers as a calling and therefore change the selection of individuals into bureaucracy.

However, there are important caveats to this strategy. First, there may be a trade-off if individuals differ also in their abilities. With lower wages and low-powered incentives, the public sector may end up being a haven for well-meaning but incompetent

individuals. There may also be an adverse selection problem if there are some dishonest individuals who will use the public sector to pursue private ends. Besley and McLaren (1993) refer to the strategy of paying ultra-low wages since these agents are expected to take bribes as capitulation wages. Under this strategy, the public sector may end up being a haven for dishonest individuals.

Having reviewed each separately, it is interesting to discuss the factors that shape the trade-off between using politicians or bureaucrats in service delivery. This can be thought of in terms of either accountability or representation.

In terms of accountability, Alesina and Tabellini (2004) look at these issues from the point of view of the effort put in by politicians in the presence of moral hazard. The up-or-out incentive schemes offered to voters may sometimes provide sharper incentives compared to standard market based wage incentives of the variety studied in Holmstrom (1999). Maskin and Tirole (2004) argue that there may be a tendency for politicians to pander to voters when there are elections, i.e., avoiding doing the right thing in the interests of being re-elected. Hence, individuals who are freed from electoral concerns (such as judges in many countries) can act more in the interest of voters.

Besley and Coate (2003) look at the issue from the perspective of representation in a world of multi-issue political competition. They consider what happens when there is direct election of officials who have responsibility for specific policies compared with such officials being chosen by an elected representative. Their main argument is that direct accountability of officials increases the salience of that policy dimension compared with other issues determined in general elections. This will tend to produce policy outcomes closer to the majority preferred outcome.

3.3. Non-Governmental Organisations

There are two main types of formal institutions for provision of public goods: governments and NGOs. We discussed above the issue of incentives and organisation design in the context of bureaucracies. NGOs are private organisations funded by private donors and governments that are typically run on a non-profit basis. Whether provision is public or private, incentive problems abound in formal provision of public goods. These are concerning

how projects are selected and employees are motivated to provide goods with wider social benefits. These issues have received only limited attention in existing analyses. But recognising this may go to the heart of what form of provision is optimal.

In the last two decades, NGOs have been increasingly involved in the provision of relief and welfare, social services and various development projects (e.g., agricultural extension and micro-lending) in less developed countries.³

What explains the relative success of NGOs? First, NGOs may find it easier to screen on motivation than the government. For example, the German NGO sector is entirely dominated by faith or church-driven NGOs who are very successfully implementing various kinds of projects in the developing world—especially Africa.

Secondly, NGOs may also foster public service motivation by providing a better match between the ends of the organisation and its workers. A government that is buffeted around by electoral concerns may result in some public servants having to carry out policies which they do not believe in. This undermines public service motivation.

The enthusiasm for NGOs in the developing world is manifest. However, some words of caution are warranted. The prevailing view of public goods provision by NGOs has transferred the traditional model of the public sector as staffed by highly motivated staff to the private sector. Just as public sector workers were thought to be beyond incentives so now it is the NGO worker. The bumbling or corrupt bureaucrat looks bad indeed compared with the young and the idealistic NGO activist. However, one has to be careful about the possibility of opportunistic behaviour by NGOs.

In countries with high unemployment and bad job prospects in the private sector, NGOs often become an instrument for

³ According to the UNDP (1993), there are more than 50,000 NGOs working at the grass-roots level in developing countries whose activities have affected the lives of 250 million individuals. A major source of NGO funding worldwide is increasingly coming from funds borrowed by governments from the World Bank and a number of multilateral and bilateral agencies which are then channelled through NGOs. In addition, governments channel considerable sums of domestically mobilised revenues through NGOs. In 1973, only 6% of World Bank projects had some degree of involvement of NGOs, whereas in 1993 this share has risen to 30%. See Besley and Ghatak (2001) for a detailed discussion, and references therein.

rent-seeking activity at the expense of donors. Also, NGOs with strong ideological views may not improve the welfare of the poor (unless they share the ideology).

The weak accountability structures of NGOs become apparent in this context. Unless there are many NGOs operating in the area, the beneficiaries are not in a position to vote with their feet. The same is true of government provision. But NGOs do not have to worry about getting elected. This can be a good thing in some respects, but it also means that they are not accountable to the electorate.

It seems that the time is ripe to insist on greater transparency in NGOs that would include a much greater use of evaluation studies of their actions. While this is beginning to happen, and NGOs have sometimes been on the frontier in promoting evaluation of interventions, there are cases that are shrouded in mystery with myth triumphing over measurement. An important example of this is microcredit provision by NGOs which is crying out for more randomised evaluation.

One recent reaction of NGOs to these problems has been the adoption of best-practice codes for great transparency. Amnesty International, Greenpeace and Oxfam are three among 11 other non-governmental organisations who signed a voluntary 'accountability charter' in June 2006. The charter draft says that signatories '...recognize that transparency and accountability are essential to good governance, whether by governments, businesses or non-profit organisations.' In addition, the organisations must provide transparent book-keeping, and regular assessments of the organisation's environmental impact and its ethical fund-raising standards. Mechanisms are required enabling internal 'whistle-blowers' to report malpractice within organisations.⁴

Finally, a few words about contracting out public services to for-profit firms as opposed to leaving the provision to NGOs or the government. It is a simple fact of government or NGO provision that no one is a residual claimant. This leads to incentives for the manager being less sharp than in the case of a for-profit firm. A downside of this is that managers have lower incentives for doing good things (e.g., supplying effort). But it also means lower incentives for doing bad things (e.g., cutting costs at the expense of quality) and under some circumstances this could have a net

⁴ Financial Times, 12 June 2006.

efficiency advantage (Hart *et al.* 1997). The owner of a for-profit firm can appropriate the benefit of quality-cutting in the form of larger profits, but for the manager of a non-profit or a government agency it takes the form of perks which are of lower value than the money equivalent (Glaeser and Shleifer 2001).

The general point here is that a system of organisation and remuneration for the provision for public goods will have to take into account not only how on-the-job incentives affect how those in the sector work, but also who is attracted to work there. In this context, an important thing to note is that even if individuals are value driven, whether they choose to exert extra effort might depend on, among other things, whether the organisation is run by a for-profit firm or is non-profit (Francois 2000).

4. Key Issues in Service Delivery

A main concern in public service provision is how the obligations of the different parties is defined and enforced. This may differ quite a lot by type of service and provider. The role of formal contracts is often quite limited in public service delivery when compared to the market. If an individual buys a service, say to build a house, then there is frequently an effort to specify formal contractual terms and to have this enforced by the law. In the case of public services, such contracts are typically entirely absent. For example, parents have almost no formal contractual relationships with teachers nor patients with doctors. This raises several issues that are discussed in this section.

4.1. Missions

The absence of formal contractual relationships makes typical incentive pay hard to establish. At the same time, work in organisations that try to achieve the 'greater good' is linked to some degree of satisfaction not reflected in the wage payment. Building on this simple fact, we propose what we call the 'three Ms' approach regarding the design of public organisations: mission design, matching and motivation (Besley and Ghatak 2005). Below we sketch the key ideas with some examples.

Public service provision often takes place in mission-oriented firms. The mission of the organisation displaces the conventional

notion of profit maximisation used in the case of private sector organisations. The idea that missions are important in public organisations is not a new idea. It is a central plank of James Q. Wilson's celebrated study of public bureaucracies (Wilson 1989). He defines a mission as a culture that is widely shared and warmly endorsed by operators and managers alike (95). The notion that the missions of organisations are also important is a frequent theme in the literature on non-profit organisation (see, for example, Sheehan 1996). It is the nature of the activities in question and not whether the service is provided public or privately that unites mission-oriented organisations.

While the notion of mission is somewhat vague compared with more tangible notions like profit, we believe that it is an important departure when thinking about how organisations that are not directly responsive to market forces behave.⁵ In so far as principal and agents share a view of the mission, it is likely that an effective mission will economise on monetary incentives.

Some indirect evidence on the importance of missions for incentives comes from Nagin *et al.* (2002). Their data suggest that a significant part of the employees of a telephone marketing firm do not follow a 'rational cheating model'—they do not shirk more when faced with a reduction in monitoring. Employees who follow the model and respond to reductions in monitoring tend to be those who perceive the employer as being unfair and uncaring. The data gathered on employees suggest that this pattern of behaviour seems to stem from variations in the 'disutility of opportunism' rather than variations in outside options. If this is true, missions can reinforce this disutility and therefore replace harder incentives.

We assume that the mission of the organisation is determined by the principals in the organisation. This can be a heterogeneous group with overlapping responsibilities. For example, in the case of a school, they are parents, the government and the head teacher. Preferences over missions can be heterogeneous. For example, some parents may value high levels of discipline. There

⁵ Missions can also be important in more standard private sector occupations. Firms frequently profess that their goal is to serve customers rather than to make their share-holders as rich as possible. However, it is unclear whether these are genuine missions, or just a veil for some other underlying self-interested behaviour.

could also be disagreement on the right curriculum choices such as the weight to be attached to music teaching or languages. An important role of the management in a mission-oriented organisation is to foster a congruent outlook. Thus, as Miller (2002) argues in the context of her case studies of 12 non-profit organisations, non-profit board members do not expect conflict between the executive director and the purpose for which the organisation was created. The board believes that the executive management will not act opportunistically and that what management actually does is ensure good alignment and convergence in its relationship with principals (pp. 446–7).

Changing the mission of an organisation in a way that is not favoured by the agents can reduce the efficiency of the organisation. In that sense, the approach shows why mission-oriented organisations are conservative and slow moving since there is a rigidity built in from the types of agents who are attracted to the organisations. Organisations without mission-oriented agents, such as private firms, are likely to be more flexible and adaptable.

A key assumption is that the provision of public services benefits from the effort put in by these agents and that high-quality public services require a high intensity of effort. It also depends on the abilities of the service providers and the quality of the capital inputs that they use. We assume that this effort is costly and that the agents in question have to be motivated to put in effort. But rewards to putting in effort are not purely pecuniary—agents could be motivated to provide high quality services because they care about the output being produced. However, the non-pecuniary rewards depend on the way in which the organisation is structured. For example, teachers may care about teaching to a curriculum that they think is most conducive to learning. Thus, the mission of the organisation can affect the degree to which agents are willing to commit costly effort.

When goods are produced with external benefits, then individuals who work in the production of these goods may factor the value of the output that they produce in their decision to work in that sector and into the amount of effort that they put in. This is the labour market equivalent of the idea that individuals engage in private supply of public goods and those with the highest valuation of public goods may have the greatest interest in contributing. The model could also be one in which individuals are altruistically

motivated or that they get a warm glow from doing social good.⁶ In the former case, the level of the good being produced matters to the individual, but not who provides it. This can lead to free-riding. In the latter case, it's not the level of the good, but how much the individual himself/herself contributes to it matters. It is clear that on either of these views the value of what they do should be attached to the job that they do and not the sector in which they do it. Thus, if a nurse believes that nursing is an important social service with external benefits, then it should not matter whether she is employed by the public or private sector except in so far as this affects the amount of the benefit that she can generate.

But the existence of intrinsically motivated agents could have important implications for organisational design. Not only could monetary incentives be made abundant by intrinsic motivation, but also they could actually harm the aims of the organisation. Francois (2000), for example, has shown that government bureaucrats are not residual claimants that they can commit to a hands-off policy which elicits greater effort from workers who have public service motivation. Running a firm for-profit might then demotivate the workers.

The existence of missions and their motivating effect raises another important point. A system of organisation and remuneration for the provision for public goods will have to take into account not only how on-the-job incentives affect those in the sector work, but also who is attracted to work there. If individuals differ in terms of how motivated they are, and have heterogeneous mission preferences, it is important to examine the process by which agents are matched to an organisation, a topic which we turn to now.

Matching is the process by which principals and agents come together to create an organisation. This could be governed by choice as when a parent picks a school for their child or by government policy. Matching serves an allocative role in bringing consumers to providers (product market matching) and workers to providers (labour market matching).

If consumers care about the missions adopted in public organisations, then allowing them to choose between public-service

⁶ These ideas are also related to the strong professional ethics that govern the behaviour of workers in the production of collective goods. Such ethical codes de-emphasise narrow self-interest.

providers with different missions is a potentially important source of welfare improvements. There is no reason why a consumer could not exercise choice between two competing hospitals or schools in much the same way that they choose a TV or a car. It is true that it may be more costly to acquire information about health care services. Also relationship-specific investments may be important for health and education, making switching more costly. But these are differences in degree, not in kind. Moreover, complex choices such as provision for old age are routinely left to private decision-making. This application of private good choice to public services underpins the standard argument for voucher provision of public services. The state provides the citizens with a voucher that entitles the individual to a particular service (or it could be a monetary amount) and they then choose where to spend that voucher. For example, this is the type of system in place for eye tests for low-income individuals in the UK.

Principals and agents can match with one another on the basis of the perceived mission of the organisation. This is a natural consequence of organisations being mission oriented. This matching increases the efficiency in the operation of public service organisations since the returns from putting in effort are higher when agents share the same goals as those espoused by the organisation.

4.2. Accountability

Accountability is one of the buzz words in service delivery. The main idea is that service providers should have better incentives to respond to the needs of beneficiaries. Accountability applies in the political, bureaucratic as well as market spheres.

Broadly speaking, the problem of accountability rests on incentives and selection. The first refers to the system of punishment and reward consequent on actions taken by agents. The second refers to the process of putting in place specific individuals to make decisions.

We have already discussed that elections are the central device for achieving accountability in democratic settings. Their role in achieving accountability rests crucially on how information is processed and used in the context of political competition. One of the largest sources of entrenchment in politics is control of key information providers such as the media. Repression of the media is

associated with low levels of political turnover and high levels of corruption (Besley and Prat 2006).

As well as benefitting from transparency in government, political accountability requires that poorly performing politicians are replaced. This requires an open entry process and a high level of political competition. In situations where a politician has a large personal vote or belongs to an unassailable political coalition, the electoral sanction may not create effective performance incentives.

Another important stepping stone for political accountability is the separation of powers between executive and legislative bodies (see Persson *et al.* 1997). It helps prevent the abuse of power by creating a conflict of interests between the executive and the legislature, yet requiring both bodies to agree on public policy. As a result, the two bodies ensure accountability at the voters' advantage. However, this positive effect of checks and balances is endangered if transparency is not ensured and the possibility for illegal collusion grows.

One example for this control at the grass roots level are village meetings. In their study on south Indian villages, Besley *et al.* (2005) find that village meetings (Gram Sabhas) which review resource, especially targeting of benefits to needy households, lead to a significant decrease of political opportunism. However, the effect of these direct measures is not guaranteed. Citizens have to be motivated to spend time and effort to attend and follow meetings and punish misconduct. If direct control is too costly, free riding can cripple its positive effect.⁷

In addition, direct control hinges critically on the ability of citizens. Formal control rights have no bite without empowering factors like education [see Besley *et al.* (2004b) for evidence in the Indian context].

Turning now to the bureaucratic sphere, a key issue concerns to whom they are accountable. The traditional model is one in which it is politicians who control the bureaucracy. However, there is an increasing focus on the possibility of more direct forms of accountability to service beneficiaries. Information too is key here, since one way to ensure accountability is through making

⁷ Olken (2005) for example finds little effect of village meetings on corruption.

sure that beneficiaries are informed about resource flows—see, for example, Reinekka and Svensson (2004, 2005).

As we have already discussed, the issue of accountability in NGOs is unclear and will depend on a wide range of factors. At the very least, such relationships are vague and complex involving many players such as donors and, in some instances, beneficiaries.

It is important to keep in mind that accountability does not have to be governed by formal relationships. In many parts of the African continent, social sanctions and enforcement play a decisive role for accountability. But while these mechanisms work well in many instances they are fragile and break down across networks. One example of this fragility has been studied by Gugerty and Miguel (2005) who analyse the effect of ethnic fragmentation on the provision of finance for primary schools and well maintenance in Kenya. They show that ethnic fragmentation has adverse effects on public service provision because the possibility of sanctions breaks down in ethnically diverse areas.

4.3. The Role of Competition

The well-known effect of competition in the context of private goods is to retain existing consumers or attract new ones, an organisation has to either cut costs or improve quality. To the extent cutting costs or increasing quality is at the expense of monopoly rents, consumers are better off, even though individual members of the organisation can be worse off because they lose a quiet life, one of the most attractive perks of a monopolist according to a famous quote by J.R. Hicks. Cutting costs can be at the expense of quality. Competition works best when consumers are well informed. If this is not the case, poor quality organisations can survive for long periods even with competition. To the extent being informed is correlated with being educated or affluent, this may lead to both inefficient and inequitable outcomes. This calls for appropriate regulatory institutions and legal protection.

Can these arguments in favour of competition for the provision of private goods be borrowed in the context of public goods?

According to some advocates of school competition and vouchers, such as Caroline Minter Hoxby, the answer is yes. Competition from private organisations can induce public organisations to get their act together to hold on to funding and to their clientele—competition is a rising tide that raises all boats.⁸ Hoxby draws the parallel between this and the effect of entry of Federal Express and DHL into the package-delivery market in the United States, which forced the US Postal Service to improve quality, cut costs and offer new products such as Express Mail. Opponents argue that competition will lead to cream-skimming. New schools will attract students from higher income and education groups. As these students leave, taking with them the per-capita government funding, poorer students in old schools will be strictly worse off. However, this is not an argument against competition per se. It merely calls for ‘smart’ vouchers whose value depend on the socioeconomic background of the student, so as to make them attractive to new schools.

Also, competition in the context of public goods can take interesting forms. For example, Besley and Ghatak (2005) argue that schools can be viewed as competing by picking different kinds of curriculum and attracting teachers who are most motivated to teach according to that curriculum. One element of the curriculum could, for example, be whether religious instruction is included. Well-matched schools can forego incentive pay and rely exclusively on agents’ motivation. This explains why some schools (such as Catholic schools) can be more productive by attracting teachers whose mission-preferences are closely aligned with those of the school management. More generally, a decentralised schooling system where missions are developed at the school level will tend to be more productive (as measured in our model by equilibrium effort) than a centralised one in which a uniform curriculum (mission) is imposed on schools by government.

This approach is distinct from existing theoretical links between competition and productivity in the context of schools. For example, yardstick competition has been used extensively in the UK which has pioneered the use of league tables to compare school performance. Whether such competition is welfare

⁸ See Hoxby (2001).

improving in the context of schools is moot since the theoretical case for yardstick comparisons is suspect when the incentives in organisations are vague or implicit as in the case of schools (see, for example, Dewatripont *et al.* 1999). The ideas of selection and incentives are key here too.

4.4. *Evaluation*

An important theme of recent research on public service delivery is the need to spend resources on evaluating policies. Policy evaluation is a crucial part of effective public service provision where missions are too weak or not aligned and front line actors cannot be made directly accountable by the beneficiaries.

One important method of evaluation is the use of randomised interventions. This is particularly important in health and education. These can be used to study the impact of policy interventions. We illustrate this by discussing some recent studies concerning incentives to improve teacher attendance and performance.

Seva Mandir is an NGO that runs non-formal single-teacher primary education centres in tribal villages in the rural Udaipur district. They did an experiment using an impersonal method of recording absence, and then basing rewards or penalties on that data. The programme was evaluated by Duflo and Hanna (2005). At the baseline of this study in August 2003, the absence rate was 44%. Seva Mandir selected 120 schools to participate in the study. In 60 randomly selected schools, the organisation gave the teacher a camera, instructed him/her to take a picture of himself or herself and the students every day at opening time and at closing time. The cameras had a tamper-proof date and time function. Teachers received a bonus as a function of the number of valid days they actually attended. A valid day was defined as a day where the opening and closing pictures were separated by at least five hours and a minimum number of children were present in both pictures. The absence rate of teachers was cut by half in the treatment schools, dropping from an average of 36% in the comparison schools to 18% in the treatment schools. Also, interestingly, grades improved. One problem with this approach is that an impersonal monitoring makes no allowances for the circumstances of the absence.

An alternative scheme one where is someone in the institutional hierarchy (like the headmaster of a school) is given the task of keeping an eye on the teacher and penalising absences. The problem with a person doing the monitoring is that he/she may either be too lazy to monitor, or might collude with workers. A programme implemented by an NGO called ICS Africa in Kenya suggests that when headmasters implement incentives, the incentives might lose their power. ICS Africa introduced an incentive programme for pre-primary school teachers in which the headmaster was entrusted with monitoring the presence of the pre-primary school teacher. At the end of the term, a prize (a bicycle) was offered to teachers with a good attendance record. If the teacher did not have a good attendance record, the money would remain with the school, and could be used on whatever the headmaster and the school committee preferred. Kremer and Chen (2001) report on the results of this experiment. In all treatment schools, the headmasters marked the preschool teachers present a sufficient number of times for the teacher to receive the prize (and they therefore all received it). However, when the research team independently verified absence through unannounced visits in both treatment and comparison schools, they found that the absence rate was actually exactly at the same high level in treatment and in comparison schools. Either to avoid the unpleasantness of a personal confrontation, or out of compassion for the preschool teachers, headmasters had apparently cheated to make sure that preschool teachers could get the prize.

This finding points to a more general problem in evaluation. It fails if the evaluator does not have a strong interest in revealing failure. Even where the needed conflict of interests does exist it is hard to keep it intact over long periods. While prominent examples in the business world show that this is a general phenomenon, organisations working in public service delivery are especially prone to failure. Among these organisations, it is the international development agencies who have and will have the hardest time evaluating their own actions. The distance (in cultural, geographical terms as well as in terms of degrees of separation) between donors and beneficiaries is so long that direct feedback is almost impossible. It is therefore not surprising that

negative evaluations of a development project are rare and may not be made public.

5. Concluding Comments

Any agenda for effective public service provision has to be adequately financed. This depends crucially on the institutional structure as well as technological issues. Unless provision is based on effective delivery mechanisms, resources will be wasted.

Sometimes the vocabulary of public service reform focuses too narrowly on issues of corruption. While this is a very real problem in many areas of public service delivery, and the main problem in some, it is essential to realize that combatting corruption is no panacea. Many important issues of service delivery still remain in a world where corruption has been expunged.

An important lesson of project failures in Africa and elsewhere is that one has to pay close attention to the existing informal institutions before one starts to think about implementing new ones. Each region has its own system of enforcement mechanisms and unwritten rules that can hinder or further public service provision.

Effective service delivery must be tailored to the circumstances of the location. This requires a good evidence base and sound economic reasoning. The best way to make effective policy is to make sure that policy is evidence based and learns from experience elsewhere as well as working to expand the evidence base for Africa. Equally, it is important to connect this to our wider understanding of the principles of good policy-making in this area.

Acknowledgements

We are grateful to Hannes Mueller for excellent research assistance.

Funding

We thank the E.S.R.C. for financial support under grant RES-000-23-0717.

References

- Alesina, A. and G. Tabellini (2004) Bureaucrats or Politicians?, NBER Working Paper 10241.
- Bardhan, P. (2002) 'Decentralization of Governance and Development', *Journal of Economic Perspectives*, 16 (4): 185–205.
- Besley, T. and J. McLaren (1993) 'Taxes and Bribery: The Role of Wage Incentives', *Economic Journal*, 103 (1): 119–41.
- Besley, T. and M. Ghatak (2001) 'Government Versus Private Ownership of Public Goods', *Quarterly Journal of Economics*, 116 (4): 1343–72.
- Besley, T. and S. Coate (2003) 'Elected versus Appointed Regulators', *Journal of the European Economics Association*, 1 (5), 1176–206.
- Besley, T. and M. Ghatak (2005) 'Competition and Incentives with Motivated Agents', *American Economic Review*, 95 (3): 616–36.
- Besley, T. and M. Ghatak (2006) 'Public Goods and Economic Development', in A.V. Banerjee, R. Benabou and D. Mookherjee (eds), *Understanding Poverty* Oxford: Oxford University Press.
- Besley, T., R. Pande, L. Rahman and V. Rao (2004a) 'The Politics of Public Good Provision: Evidence from Indian Local Governments', *Journal of the European Economics Association*, 2 (2–3): 416–26.
- Besley, T., R. Pande, L. Rahman and V. Rao (2004b) 'Decentralization in India: A Survey of South Indian Panchayats', mimeo, LSE.
- Besley, T., R. Pande and V. Rao (2005) 'Participatory Democracy in Action: Survey Evidence from India', *Journal of the European Economics Association*, 3 (2–3): 648–57.
- Besley, T., T. Persson and D. Sturm (2005) 'Political Competition and Economic Performance: Theory and Evidence from the United States', NBER Working Paper No. 11484.
- Besley, T. and A. Prat (2006) 'Handcuffs for the Grabbing Hand? Media Capture and Government Accountability', *American Economic Review*, 96 (3): 720–36.
- Caselli, F. and M. Morelli (2004) 'Bad Politicians', *Journal of Public Economics*, 71 (3): 829–53.

- Chattopadhyay, R. and E. Duflo (2004) 'Women as Policy Makers: Evidence from a India-Wide Randomized Policy Experiment', *Econometrica*, 72 (5): 1409–43.
- Dewatripont, M., I. Jewitt and J. Tirole (1999) 'The Economics of Career Concerns, Part II: Application to Missions and Accountability of Government Agencies', *Review of Economic Studies*, 66 (1): Special Issue, 199–217.
- Dixit, A. (2002) 'Incentives and Organisations in the Public Sector: An Interpretive Review', *Journal of Human Resources*, 37 (4): 696–727.
- Duflo, E. (2001) 'Schooling and Labor Market Consequences of School Construction in Indonesia: Evidence from an Unusual Policy Experiment', *American Economic Review* 91 (4): 795–813.
- Duflo, E. and R. Hanna (2005) 'Monitoring Works: Getting Teachers to Come to School', NBER Working Paper No. 11880.
- Easterly, W. (2001) 'Can Institutions Resolve Ethnic Conflict?' *Economic Development and Cultural Change*, 49 (4): 687–706.
- Easterly, W. and R. Levine (1997) 'Africa's Growth Tragedy: Policies and Ethnic Divisions', *Quarterly Journal of Economics*, MIT Press, November, 112 (4), 1203–50.
- Fehr, E. and A. Falk (2002) 'Psychological Foundations of Incentives', *European Economic Review*, 24 (2–3): 687–24.
- Francois, P. (2000) 'Public Service Motivation as an Argument for Government Provision', *Journal of Public Economics*, 78, 275–99.
- Glaeser, E. and A. Shleifer (2001) 'Not-for-Profit Entrepreneurs', *Journal of Public Economics*, 81 (1): 99–115.
- Gugerty, M.K. and E. Miguel (2005) 'Ethnic Diversity, Social Sanctions, and Public Goods in Kenya', *Journal of Public Economics*, 89 (11–12): 2325–68.
- Hart, O., A. Shleifer and R. Vishny (1997) 'The Proper Scope of Government: Theory and an Application to Prisons', *Quarterly Journal of Economics*, 112 (4): 1119–58.
- Holmstrom, B. (1999) 'Managerial Incentive Problems: a Dynamic Perspective' *Review of Economic Studies*, 66, 169–82.
- Holmstrm, B. and P. Milgrom (1991) 'Multi-Task Principal-Agent Analysis: Incentive Contracts, Asset Ownership, and Job

- Design', *Journal of Law, Economics and Organization*, 7 (Special Issue): 24–52.
- Hoxby, C.M. (2001) 'Rising Tide', *Education Next*, Winter.
- Kremer, M. and D. Chen (2001) 'An Interim Report on a Teacher Attendance Incentive Program in Kenya', Mimeo, Harvard University.
- LeGrand, J. (2003) *Motivation, Agency, and Public Policy: Of Knights and Knaves, Pawns and Queens*, Oxford: Oxford University Press.
- Maskin, E. and J. Tirole (2004) 'The Politician and the Judge: Accountability in Government', *American Economic Review*, 94 (4): 1034–54.
- Miller, J.L. (2002) 'The Board as Monitor of Organizational Activity: The Applicability of Agency Theory to Non-profit Boards', *Non-profit Management and Leadership*, 12 (4): 429–50.
- Nagin, D.S., J. Rebitzer, S. Sanders and L. Taylor (2002) 'Monitoring, Motivation, and Management: The Determinants of Opportunistic Behavior in a Field Experiment', *American Economic Review*, 92 (4): 850–73.
- Olken, B. (2005) Monitoring Corruption: Evidence from a Field Experiment in Indonesia, NBER Working Paper No 11753.
- Pande, R. (2003) 'Can Mandated Political Representation Provide Disadvantages Minorities Policy Influence? Theory and Evidence from India', *American Economic Review*, 93 (4): 1132–51.
- Persson, T., G. Roland and G. Tabellini. (1997) 'Separation of powers and political accountability', *Quarterly Journal of Economics*, 112, 1163–1202.
- Reinikka, R. and J. Svensson (2004) 'Local Capture: Evidence from a Central Government Transfer Program in Uganda', *The Quarterly Journal of Economics*, 119 (2): 679–705.
- Reinikka, R. and J. Svensson (2005) 'Fighting Corruption to Improve Schooling: Evidence from a Newspaper Campaign in Uganda', *Journal of the European Economic Association*, 3 (2–3): 259–67.
- Sheehan, R. (1996) 'Mission Accomplishment as Philanthropic Effectiveness: Key Findings from the Excellence in Philanthropy Project', *Non-profit and Voluntary Sector Quarterly*, 25 (1): 110–23.

Treisman, D. (2002) Decentralization and the Quality of Government available at <http://www.polisci.ucla.edu/faculty/treisman/DecandGovt.pdf>

United Nations Development Program. (1993) *Human Development Report*. New York: Oxford University Press.

Wilson, J. Q. (1989) *Bureaucracy: What Government Agencies Do and Why They Do It*, New York: Basic Books.