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## **Rethinking the Provision of Public Services in Post-Conflict States**

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## **Introduction**

The provision of basic social services is inherently difficult. Considerations of equity demand that a minimum provision be available to all citizens regardless of ability to pay. But if provision is through non-market mechanisms how are resources to be allocated and what are the incentives for effort? There is no universally ideal organizational solution to these problems and approaches differ considerably between countries.

African governments inherited a common model of public service provision from colonial times. That model was rooted in how British and French governments were themselves providing public services during the 1950s. For the following half-century African governments struggled to make this model work. In many of them, and most particularly in those with the social stresses associated with being post-conflict, that model has proved to be inappropriate. It is high time to try delivery systems which are better suited to the local context.

## **The Inherited Model**

The 1950s European model was for a government ministry to take responsibility for an entire service, such as health or education. Such ministries combined the potentially distinct functions of planning, resource allocation, on-the-ground service delivery, and evaluation. Further, they held a national monopoly over the provision of the service.

African governments tended to assume that this was the appropriate way for a developed society to deliver public services, so that it was the system to which they should aspire. In fact, in many respects this organizational approach was not an encompassing model for a developed society, but was rooted in its highly unusual time, namely the aftermath of the Second World War. One legacy of the war was a belief in planning. In wartime Britain national planning had been successful and it was now applied to the problem of service delivery. Delivering social services through centralized planning requires information: the war had taught the civil service how to gather and marshal it for military objectives and initially this worked well for service provision. Another legacy of the war was a strong sense of nationhood and public-spiritedness. This spirit resolved the problem of motivating public sector workers: they had internalized the norms of serving the society and so did not need either close monitoring or large financial incentives. The combination of information-guided central planning and a motivated workforce was highly cost-effective.

In ideal conditions the European model of the 1950s is by far the most cost-effective system. Both post-war Britain and modern Scandinavia met these conditions. Scandinavia combines a self-motivated public sector workforce with a comprehensive system of centralized social information. But these advantages are underpinned by an unusually homogenous population with a strong sense of national identity and a belief in social equity. In Britain, neither aspect of the

system proved to be sustainable. Gradually, the helpful norms of public sector workers eroded. For example, after three decades British nurses abandoned their policy of not threatening to strike. As service delivery became more complex, it became more information-intensive and so less much more demanding for the command-and-control approach that had worked well for military objectives. As conditions became less suited to the 1950s model it became unwieldy. Ministries grew far beyond the size originally envisaged: for example, the National Health Service became the largest employer in Europe. In response, reliance upon self-motivation through internalized norms has gradually been replaced through ad hoc reforms by increasingly detailed targets combined with high levels of pay. The system of central planning has been partially replaced by resource allocation that is guided by simulated 'internal' markets.

### **Why the Inherited Model is often unsuited to Fragile States**

Fragile states are far removed from the conditions in which the 1950s European model works well. Public sector employees have long ceased to internalize the norms of public-spiritedness. Further, social information is neither detailed nor up-to-date. Unfortunately, in the absence of these conditions the model works extremely badly. Most workers are not self-motivated to serve the public interest but the system lacks the means either to rebuild the norms of public service, or to motivate workers with financial incentives.

### ***Prevailing norms of public service***

In the fragile states the prevailing norms of public sector workers are radically different from those in Scandinavia. People are more heterogeneous and conflicted and so have a weaker sense of the national public interest. Shirking, as instanced by high rates of absenteeism, is common, as is minor corruption. Often the collapse in the norm of public service was due to the erosion in salaries. If public sector workers are not paid enough to live then they have no choice but to abuse their positions for personal gain. However, once the new norms of self-interest become established they become very difficult to change: the new pattern of behaviour is an equilibrium in which the conduct of each worker is rational given the expected conduct of other workers. Prevailing dysfunctional norms are thereby collectively self-reinforcing. For example, many public service jobs depend upon teams so that the return to individual effort depends upon that of others. Individually each worker is locked into prevailing norms unless there is a credible reason to believe that the norms of other workers have changed. Large and coordinated changes in norms of work among staff are very difficult for management to achieve. Simply reversing the salary decline is unlikely to restore the norms of public service. The more likely outcome is that what was a badly performing but low-cost delivery system is replaced by a badly performing but more expensive delivery system.

Dysfunctional norms are passed on between generations of public sector workers. By its nature public service tends to attract young people with a degree of idealism. For example, survey evidence from Ethiopia shows that newly trained nurses enter the profession with a strong sense

of public spiritedness. However, once placed into clinics where the prevailing norm is self-interest over the next three years their initial public-spiritedness is replaced by the dysfunctional norms of their elders. Hence, the current model of service delivery is repeatedly destroying the asset of self-motivation in the young workforce.

### ***Limited Alternatives to Self-Motivation***

Even if workers have not internalized the norms of the organization, it may nevertheless be possible to motivate them to good performance by means of financial incentives. However, the 1950s European model is ill-suited to this approach. Being within the civil service, the range of financial rewards and penalties that can be deployed is extremely limited. Virtually everywhere civil servants have very strong job security so that the threat of dismissal is not credible. Demotion is very rare and constrained by cumbersome systems of appeal. Hence, the only scope for incentives is through rewards. Even here the civil service is heavily constrained by the need for perceived equity among staff and pay scales that are tied to seniority, age, and rank. In post-conflict conditions these generic problems of discretionary rewards and penalties for civil servants are further complicated by the history of conflict. In the contest for control of the state, public sector employment comes to be regarded not merely as an input into service delivery, but as a valued prize in itself. This leaves a legacy of pervasive suspicions that discretionary rewards reflect patronage and favour rather than performance. The post-conflict imperative of achieving perceived equity in public employment between rival political factions may make performance-related incentives infeasible.

Even where incentives are politically feasible, they can only be effective to the extent that they can be linked to observable aspects of performance. Yet in post-conflict conditions the information needed to assess performance on public service delivery is simply not being generated. This is partly due to the larger problems endemic to post-conflict situations such as broken local administrations. But it is also itself an instance of the incentive problem: if prevailing performance is generally poor, civil servants have an incentive not to collect timely evidence by which it could be measured. Yet the same information that would be needed to measure performance would also be needed for overall resource allocation through central planning to be effective. Starved of information, central planning is blind and an easy prey to crude political pressures.

### ***The consequence for service delivery***

The result is that the same system which in Scandinavia produces the best and most cost-effective social services on earth, in African post-conflict conditions produces the worst. Workers are motivated neither by internalized norms of public service, nor by financial incentives. Central planning without information inevitably grossly misallocates resources. As a result services are inevitably very bad.

Faced with a delivery system that is manifestly dysfunctional, donors starve it of finance. This produces the very bad, but very inexpensive systems that prevail in the public sector in fragile states. Without question, adequate social provision will require substantially more international funding than has been provided to date. However, the root of the problem is not the lack of funding, but the lack of a delivery system that could productively use enhanced funding.

### **Donor bypass of the state**

Faced with the overwhelming case for responding to social needs, donors have usually resorted to bypassing the state, channelling finance through NGOs and the UN agencies. This has advantages and disadvantages.

#### ***Advantages of non-government provision***

Unlike government provision, non-government provision is not a uniform model and there is considerable variation. Two different approaches can both achieve good organizational performance. One approach, typified by mission-run hospitals and schools, achieves good performance by maintaining a high level of organizational commitment on the part of its workers. Given the high intrinsic satisfaction from activities such as healing the sick and teaching children, and the highly visible needs in post-conflict societies, it is possible to create islands of self-motivation even where in the public sector norms of service have collapsed. The other approach, typified by some for-profit organizations, achieves good performance by solving the difficult problem of linking financial incentives to observable performance. In many aspects of service delivery individual performance is not readily observable and so effective monitoring is difficult. The two approaches are not easily combined and so tend to be alternatives. Norms of self-motivation, or working for the common good, thrive on trust and equity among staff. In contrast, the essence of addressing motivation by means of financial incentives is that trust is replaced by monitoring, and equity is replaced by income differences based on differential performance. Field evidence suggests that where strong financial incentives are introduced into service delivery organizations norms of service and worker cohesion are undermined.

According to the type of service, the local context, and the personal characteristics of managers, either approach can be more effective. However, while some non-government organizations solve the service delivery problem by one or other of the above approaches, others fail. Some rely upon trust but have unmotivated staff; others rely on financial incentives but monitor aspects of behaviour which are not sufficiently related to performance. Hence, donors cannot tell simply by observing the type of organization whether it is efficient. The implication is that by bypassing the state donors will sometimes be financing organizations that are considerably more efficient, but that there will be considerable variation.

#### ***Disadvantages of bypassing the state***

The most obvious drawback of donors bypassing the state is that, while unsustainable, it does not lead to an exit strategy. The bypass of the state does not build state capacity and may further undermine it. Yet it is acknowledged that the complete bypass cannot itself be the long-term solution to service delivery. If the state is not involved in providing basic services to citizens it will be very difficult for it to establish a claim to legitimacy in the eyes of its citizens.

The total bypass has a further serious drawback which donors are less willing to recognize: the lack of coordination and continuity. The services funded by donors are usually localized and often specific to a particular aspect of service delivery. Given this approach there is no systematic scope for a nation-wide and sector-wide approach to resource allocation. Donor financing of any particular service provider is likely to be temporary. Field staff are typically rotated every three years and the priorities of individual donors change as ministers change. Given the natural human inclination to make a difference, this is a recipe for continuous turmoil.

However, the most serious drawback is the lack of accountability to the ordinary people who are the users of services. Generically, there are two mechanisms for such accountability: political and commercial. By definition, as a result of the donor bypass of the state, political accountability to users is not possible. The alternative of commercial accountability is dependent upon donor financing of service providing agencies being conditional upon their observed performance. However, other than for the most rudimentary aspects of performance, donors lack the monitoring capacity with which to hold agencies to account.

### **Public Service Authorities**

An alternative to the 1950s model of the monopoly government ministry and the total bypass of the state is to unbundle the functions that in the 1950s model are all performed by a single ministry. Some of these functions are intrinsic to the responsibilities that a state should undertake. For other functions the state can achieve its objectives better by purchasing the function from other providers. Even in the most centralized and efficient of European states this approach is now standard: for example, in France both blood-testing and ambulance services are financed publicly but provided privately.

A Public Service Authority (PSA) is a design of public service delivery which may be particularly appropriate for post-conflict conditions. It need not be merely a temporary measure: it may evolve into a permanent organization much as Independent Revenue Authorities have become permanent in many fragile states. Although all PSAs have some core features in common, they can take many different forms. For example, at one extreme a single PSA could have a national mandate for many different types of service, while at the other, each district might have several PSAs, one for each type of service. Such choices should vary country-by-country, according to local capacity. Here I focus on the core principles of a PSA rather than on such choices.

A PSA is a public agency: it is an implementing agency of government but is independent of the civil service, analogous to central banks and revenue authorities. While it is an agency of government, its board of directors can include a minority of non-government appointees. In post-conflict conditions these should include the main donor agencies and key components of civil society. The primary purpose of such representation is to provide equal and unrestricted access to information on the decisions and performance of the PSA for government, donors and civil society. As a result, a PSA is *structurally transparent*.

The government ministries responsible for service provision have representation on the board of the PSA and set policy guidelines by which the PSA must operate. For example, they may set minimum standards of provision, and require the PSA to allocate resources so as to ensure geographic equity. Ministries will also continue to provide state services directly. Since in post-conflict conditions service provision is invariably inadequate, the PSA should constitute an expansion in provision not a change in the management of existing services. Over time, if the PSA-provided services proved to be better value than those directly provided by the ministries then it would be a matter for the government to decide whether to reorganize the directly provided services.

A PSA receives funds from donors and government for the purchase of services from primary providers. Since the PSA is an implementing agency of government, the money allocated to the PSA, including that from donors, appears in the government budget as an expenditure. Hence, donor funding of services through the PSA is somewhat analogous to ring-fenced budget support.

The PSA enters into contracts with primary service providing agencies but does not provide services directly. This avoids a conflict of interest and focuses the PSA exclusively on negotiating and monitoring the performance of the primary providers. These providers can be NGOs, local communities, local governments, or private for-profit organizations. Ideally, the PSA will experiment with multiple channels of provision for the same service to maximize the scope for variation in performance.

The PSA devotes most of its resources to monitoring performance and comparing it. The evidence on comparative performance is provided to the board of the PSA on a regular basis. The board uses this information to reallocate resources from less-efficient providers to more-efficient providers.

The PSA can also experiment with distributing vouchers to households rather than money to service providers. This reduces the need for monitoring of performance but introduces other problems. To take a trivial example, in health care the prescription of glucose will produce a short-term improvement in the patient without addressing the causes of the illness. Users can easily misinterpret this effect as indicating that they need repeated treatment rather than different treatment. Hence, in the absence of good ethical standards among practitioners in this instance

vouchers could be dysfunctional. More generally, the balance of whether service providers are more effectively monitored by professions or by users will vary according to type of service and local context and is best determined by experiment.

### **Why a PSA should improve service delivery**

A PSA is a design that is based on modern economic principles and the evidence from fieldwork (see Bold, Collier and Zeitlin (2009) for a discussion of how a PSA fits with theory and evidence). This does not guarantee that it is appropriate, but there are clear reasons to expect it to work considerably better than either the 1950s model or the donor bypass.

#### ***Variation, competition and selection***

A PSA builds in variation in approaches to service delivery: different providers will be attempting to solve the problem worker motivation in different ways. Since the core function of the PSA is to evaluate these different approaches it enables gradual improvement in overall efficiency. The increase in efficiency comes about through two different mechanisms.

The most obvious is through the awareness of competition acting as a disciplining device on providers. Through this mechanism, the performance of the typical service provider might be expected to improve. However, this is probably not the most important.

The more important mechanism is that resources can gradually be reallocated from inefficient providers to efficient providers. Since the variation in efficiency between different providers is likely to be considerable, simply by reallocating money between them the PSA can raise the efficiency of the average dollar spent on service provision. Note that this does not depend upon any improvement in efficiency in each organization.

#### ***Branding***

Unlike the donor bypass of the state, with a PSA donor money is routed through a state organization. A condition of for a non-government service provider receiving money from the PSA should be that the services delivered are co-branded by government. While the visibility of donor operations is reduced, that of government is increased. Ordinary citizens are able to see that the government is doing something that is beneficial.

#### ***Scaling up because of donor confidence***

By design, the PSA generates information on the performance of the organizations that it funds, and hence on its own performance. Since donors are represented on the management board of the PSA they have full access to this information. Transparency of information for donors is crucial in post-conflict conditions to enable donors to scale up financing beyond the immediate post-conflict period. During the first few years donors give governments are the benefit of the doubt, but this rapidly erodes. In its place governments need rapidly to build donor confidence. This

cannot be done either by declarations or by comprehensive improvements in governance. Declarations of good practice can be made equally well by those governments that have no intention of adhering to them and so, despite a deceptively courteous reception, cut no ice with donors. Comprehensive improvements in governance simply take too long to achieve to stave off reductions in donor funding. A PSA provides a quick institutional solution to the problem of building credibility with donors: transparency and design substitute for the lack of trust. As quantitative evidence of performance builds up, the local offices of donor agencies are in a much stronger position to press their headquarters for a larger share of the budget.

### ***Centralized resource allocation***

The PSA retains the key benefit of central planning: resource allocation can be coordinated rather than being simply the aggregation of individual donor decisions. Further, since the PSA is designed to generate information, the precondition for central planning to be effective is met. However, while overall resource allocation is centrally determined, the incentive problem is not micro-managed. The PSA does not attempt to motivate or monitor the workers who deliver services. That task is decentralized to individual service providers to solve as best they can. The PSA faces the less daunting task of monitoring the overall performance of each delivery organization.

### ***Motivating the PSA***

The Board of the PSA faces the task of motivating the staff of the PSA. Why might this be any easier than the task of motivating civil servants in the service delivery ministries? In part it is easier because, being a new organization outside the civil service the PSA can start with higher pay structures that are credibly linked to rewards and penalties. Recruits have some reason to expect that the behaviour of their colleagues will not be the same as civil service behaviour. Perhaps more importantly, the remit of the PSA is more narrowly defined than the remit of a ministry. It is not trying to do everything from policy design to on-the-ground delivery of services. It is allocating money between providers and evaluating their performance. Finally, it is subject to day-to-day scrutiny by donors and civil society who as members of the management board receive a continuous flow of information about the performance of managers.

### **How can a PSA be established?**

A PSA does not need to start with a 'big bang'. It can start small, with one or two donors cooperating with a particular government ministry to finance an expansion in the delivery of a particular service. It should be viewed as an experiment in the architecture of public service delivery. As an experiment it should be evaluated, but, by design, such evaluation is automatic. If it succeeds it can be scaled up virtually without limit. Ultimately, the government might decide that the PSA, or a series of PSAs, is the most cost-effective and politically effective way of

delivering services for the society. If it fails then it can readily be closed: donors are used to running projects which terminate. Nor is failure likely to have high costs. Unfortunately, in there is currently no successful model of large scale service delivery in post-conflict conditions, so that the opportunity cost of failure is likely to be modest.

### **Conclusion**

Post-conflict societies have been attempting to deliver basic services using an inherited colonial model that has little prospect of success in the context of their own societies. Given the acute needs of their citizens, it is high time for governments to experiment with other designs. The key desiderata are that a new system should be capable of being rapidly scaled up, while leading to something that is politically sustainable. A PSA is not as good as the 1950s model when that model is deployed in ideal conditions. However, based on theory and evidence, it is likely to be more successful than the centralized ministerial approach in the conditions that actually prevail in post-conflict societies. Given the enormous attention that post-conflict societies and other fragile states are now rightly receiving, there is a strong case for experimenting with the PSA design on a pilot basis.

### **Reference:**

Tessa Bold, Paul Collier, and Andrew Zeitlin, 2009, Public Service Authorities, Centre for the Study of African Economies, Oxford.