GOVERNANCE IN DEVELOPING ASIA
Public Service Delivery and Empowerment
Governance in Developing Asia
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Public Service Delivery and Empowerment

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* The Asian Development Bank recognizes China by the name People’s Republic of China.
Foreword

From being mired in poverty 60 years ago, developing Asia is now the world’s fastest growing and arguably most dynamic region. Many of its economies have transitioned from low income to middle income status and are trying to climb higher on the income ladder. The region has also made remarkable progress in poverty reduction. Neither the Asian financial crisis of 1997–98 nor the global financial crisis a decade later dented the region’s progress. But rapidly growing economies bring new challenges to governments, with households and businesses expecting more and better public services, greater transparency in government, and a say in public decision-making. Developing Asia’s governance performance has not been in line with its economic performance. Indeed, surveys of ADB’s stakeholders consistently show poor governance and corruption among the top five development concerns.

Despite the region’s economic achievements, two-thirds of its population still lives on less than $2 a day. Inequality is on the rise, which affects social cohesion. Public investment in human and physical capital is low, holding back countries and their citizens from realizing their full potential. In 2011, only 4.3 percent of the region’s gross domestic product was spent on education and 3.7 percent on health, compared with 5.2 percent and 7.5 percent, respectively, in advanced economies. The quality of transport, electricity supply, and water services is inadequate. This is a major concern because the region faces a massive infrastructure deficit of $750 billion a year for the 2010–20 period. Even the meager public expenditure on essential services does not fully reach target beneficiaries due to corruption, red tape, and lack of accountability of service providers.

Ensuring the sustainability of inclusive economic growth requires new catalysts of change. This book examines two critical ones: good governance and the empowerment of citizens and communities to monitor the delivery and quality of government services and provide feedback to government. The studies in this book show how poor governance and lack of citizens’ voice are very significant factors behind the generally poor quality of public services in developing Asia and inadequate access to these services by the poor. The authors recommend policies and reforms for improving governance, particularly in enabling citizens to participate
in public service delivery and making greater use of local governments in this area, tapping the private sector and nongovernment organizations to expand the scope and scale of services, and increasing the use of information and communication technology to facilitate these interventions. A key argument is that such interventions are not mutually exclusive but synergistically complement each other—and the authors make the compelling case that a single intervention alone is unlikely to be effective and that a cross-cutting approach is needed.

This work is a timely contribution to the current policy discussion on sustaining Asia’s growth momentum by sharing the benefits more equally across society, addressing the vulnerabilities of the poor and involving citizens and communities in improving governance. This book will be of great use to policymakers, frontline public service providers, and academics and students for understanding the links between good governance and service quality to enhance their impact on the poor.

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Former Chief Economist Changyong Rhee gave strategic direction and was instrumental in the design of the project from its inception. Director Joseph E. Zveglich, Jr. of the Economic Research and Regional Cooperation Department of ADB (ERCD) provided helpful guidance and unfailing support throughout the project.

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### Abbreviations

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<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
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<tr>
<td>ASEAN</td>
<td>Association of Southeast Asian Nations</td>
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<td>CPIB</td>
<td>Corrupt Practices Investigation Bureau</td>
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<tr>
<td>FDI</td>
<td>foreign direct investment</td>
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<td>GDP</td>
<td>gross domestic product</td>
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<tr>
<td>GMM</td>
<td>generalized method of moments</td>
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<tr>
<td>ICRG</td>
<td>International Country Risk Guide</td>
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<tr>
<td>ICT</td>
<td>information and communication technology</td>
</tr>
<tr>
<td>LAC</td>
<td>Latin America and the Caribbean</td>
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<tr>
<td>MENA</td>
<td>Middle East and North Africa</td>
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<tr>
<td>NGO</td>
<td>nongovernment organization</td>
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<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<tr>
<td>PNPM</td>
<td>Program Nasional Pemberdayaan Masyarakat (National Program for Community Empowerment)</td>
</tr>
<tr>
<td>PNGOC</td>
<td>Philippine NGO Council on Population, Health and Welfare</td>
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<tr>
<td>PPP</td>
<td>public–private partnerships</td>
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<tr>
<td>PRC</td>
<td>People’s Republic of China</td>
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<tr>
<td>SSA</td>
<td>sub-Saharan Africa</td>
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<tr>
<td>SMS</td>
<td>short message service</td>
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<tr>
<td>TIMSS</td>
<td>Trends in International Mathematics and Science Study</td>
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<tr>
<td>UNDP</td>
<td>United Nations Development Programme</td>
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<tr>
<td>US</td>
<td>United States</td>
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<tr>
<td>WGI</td>
<td>Worldwide Governance Indicators</td>
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<td>ZMF</td>
<td>Zero Mass Foundation</td>
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**Notes:** In this publication, “$” refers to US dollars. The Asian Development Bank recognizes China by the name People’s Republic of China and Hong Kong by the name Hong Kong, China. The book has been edited to conform to this usage.
1. Overview

Anil B. Deolalikar and Shikha Jha

1. BETTER PUBLIC SERVICE DELIVERY THROUGH GOVERNANCE AND EMPOWERMENT

Developing Asia has achieved remarkable progress in raising prosperity, reducing poverty and improving many social indicators. The most notable areas of progress have been in achieving universal primary education, promoting gender equality, reducing hunger and malnutrition, and preventing the spread of HIV/AIDS, malaria and other communicable diseases. But developing Asia lags behind other world regions in one area in particular—the provision of basic public services and in the quality of services provided. Within the region, large differences exist in the quality and quantity of the services and their access to the poor, due, among other things, to corruption in the form of extortion, bribes and theft of resources. The impacts of such practices are often hardest on the poor who struggle to make payments or simply lose out on services.

While Asian governments spend substantial sums on the provision of public services, weak institutions mean those services are not translating into improved indicators on social welfare, such as school enrollment, life expectancy, infant mortality, availability of potable water, uninterrupted power supply and all-weather roads. Institutional and policy reforms, along with empowering citizens to demand better services, can promote local processes of accountability and improve society–state interactions.

The chapters in this book assess the state of and changes in public services in developing Asia and evaluate the challenges policymakers and frontline providers face, paying particular attention to evidence and lessons and examining the role that governance and citizen empowerment can play in improving public service delivery. The focus is on these two factors because it is unlikely that, given the budgetary challenges facing most governments in developing Asia, public service delivery will be improved through a major increase in spending, at least in the foreseeable
future. But better governance and citizen empowerment can increase the effectiveness of current public expenditure on essential services.

### 2. DEFINING THE ISSUES: GOVERNANCE, PUBLIC SERVICES AND EMPOWERMENT

#### 2.1 Governance

The notion of governance is closely related to the concept of institutions, which brings together the state, citizens and other players. The Nobel prize-winning economist Douglass North (1991) discusses formal and informal institutions. Formal institutions refer to the state and include constitutions, statutes and explicit government rules and regulations. Informal institutions include practices and unwritten rules, such as traditions, norms and codes of behavior, and other social mechanisms based on interpersonal ties and relations.

Acemoglu and Robinson (2012), on the other hand, make a distinction between political and economic institutions. Political institutions relate to citizens’ participation in the process of political decision making and their ability to control and influence politicians’ behavior. Economic institutions relate to protection of private property rights and citizens’ access to market opportunities. Good governance helps create enabling institutional environments and processes through which the government, private sector and civil society interact to determine the impacts of economic policies. Francis Fukuyama (2013) defines governance as “a government’s ability to make and enforce rules, and to deliver services, regardless of whether that government is democratic or not.”

Governance has three main characteristics. First, it spans government, the private sector and civil society (and is therefore distinct from government alone). Second, it is a process—not a product—since it encompasses decisions that are made based on complex relationships between many actors with different goals, interests and priorities. And third, governance is a multidimensional concept, which includes graft, rule of law, government effectiveness, voice and accountability, political instability and violence and the regulatory burden (Kaufmann et al. 1999). Other widely used indicators of governance include property rights and rule-based governance, as well as the quality of budgetary and financial management, including budgetary expenditures and the efficiency of revenue mobilization.

The current orthodoxy in the development community is that democracy and good governance are mutually supportive. However, this is often
more of a hypothesis than an empirically established fact, and it is inap-
propriate to define governance in terms of the existence of democracy or to
define democracy as tantamount to good governance (Fukuyama 2013).

Public services are often the face of governance in a country, because
public service delivery is the main channel of contact that most people
have with their government and bureaucracy—sometimes the only one.
Reflecting developing Asia’s governance problems, the gaps in the state of
its public services are glaringly evident when compared to public service
delivery in advanced economies. This brings us to the notion of public
services.

2.2 Public Services

Public services are essential services provided to citizens by their govern-
ments. This is done either directly through the public sector (that is, via
public providers) or by nongovernment organizations (NGOs) receiving
a subsidy from the government for service provision. These days, public
services are so basic and essential to day-to-day life that they are considered
fundamental human rights (such as the right to safe drinking water), and
the state is expected to guarantee their universal provision to all citizens
irrespective of income.

Public services can be grouped into three broad categories: (i) essential
utility or infrastructural services, such as the provision of electricity, gas,
water, sanitation, telecommunication and maintenance of roads; (ii) social
services such as health care, schooling, public housing and social welfare
programs (for example, social security and poverty alleviation); and (iii)
regulatory services, such as land registry systems for formalizing property
rights and land titles, issuance of licenses and permits, establishment of
safety and environmental standards and codification and enforcement
of law. In developing countries, a number of public services, including
agricultural extension services for farmers, family planning programs,
and supplemental income assistance schemes, are deemed necessary
to achieve national development objectives (economic growth, income
redistribution, poverty alleviation and population stabilization). In most
cases, public services do not involve manufacturing of goods; and local
or national monopolies may provide them, especially in sectors that are
natural monopolies such as electricity generation.

Typically, though not necessarily, public services are also public goods
in the sense of being non-excludable, non-rival and with positive externali-
ties. Private providers will therefore tend to “free ride” on the provision
of others, resulting in suboptimal provision of public goods. This market
failure is the traditional argument for intervention. The state is needed to
provide the socially optimal level by equating marginal social benefit with marginal social cost. Public services are particularly important for the poor and for reducing inequality. Unlike the better-off, the poor often cannot afford to replace deficient public goods with the costlier alternatives the private sector provides. A public distribution system aimed at fulfilling the needs of poor sections of society through the provision of such essential services as food, health and medical attention can bring livelihood essentials within easy reach of people whose lives may remain otherwise largely untouched by economic growth.

As noted earlier, for most people in a country, governance expresses itself in the form of public service delivery, as public services are the main—if not the only—form of contact that individuals have with their government and bureaucracy. As a result, people judge the quality of governance by their experience in receiving essential public services. They infer, quite correctly, that their country is poorly governed if they cannot access basic services, if public services are of poor quality and if they have to resort to paying bribes to access services they are entitled to. In particular, citizens may not view the state as a single monolithic actor, but rather as a set of multiple actors disaggregated by the level of administration. For example, respondents to a household survey in the People’s Republic of China (Saich 2012) expressed greatest satisfaction with the performance of the central government and least satisfaction with the performance of their local government.

In that survey, over 90 percent of respondents were either relatively or extremely satisfied with the central government, but the share decreased to just over 60 percent at the local level. Since local governments in the People’s Republic of China provide almost all public services, the stark difference in satisfaction is likely to be driven by the poor quality of public service delivery (Saich 2012). In the survey, respondents commonly mentioned corruption (40 percent) and lack of competence of local officials (30 percent) as the perceived reasons driving poor governance and service delivery.

As countries get richer and their standards of living improve, citizens demand a greater say—or voice—in determining the quality of public services. For example, data from the Life in Transition Survey II data (European Bank for Reconstruction and Development 2011) show that 36 percent of respondents in Georgia were satisfied with civil courts, in contrast with only 5 percent in the Kyrgyz Republic, which has a lower per capita gross domestic product (GDP). Likewise, a larger percentage of survey respondents in better-off economies in developing Asia such as Armenia and Kazakhstan were more satisfied with primary, secondary and
vocational education. Respondents in less-affluent Kyrgyz Republic and Tajikistan, however, were more responsive regarding unemployment and social security benefits, elements of public services that matter more to them as they affect their day-to-day survival (Asian Development Bank 2013).

2.3 Empowerment

Empowerment is defined as “the process of enhancing an individual’s or group’s capacity to make purposive choices and to transform those choices into desired actions and outcomes” (Alsop et al. 2006, 1). Effective empowerment requires establishing spaces for citizens’ participation through legal rights, governance frameworks and institutional arrangements. It also requires capacity building and adequate resources dedicated to establishing citizen feedback and accountability mechanisms.

On some occasions, power can be claimed and seized by citizens or grassroots groups from the bottom up. But this is contingent upon a specific constellation of circumstances, which tends to involve shared grievances, successful citizen mobilization and civil society alliances with progressive politicians. But in other cases, citizens and communities can be empowered top-down by the governing authority. Since empowerment can be facilitated from within civil society or from outside, its definition as a process must be broad enough to include acquiring power in general (by whatever means).

3. CONCEPTUAL FRAMEWORK

The efficient provision of public goods, including public services, is a challenge in many countries. To conceptualize the different challenges, it is useful to depart from the framework of the World Bank’s World Development Report 2004, which was among the first major efforts to address the problem of public service delivery. The report traces the various channels through which public goods were determined and provided: citizen-clients voice their preferences about different public goods to the state. The state then aggregates these preferences and contracts providers to offer the services to citizen-clients, who also have the possibility to influence the quality of services provided by directly exercising client power.

Each of these stages, however, can be subject to substantial frictions (Xu 2013). The first type of friction occurs because citizens rarely have a single voice. This gives rise to public-choice problems, where heterogeneous groups (nonpoor and poor, for example) compete to make their different
interests heard by policymakers. The problem is particularly severe in developing countries with high fractionalization along dimensions such as ethnicity, religion or culture. The second type of friction in the smooth provision of public services, as envisaged by the *World Development Report 2004*, arises even in the absence of the public-choice problem when the state does not translate the voiced preferences of citizen-clients into corresponding public policies. Finally, the interests of contracted providers may differ significantly from those of clients and the state so that even when pro-poor policies are chosen, imperfect compliance with the targeting rule and corruption by the providers may reduce the effectiveness of the policies.

How does empowerment improve service delivery within this framework? Empowerment gives individual clients—the consumers and “demanders” of public services—and the communities in which they reside the right to demand better public services. It enables citizens and communities to hold the state accountable for improvements in governance that may lead to the delivery of quality public services. Citizen-clients can also influence the quality of public services provided by directly exercising client power on service providers, who may be public entities (for example, a primary health center or a municipal office in charge of issuing drivers’ licenses) or nonpublic entities (for example, an NGO-run school or a privately run utility). Empowerment can occur through many different mechanisms:

- Rights-based entitlements, whereby the state offers citizens the right to information as well as the right to specific social services and basic necessities (such as food, employment, health and education).
- Participatory performance monitoring, whereby citizens and communities monitor and evaluate the implementation and performance of public services, often according to indicators they themselves have selected, and then demand better performance from service providers.
- Community participation and community-driven development, whereby groups of users of services or entire communities participate in the delivery of services, thereby controlling directly the quantity and quality of services provided.
- Decentralization, whereby the central government devolves many of its revenue and expenditure decisions, including service provision decisions, to local governments that are closer to citizen-clients and likely to be more responsive to their concerns.
- Public–private partnerships, in which the public sector contracts with private parties (including NGOs) to provide public services. Public–private partnerships typically empower consumers, as
private providers bear more demand risk—and are therefore more vulnerable to sanctions from consumers—than public providers. They therefore have a stronger incentive to respond to consumer needs and concerns.

An important caveat is that empowerment is not a panacea for poor service delivery. Indeed, no amount of citizen or community empowerment can result in improved delivery of public services if there are no changes in governance; that is to say, in the manner in which the states finance, allocate and deliver services.

In the last decade or two, the spread of information and communication technology (ICT) has had a profound effect on governance, empowerment and service delivery. One way that ICT can facilitate citizen and community empowerment is by permitting easy public access to information on the performance of service providers, enabling citizens, communities and local governments to better monitor the service providers. ICT can also reduce the scope for graft and corruption by cutting out middlemen, streamlining procedures and increasing delivery efficiencies. By providing information on government budget allocations and service provider workloads, ICT can also make the functioning of government and service providers more transparent, improving governance in general.

4. STRUCTURE OF THE BOOK

The book is organized in three parts. Part I discusses the complex relationship between governance and economic development. Part II focuses on the delivery of public services as the face of governance, and Part III discusses the role of empowerment in improving the delivery of public services.

Part I consists of four chapters. In Chapter 2, M.G. Quibria discusses governance concepts, measurements and paradoxes in developing Asia. Recent years have seen the emergence of a considerable body of literature on governance and its role in economic and social development. Quibria provides an important review of this literature, focusing on some salient issues that include concepts, measurements, data and determinants of governance, as well as empirical findings on the growth–governance nexus. His review sheds light on a governance paradox in Asia: the general disconnect between growth and governance in most economies. This suggests that much of the policy discussion on governance is essentially based on faith and preconceptions, rather than on concrete evidence. And this, in turn, calls into question both the quality of the existing data and the analytical basis of the current policy orthodoxy.
Chapter 3 discusses whether countries with above-average governance grow faster than countries with below-average governance. Xuehui Han, Haider Khan and Juzhong Zhuang address this question empirically, using the World Bank’s Worldwide Governance Indicators to measure governance performance and examine whether countries with a “surplus” of governance grow faster than countries with a governance “deficit.” To answer this question, the authors do a cross-country analysis over 1998–2011. Governance is defined in several dimensions, including government effectiveness, political stability, control of corruption and regulatory quality, voice and accountability and rule of law. The authors find that government effectiveness, political stability, control of corruption and regulatory quality all have a more significant positive impact on country growth performance than voice and accountability and rule of law. Developing Asian countries with a surplus in government effectiveness, regulatory quality and control of corruption are observed to grow faster—by 1.5–2.0 percentage points annually—than those with a deficit in these indicators. Middle East and North African countries with a surplus in political stability, government effectiveness and control of corruption are observed to grow faster than those with a deficit in these indicators by 1.5–2.5 percentage points annually. Good governance is associated with both a higher level of per capita GDP as well as higher rates of GDP growth over time. This suggests that good governance, while important in itself, can also help improve a country’s economic prospects—subject, of course, to the caveat that the statistical analysis points to correlations, not necessarily causality.

Kunal Sen, in Chapter 4, further explores the complex relationship between governance and economic development. He looks beyond the impact of better governance on per capita GDP and GDP growth by extending the analysis to understanding the association between governance and social indicators, such as literacy and health. Sen uses disaggregated measures of governance to allow for the possibility that different dimensions of governance, such as administrative capacity, legal infrastructure and state accountability, can affect different development indicators differently. He finds a clear role for governance in affecting most development outcomes. This is particularly evident for state administrative capacity and legal infrastructure, though less evident for state accountability. The empirical analysis suggests that the relationship between governance and development indicators is generally weaker for Asian countries than for other world regions. It also finds that the key mechanisms by which governance affects development are through increasing the mobilization of domestic resources and increasing the effectiveness by which they are spent on social sectors. This suggests that improvements in governance
and strengthening the mechanisms by which governance affects social
development can deliver clear gains in development outcomes in the
region. Currently, however, governance quality is lower in Asia than any
other region of the world except for sub-Saharan Africa.

The final chapter in Part I, by Shikha Jha and Pilipinas Quising, exam-
ines the endemic problem of corruption, which has plagued governments
and countries throughout history. Its prevalence across much of develop-
ing Asia is now an accepted reality. Corruption takes various forms, such
as bribes to government officials, embezzlement of state funds, use of sub-
standard material in public construction projects, diversion of supplies,
absenteeism of public-service providers, and ghost beneficiaries of public
assistance funds. Corruption lowers the quality of public services, reduces
the effectiveness of public policies and often accounts for a significant pro-
portion of economic activity. It was once a taboo subject in development
circles, but the last decade has seen a seminal shift toward a more active
anticorruption stance among international donors and governments. Jha
and Quising summarize the potential causes and detrimental effects of cor-
ruption in different country contexts, investigate whether research-based
solutions and policy recommendations to fight corruption really work and
discuss the relevance and success of alternative anticorruption measures
in Asia.

Part II opens the discussion of public services as the face of governance.
As noted earlier, for most citizens, public services are often the major—
sometimes only—point of contact with the government. For these indi-
viduals, poor public service delivery is synonymous with poor governance.
Anil Deolalikar and Shikha Jha, in Chapter 6, argue that although devel-
oping Asia has made great strides in increasing prosperity and improving
social indicators over the last quarter-century, public service delivery has
lagged behind economic growth. They point to three main problems in
public service delivery in the region. First, countries vary considerably in
the provision of public services, with South Asia generally falling behind
East and Southeast Asia. Second, there are large disparities in the provi-
sion of services within countries, with the poor and disadvantaged having
significantly worse access to public services. And third, although even
the poorest parts of Asia have made great progress in expanding access
to public services, the quality of public services in these regions remains
inadequate.

In Chapter 7, Joseph Capuno looks at how public–private service deliv-
ery arrangements and incentive schemes can address the problem of inade-
quate access to and poor quality of public services. In recent years, public
agencies are becoming less and less the exclusive providers of goods and
services that were once traditionally assigned to the state. Instead, state
Governance in developing Asia

agencies, at both the national and local levels, and private organizations, both for-profit firms and NGOs, increasingly coordinate, collaborate or partner with each other to finance, produce or provide public services. Using case studies of public–private partnerships from developing Asia, Capuno identifies the factors that account for the successes or failures of these delivery arrangements, focusing on the role of monetary and non-monetary incentives. It finds that they are a viable service delivery mechanism if there is a state or market failure. But to make such an arrangement work it is important to mobilize potential private-sector partners, match the partner’s mission with the appropriate type or level of service provision, and then motivate them with the right incentives, while monitoring them closely for performance. Although most governments seem to have taken these lessons on board when working with for-profit firms, this is less the case when dealing with NGOs in public service delivery.

In Chapter 8, Giorgio Brosio addresses another mechanism that is used to improve public service delivery—decentralization. This can contribute to improvements in public service delivery, though the appropriate political and fiscal institutions have to be in place for this to work. Brosio presents the most important characteristics of decentralized government in Asia, and then analyzes partial decentralization, which he argues is the most common form in many countries. Brosio pays special attention to the challenges in decentralizing public services, and concentrates on the political and fiscal institutions needed for it to have its desired impact. The chapter concludes with a discussion of the specific case of decentralization in education in developing Asia, a sector vitally important to economic growth, but one in which the outcomes of decentralization are difficult to assess.

In Chapter 9, Menno Pradhan and Joppe de Ree examine a specific form of decentralization being used to improve student learning in Indonesia. Because the responsibility to deliver primary education is now decentralized to district governments, teacher management policies vary significantly across districts. Using administrative and survey data, Pradhan and de Ree test the importance of teacher management policies on student learning outcomes in primary schools. Their empirical results suggest that schools with more active teacher working groups and more qualified teachers tend to achieve better learning gains. However, teacher management policies, such as school budget management, participation rates of teachers in teacher working groups and student–teacher ratios account for only a small fraction of the observed differences in student learning outcomes across districts. This suggests that unobserved factors, including the “quality” and implementation of teacher-management practices, matter a great deal in determining student achievement.
Part III takes up the special case of empowerment, which can be both an enabler and a manifestation of good governance and which can help improve public service delivery. As noted earlier, empowered individuals and communities are more likely to be aware of—and exercise—their rights to better public services. They are more likely to hold the state accountable for the delivery of these services. They can also improve the quality of public services by directly exercising client power on the public service providers.

Babken Babajanian, in Chapter 10, discusses how citizen empowerment can help improve the delivery of public services. He examines how different approaches for promoting empowerment affect people’s ability to influence service delivery and identifies the conditions required for effective empowerment. Here, he focuses on three empowerment models: grievance redress, participatory performance monitoring and community-driven development. Evidence suggests that all three models can enhance people’s capacity to engage with service providers and government agencies, articulate their needs and demand better service quality and accountability. Yet these models are based on distinct institutional arrangements that account for the variation in their empowerment and service delivery outcomes. Citizen empowerment in service delivery enhances people’s ability and willingness to participate and express their voice. It also requires the commitment of service providers and government agencies to fair and effective redress. To address these conditions, policymakers should ensure careful design and effective outreach as well as support broader policies to provide space for citizen participation, enforce the rule of law and remove barriers to inclusive access.

Chapter 11 presents an interesting case study of empowerment in India, pursued primarily through a rights-based entitlement approach. Yamini Aiyar and Michael Walton argue that public sector service delivery in India is notoriously problematic in terms of coverage, quality and corruption—and it is especially weak for the poor and the middle class—despite the political commitment of successive governments to inclusive development and the aspirations of the Indian Constitution. In response to this situation, there have been extensive efforts to change the relationship between citizens and the state through granting substantial rights to public services, typically backed by processes of accountability. This has, to a significant extent, been scripted by civil society movements over the past 10–15 years, although in both design and implementation, granting rights to public services has been linked to political processes and connections with parts of the bureaucracy. The authors seek to place this within a conceptual framework and evaluate early experiences, especially in implementation. They undertake a structured diagnosis of the
specific mechanisms that these rights and accompanying accountability instruments seek to influence through an analysis of how the Indian state works. They focus on understanding how the specific reform instruments promoted through a rights-based approach have been articulated and absorbed into the everyday practices of the state. Their central thesis is that although the rights-based approach and measures to institutionalize social accountability have brought some gains in India, these remain limited. And in many cases, they have led to distortions in the political and bureaucratic system rather than deeper change. The authors suggest that a fundamental shift will require more extensive administrative reforms, and that this will only occur when aligned with political processes.

Part III closes with Chapter 12, which discusses ICT, a tool used increasingly around the world to empower citizens and to improve governance generally. Its use has expanded tremendously over the last decade in delivering many types of public services in developing Asia. Subhash Bhatnagar presents several case studies of interventions that have harnessed the potential of ICT to improve governance and where the benefits of the intervention have reached a large number of the poor. ICT is being used in many ways to further economic and social development, such as enabling direct transfers of cash subsidies to the poor, electronic delivery of government services and improved registration of land records. Bhatnagar identifies the critical factors behind the success of large-scale ICT deployment, and discusses how ICT can be used to minimize the discretion government functionaries have to delay or deny services, thereby reducing opportunities for officials to extract bribes from citizens. The author also discusses ways in which ICT is being used to provide greater transparency in the operations of local and national government agencies. The chapter concludes with a recommendation to scale-up ICT initiatives, accelerate the pace of implementation of e-governance, build capacity to reform the process of service delivery and, above all, use mobile-phone-based technologies in public service delivery.

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* The Asian Development Bank recognizes China by the name People’s Republic of China.
PART I

Good Governance and Economic Development
2. Governance in developing Asia: concepts, measurements, determinants and a paradox

M.G. Quibria

1. INTRODUCTION

There is broad consensus in the development community that governance has a critical bearing on economic and social outcomes—and this is prominently reflected in the international development agenda. As well as being a Millennium Development Goal that affirms a commitment to good governance (nationally and internationally), governance is a critical determining criterion in the allocation of aid under the Millennium Challenge Account of the United States (US) government and the International Development Association resources of the World Bank. Following the lead of the World Bank, all multilateral development and financial institutions actively pursue governance reform in developing countries.

This agenda reflects the current development paradigm that views good governance as essential to economic growth, with good governance promoting a more efficient division of labor, higher productivity of investment and the efficient implementation of social and economic policies (United Nations 2005).

It has also been suggested that good governance leads to favorable social and development outcomes by alleviating poverty, eliminating illiteracy and reducing infant and maternal mortality. Thus, much of the development debacle of sub-Saharan Africa is attributed to its putative governance failures; conversely, the spectacular economic achievements of most of developing Asia—its rapid economic transformation, poverty reduction and the accompanying improvements in social indicators—are credited to its success in ensuring good governance.

However, although such generalizations are intuitively appealing, they appear to fly in the face of facts. Many high-performing Asian economies are not outstanding examples of good governance, at least not judged by traditional measures. Indeed, a good deal of the current policy discussion
on governance does not appear to be based on a systematic review of the empirical evidence.

This chapter reviews the recent economic literature on governance. Its findings suggest an Asian governance paradox—that is, a general disjunction between growth and governance in most economies—that calls into question the quality of the data as well as the analytical basis of much of the policy orthodoxy. The chapter concludes with an agenda for future governance reform in developing Asia.

2. THE MEANING OF GOVERNANCE

Governance is a complex concept with many different dimensions, and various authors highlight different aspects. For example, Dixit (2009) refers to governance as “the structure and functioning of the legal and social institutions that support economic activity and economic transactions by protecting property rights, enforcing contracts, and taking collective action to provide physical and organizational infrastructure.” This definition focuses on the legal and social institutions for the smooth functioning of a market economy, but it eschews such issues as the nature of the political regimes in which market economies are embedded and the state’s capacity for economic management to ensure efficiency of the market system.

By contrast, Fukuyama (2013) is more concerned with the state’s economic management capacity, defining governance as “a government’s ability to make and enforce rules, and to deliver services, regardless of whether that government is democratic or not.” In this definition, the nature of the political regime is not significant because, as Fukuyama argues, governance is about the bureaucracy’s performance or execution as opposed to politics or public policy. “An authoritarian regime can be well governed,” notes Fukuyama, “just as a democracy can be mal-administered.” This perspective highlights more the issue of state capacity and less the issue of political regime or the existence of an efficient legal structure in support of the market system.

Daniel Kaufmann and his collaborators at the World Bank’s Worldwide Governance Indicators (WGI) project provide a more expansive definition. According to Kaufmann et al. (1999): “Governance includes the process by which governments are selected, monitored and replaced; the capacity of the government to effectively formulate and implement sound policies; and the respect of citizens and the state for the institutions that govern economic and social interactions among them.”

This definition highlights political regime, state capacity and legal framework. As the above discussion suggests, governance is something
of a broad notion that encompasses a variety of concepts. These include social, political and legal institutions that affect the functioning of government and state capacity to address government corruption and malfeasance.

This assortment of governance concepts can be broadly divided into three main categories: political regime, state capacity for economic management and the regulation of economic activity, particularly legal frameworks. Political regime relates to political contestability and election processes, political and civil liberties, and the legitimacy of the government. From this perspective, democracy, human rights, political rights and freedom of the press are critical elements of good governance. In an environment of good governance, all policy decisions should be the outcome of a transparent, participatory and accountable decision-making process.

State capacity for economic management relates to the soundness with which the government exercises its authority in the management of social and economic resources. From this perspective, the quality of governance is reflected in the capacity of a government to design, formulate and implement appropriate policies. Sound economic management requires the support of an efficient, capable and autonomous bureaucracy. Good governance, thus conceived, results in the adoption and implementation of appropriate policies, improvement in the provision of public services and in effective economic management that helps avoid delays of execution, malfeasance and corruption.

Designing an appropriate set of policies that can successfully address a country’s development problems is easier said than done. The right policies depend not only on the specific objective of development—whether economic growth or poverty reduction or reducing inequality—but also on social, political, cultural and historical contexts. The classical view among economists, famously articulated by Adam Smith (1776), has been that good government protects property rights and keeps regulations and taxes light. In other words, good government is generally noninterventionist. However, a heterodox view that assigns a more expansive role for government has largely replaced this rather minimalist view. Nevertheless, in the 1990s, the Washington-based international financial institutions advocated a set of neoliberal policies, widely known as the Washington Consensus (Williamson 1990), that have become the subject of wide-ranging debates in the development community.

Other scholars have focused on the regulation of economic activity, particularly the legal frameworks that define, regulate and mediate the interactions between government and citizens, including the private sector and civil society. This definition highlights the separation, independence
and effectiveness of the judiciary; enforcement of contracts; securing property rights; and the rule of law. The latter means the supremacy of law, which applies equally without discrimination to all individuals and the government. Clearly, governance is a broad, amorphous concept that lacks operational precision.

3. ALTERNATIVE INDICATORS OF GOVERNANCE

If defining governance is a challenge, measuring it is even harder. Despite this, recent years have seen the emergence of an active research industry devoted to producing indicators. Indeed, the production of indicators of governance and institutions is now the preoccupation of many organizations and individuals. However, these indices are heterogeneous and tend to differ in quality and coverage—geographical as well as temporal.

Governance indicators can be divided into two broad types: fact-based, derived from objective macroeconomic data, and opinion-based, derived from subjective interpretations of experts on law and constitutions or the experiences of citizens or businesses. Governance indicators can also be divided between de facto and de jure indicators. For example, data used to construct fact-based indicators sometimes capture only formal de jure realities and do not reflect de facto realities, which are often determined by informal and unwritten conventions and practices and shape the true quality of governance in a country. For example, strict anticorruption laws or an anticorruption agency in one country does not necessarily imply lower de facto corruption in another country that does not have those laws or an anticorruption agency. And the formal creation of such an agency may not reflect how seriously a country actually prosecutes corruption. Similarly, many legal prosecutions for acts of corruption in one country do not necessarily imply a lower level of corruption compared with another.

An important distinction should be noted: fact-based governance indicators are replicable, making them more transparent than perception-based indicators. However, the former are not necessarily more objective; even fact-based indicators embody significant subjective judgment in the choice and interpretation of the facts.

Perception-based indicators, meanwhile, are more numerous than fact-based indicators for two reasons. First, the data required to construct fact-based indicators are often not available for developing countries (or the information may lack credibility). Second, investors may demand more perception-based indicators for commercial purposes. The data used to construct fact-based indicators refer to formal de jure realities, which
do not reflect de facto realities (that is, facts on the ground that are often determined by informal and unwritten rules and practices).

4. REVIEW OF SELECTED INDICATORS

4.1 World Economic Forum

The World Economic Forum’s yearly *Global Competitiveness Report*, published since 1979, ranks countries based on a Global Competitiveness Index. This aims to codify the impact of a number of factors, such as a country’s macroeconomic environment, the quality of its institutions and the state of its technology and supporting infrastructure, into a single index of competitiveness. The *Global Competitiveness Report 2012–2013* ranks the competitiveness of 144 economies, based on more than 110 variables, two-thirds of which come from an opinion survey of business leaders. The rest of the data comes from publicly available sources, including international organizations such as the United Nations and the International Monetary Fund.

The Global Competitiveness Index’s variables are organized into 12 pillars, with each pillar representing a determinant of competitiveness. The report assumes that the impact of each pillar on competitiveness varies across countries, depending on their stages of economic development. Accordingly, the index attaches different weights to different pillars depending on the country’s income, and the weights are the values that best explain growth. For example, the sophistication and innovation factors contribute 10 percent to the final score in the factor- and efficiency-driven economies, but 30 percent in innovation-driven economies (intermediate values are used for economies in transition between stages).

4.2 Transparency International

Transparency International has published its yearly Corruption Perceptions Index since 1995. It ranks countries according to the extent to which corruption is believed to exist, as determined by expert assessments and opinion surveys. Since 2012, the Corruption Perceptions Index has ranked 176 countries on a scale from 100 (very clean) to 0 (highly corrupt), and it draws on 13 surveys and assessments from 12 institutions. These are either opinion surveys of business people or performance assessments from risk agencies and international organizations.

Transparency International has also published a Bribe Payers Index since 1999, issued every two to three years. It focuses on the supply side of
corruption, measuring the willingness of a nation to comply with demands for controlling corrupt business practices. In 2011, the index ranked 22 countries accounting for 80 percent of the world’s exports on the likelihood of their multinational businesses to use bribes while operating abroad. The rankings—which use a 0–10 score (0 suggesting a lower likelihood of using bribery)—are based on the responses of business executives.

4.3 Heritage Foundation

Since 1995, the Heritage Foundation, in conjunction with the Wall Street Journal, has published an annual Index of Economic Freedom, which ranks nations according to their degree of economic freedom. The index, which covers 162 countries, is based on 10 freedoms: business freedom, trade freedom, fiscal freedom, government size, monetary freedom, investment freedom, financial freedom, property rights, freedom from corruption and labor freedom. These are aggregated with an equal weight assigned to each freedom to derive an overall index. Each freedom is graded on a scale from 0 to 100, where the maximum freedom is 100. In 2007, a new indicator, labor freedom, was added to reflect workers’ rights. The entire series is revised for consistency each time it introduces changes in methodology.

4.4 World Bank

The World Bank produces several governance-related datasets and indicators. The Country Policy and Institutional Assessment, produced annually since the mid-1970s, reviews the quality of policy and institutional performance in 136 borrowing countries. It rates countries against 16 criteria grouped into four clusters: economic management; structural policies; policies for social inclusion and equity; and public sector management and institutions, which include a rating on transparency, accountability and corruption in the public sector. For each criterion, countries are rated on a scale of 1 (low) to 6 (high). The scores depend on the level of performance in a given year, which is assessed against the criterion, rather than on changes in performance compared with the previous year. The ratings depend on actual policies and performance rather than on policy announcements, promises or intentions. In some cases, measures such as the passage of specific legislation can represent an important action, but, in the end, the implementation of legislation determines the extent of its impact. The ratings are the product of staff judgment.

The World Bank’s IDA Resource Allocation Index, which is the principal determinant for allocating International Development Association
resources, is based on the results of the Country Policy and Institutional Assessment; the index has been partly publicized since 2005 and criteria periodically reviewed. The criteria now include macroeconomic indicators as well as governance and other social and structural indicators. Notwithstanding these improvements, the Country Policy and Institutional Assessment is highly contentious. Streets (2008) notes that it is commonly criticized for reflecting the Washington Consensus, that its underlying assumption is prescriptive about the character of good policies and institutions, that it is ahistoric and blind to country-specific characteristics and that its rating process lacks internal consistency and is not sufficiently robust.

The World Bank’s Doing Business project gathers and analyzes data to compare the regulatory environment for businesses across economies and over time. The project aims to capture the ease of doing business by assessing formal regulations and procedures that impact domestic small and medium enterprises. The first report, published in 2003, included 133 economies and covered five indicator sets. The indicators are updated yearly in an Ease of Doing Business Index to rank countries. This aggregate index is a simple average of the percentile rankings on each of its current 10 indicators. These include the number of procedures needed to start a business and the time and costs required for complying with formal requirements in 10 regulatory areas, namely: (i) starting a business, (ii) dealing with construction permits, (iii) getting electricity, (iv) registering property, (v) getting credit, (vi) protecting investors, (vii) paying taxes, (viii) trading across borders, (ix) ensuring contracts, and (x) resolving insolvency. These indicators purport to measure the business-friendliness of a country’s regulatory environment. A higher ranking indicates a more business-friendly environment with fewer and simpler regulations for businesses.

The World Bank uses a hypothetical “standard” firm that is a privately held, domestically owned, limited liability company with 10–50 employees operating in the main financial center. The firm explicitly assumes full compliance with regulations, there are no third parties to facilitate completing procedures and no bribe payments or other activities to influence policy outcomes. Lawyers or accountants in each country included in the index compile the data and base their assessments on the typical time and cost of complying with the regulations for their hypothetical firm based on the actual wording of regulations.

Prior to 2013, the report also included an indicator on employing workers, which measured the ease with which workers can be hired and fired and the rigidity of working hours. However, this indicator, which is perhaps consistent with the letter but not with the spirit of International
Labour Organization regulations, has proved controversial. The Doing Business project gathers and publishes information on employing workers, but this is not included in the index.

Of all the global indicators of governance, the WGI is the most comprehensive and the most influential. The data set covers more than 200 countries over 1996–2011 and presents information on six aggregate indicators: (i) voice and accountability, which considers various aspects of the political process, civil liberties and political rights; (ii) government effectiveness, which incorporates measures on the quality of public service provision and the bureaucracy, the insulation of the civil service from political pressures and the credibility of the government commitment to policies; (iii) political stability and absence of violence; (iv) regulatory quality, which measures the incidence of market-friendly policies and the burdens from excessive regulations; (v) rule of law, which includes indicators that gauge the confidence of the agents in and their compliance with the rules of society; and (vi) the control of corruption, which measures the perception of corruption in the government.

The WGI are an amalgam of governance data from a variety of sources. The dataset compiles and summarizes information from over 30 sources of four different types: (i) surveys of households and firms (nine data sources, including the Afrobarometer surveys, Gallup World Poll, and Global Competitiveness Report); (ii) commercial business information providers (four data sources, including the Economist Intelligence Unit, Global Insight and political risk-rating services); (iii) nongovernment organizations (nine data sources including Global Integrity, Freedom House, Reporters Without Borders); and (iv) public sector organizations (eight data sources, including the country policy and institutional assessments of the World Bank and regional development banks, the European Bank for Reconstruction and Development Transition Report, and the French Ministry of Finance Institutional Profiles Database).

The governance estimate for each aggregate indicator is derived from individual sources in each period and is normalized so that it has a mean of zero and standard deviation of one. This means that virtually all the scores lie between −2.5 and 2.5 and the aggregate indicators are measures of relative performance of a country in a particular period (the higher the score, the better a country’s governance performance).

5. GOVERNANCE MEASUREMENT ISSUES

This section describes some of the salient measurement issues that relate to the aggregate governance indicators.
5.1 Validity, Reliability and Precision

The performance of a governance indicator can be judged by three criteria: validity, reliability and precision (Johnston 2008). Validity refers to whether or not the indicator actually measures what it intends to measure; in other words, the measures should be on target with small, nonsystematic errors. Reliability refers to whether a repeated application of the measurement tool by a variety of users will return consistent results. Precision denotes small measurement errors in the governance indicator. The current body of governance indicators, whether fact-based or perception-based, seems to fall short of the ideal on all three counts.

All governance indicators are attempts at approximating some unobserved broad dimensions of governance. But doing so is fraught with difficulties. To begin with, there is the complex problem of translating perceptions into quantities. This is compounded by the fact that perceptions do not necessarily reflect objective reality—perceptions of governance are not the same as the actual state of governance. As Thomas (2010) has forcefully argued, there is a substantial difference between measuring something and measuring perceptions of it. Drawing on a number of empirical studies, she contends that perceptions of crime risk are quite different from actual levels of crime, that perceptions of corruption are different from actual corruption levels and that trust in government is different from administrative performance. This chasm between perceptions and reality stems from a number of sources.

Perceptions can lag behind reality in a dynamic economic context when the structure and policies of an economy undergo rapid changes. Perceptions can be biased due to the “halo effect”—experts making similar errors when considering the same country. This correlation in perception errors occurs because experts rely on the same data sources or media reports in assessing country-level governance. In addition, many governance indicators are based on the assessments of foreign respondents, whose perceptions can be biased for ideological and cultural reasons.

Similarly, fact-based governance indicators can be a poor reflection of the reality of governance in a developing country, because of the large gap between de jure rules and regulations and de facto realities (which are conditioned by informal rules, customs and conventions). In this connection, there is a stark contrast in results between the World Bank’s Doing Business project and its Enterprise Surveys (Hallward-Driemeier and Pritchett 2011). The Enterprise Surveys, which were started in 2006, are firm-level surveys aimed at revealing “what businesses experience in each country.” These surveys use different approaches to assess the governance
constraints facing the private sector. Doing Business provides measures of compliance with regulatory requirements, while the Enterprise Surveys provide firms’ reported experiences with regulations and other investment conditions. Hallward-Driemeier and Pritchett (2011) note that for the 80 countries that have results in both surveys, the average days to obtain a construction permit in Doing Business exceed those in the Enterprise Surveys by almost three times (177 days against 64 days). In other words, the authors found little or no relationship between de jure and de facto measures of regulations.

So, reliability remains an enormous issue: it is difficult for anyone other than the producers of these indicators to replicate the results, as many of the underlying surveys are not available to outsiders. Thus, the problem of reliability is compounded as the number of surveys increases.

All governance indicators are vulnerable to various measurement errors because they are gathered from many different types of data—surveys of different sizes with dissimilar contents. Some surveys ask country-specific questions, while others ask about agencies. Some surveys are seldom revised, others revised yearly. Some country indicators are based on one or two sources of information, and others are based on many. Given this heterogeneity, governance indicators tend to suffer from large measurement errors, especially those for low-income countries with fewer sources of information.

5.2 The Single-number Problem

Standard governance measures compress a large amount of complex information into a single number for a country for a given year. The underlying data can be quite heterogeneous and the weight accorded to a particular type of data can be arbitrary. Consider, for example, the indicators of corruption, which can come in many different forms. In some countries, corruption is petty and pervasive, while in others it involves a few but major cases; similarly, the major types of corruption in some countries are bureaucratic, but in others political. In some countries, corruption simply takes the form of extensive nepotism without explicit financial transactions. Then there are the differing perceptions about types of corruption and how they are ranked. It has been suggested that given the diversity of values and the heterogeneity of indicators, there is no index of corruption that can meaningfully capture all the complexities in a single number (Johnston 2008).

The single-number problem is a generic issue with all “mashup” indices, and theory and practice provide little guidance for their design (Ravallion 2010). Ravallion includes in this category the United Nations
Development Programme’s Human Development Index and the World Bank’s WGI and Ease of Doing Business Index. The fundamental shortcomings of these indices, which are encapsulated in the single-number problem, relate to their meaning, interpretation and robustness.

5.3 Inter-temporal Comparability

Although aggregate indices provide governance data over time, they often do not afford meaningful inter-temporal comparisons. There are a number of reasons for this, some of which are specific to a particular index. In the case of the WGI, there are two important reasons for this lack of comparability across time. First, data sources are not fixed: the number of surveys as well as their contents change. Even in the absence of any real variation in the quality of governance, this changing composition of data sources can have a perceptible impact on indicator values and the rankings of countries across years. Second, each of the WGI is computed in such a way that the average value is always zero and its standard deviation is one. This technical feature of the WGI implies that the scale is largely arbitrary and cannot be used for measuring changes over time, either globally or for individual countries or between groups of countries (Arndt 2009).

Transparency International’s Corruption Perceptions Index also suffers from problems of inter-temporal comparability, although it clearly warns users that year-to-year changes in a country’s score can result from either a change in the perception of a country’s performance or a change in the index’s sample and methodology.

The Ease of Doing Business Index has its own inter-temporal comparability problems. Country ranking can be highly volatile for reasons that do not correspond to the real changes in the cardinal values of the indicators. As noted in a World Bank evaluation report on the Doing Business project, a slight change in data and methodology can wreak havoc with rankings; for example, minor data revisions in 2007 changed Italy’s ranking by a whopping 33 positions and Guyana’s by 40 (World Bank 2008).

Notwithstanding these shortcomings, the simplicity and intuitive appeal of governance indicators makes them popular among social scientists and policymakers, who often avidly follow the rise and fall of their countries’ rankings in the Corruption Perceptions Index and/or the Ease of Doing Business Index. Social scientists, particularly empirical economists, find these indicators seductive because of their potential for doing all manner of statistical analyses, including correlating inter-temporal changes in governance indicators with changing growth rates or other development indicators (Baland et al. 2010).
5.4 Lack of Actionability

While the current crop of governance indicators may have been helpful in placing governance issues on the development agenda, they have generally lacked policy orientation. Moreover, many of them have little or no correlation with the broad measures of economic performance at the country level. Given the limited use of governance indicators for policy purposes, they have so far made little direct contribution to policy making. To be useful for policy, indicators need to be actionable by having sharp definitions and clear specificity. Actionable indicators can be inputs into plans for concrete actions, part of reform strategies and metrics for measuring impacts. However, the concept of actionable indicators assumes that the results chains—the link between policy action and outcomes—are known with certainty, which is not necessarily the case. Thus, in the absence of such perfect knowledge, actionable indicators may not always be “action worthy” (Kaufmann and Kraay 2008).

In addition to statistical and measurement issues, the current body of governance indicators has been criticized in some quarters on ideological and conceptual grounds. Although they may not be based on an explicit theory, they tend to favor minimum government regulations with lower environmental standards and labor protection. For example, the WGI uses the indicator on “environmental regulations hurt competitiveness” from the World Economic Forum’s Executive Opinion Survey, but it ignores the survey’s several questions that accord high ratings to countries with a high standard of environmental protection (Arndt 2009). Similarly, the Ease of Doing Business Index provides higher ratings to countries with fewer regulations, ignoring safety and environmental concerns. Consequently, it is often unclear whether a high ranking represents efficient regulations or inadequate regulations (World Bank 2008).

6. DETERMINANTS OF GOVERNANCE INDICATORS

This section reviews the large body of literature dealing with the determinants of the state of governance in society; it looks at various historical, geographical, political, social and cultural factors.

6.1 The Legal Traditions: Common and Civil Law

The fundamental institutional architecture of a country’s governance is its legal system. However, in almost all countries, this is more a happenstance
of history than an outcome of a long “evolutionary” process. Globally, there are two major strands of legal tradition: common law and civil law. Several subsystems exist within civil law: French, German, Scandinavian and socialist. Although it is possible that a country adopts some laws from one system and others from another, a particular tradition ultimately dominates. An important point about legal traditions is that they have been grafted from relatively few sources to the rest of the world, mostly through colonization. This transplantation covers specific laws and codes, as well as the general styles and ideologies of legal systems (La Porta et al. 2008).

The common law tradition comprises the laws of the United Kingdom and of its former colonies, in particular Canada, India, Singapore and the US. Common law is largely precedent-based and generally uncodified; that is, it does not rely on a comprehensive compilation of legal rules and statutes (legislative decisions). Originating in Roman law, the civil law tradition, on the other hand, is based on a comprehensive set of legal codes encompassing substantive, procedural and penal laws. In style and ideology, while the common law tradition maintains a strict independence of the judiciary from other branches of the government, such separation is less pronounced in the civil law tradition. Aside from dissimilar legal rules, a fundamental difference between the two systems is that the civil law system is more compatible with the concept of a centralized and activist government.

Within the civil law tradition, the French system has exerted a great influence on the German system. Yet, despite their similarities, the German system affords a greater degree of judicial law-making than the French. The German tradition has, in turn, had a great influence on the legal systems of a number of Asian countries, including the People’s Republic of China (PRC), Japan and the Republic of Korea, as well as Turkey, though none were German colonies.

The Scandinavian legal system is quite unique in the civil law tradition because it is a hybrid of civil law, drawn from Germany, France and Scandinavian customary law. The Scandinavian countries were never colonial powers, and this tradition has few followings outside them. In Asia, South Asia follows the common law traditions; the legal systems of Japan, the Republic of Korea and the PRC are based on the German civil law tradition, and those of Viet Nam, the Lao People’s Democratic Republic, Cambodia and Indonesia belong to the French civil law tradition. The Democratic People’s Republic of Korea and Myanmar follow the socialist law tradition.
6.2 Geography and Colonization Strategies

Recent studies suggest that geography played an important role in the European colonization strategy, which often laid the foundation in many countries for the institutions of governance that exist today. According to Hall and Jones (1999), western European settlers avoided the tropics and settled in areas with climates similar to their own; wherever they permanently settled, they brought their high-quality institutions along. Acemoglu et al. (2001, 2002) point out that European colonizers did not permanently settle in the geographical environments that caused high settler mortality; in these areas, they settled in small numbers and established extractive economies and institutions to transfer resources to the homeland. Colonizers also avoided prosperous geographical areas with high population densities and urbanization, preferring places with low population densities, a congenial hosting population and less local resistance. In the places colonizers settled in large numbers, they introduced European-style institutions with the rule of law, property rights and some constraints on the power of local elites. Based on this settlement strategy, Europeans settled in North America, Australia and New Zealand, but not, for example, in the Ivory Coast, Congo, Ghana, Bolivia, Mexico and Peru.

The governance structures created by colonialists in response to the environment endured even with the end of colonialism, as changes proved to be costly to those who attempted them. This theory has, however, been challenged on factual and econometric grounds (see, for example, Sachs 2012).

According to Sokoloff and Engerman (2000) and Engerman et al. (2000), factor endowments had an important bearing on institutional development. Land endowments in Latin America were favorable to commodities, such as sugarcane, rice and minerals, which allow economies of scale and make use of slave or indigenous labor. In Latin America, favorable resource endowments led to plantation agriculture and mining, and a concentration of power in the hands of the plantation and mining elites. The region’s elites were ultimately opposed to democracy, creating institutions that preserved their hegemony by restricting voting rights, public land and mineral rights, and limiting access to schooling. In contrast, land endowments in North America were favorable to family farming, which spurred the growth of a large middle class and a wide distribution of power once a power structure was formed. This created more open and egalitarian institutions featuring broader voting rights, equal protection before the law, wider distribution of public lands and mineral rights, lower entry barriers to businesses and public schooling.

Differences in institutions between Latin America and North America
also contributed to the larger European immigration flows to North America than to Latin America. In short, Latin America experienced a resource curse whereby favorable resource endowments led to the “wrong types of institutions”. Sachs and Warner (1995) and Sala-i-Martin and Subramanian (2003) argue that a natural resource abundance, such as oil and gas in Nigeria and Saudi Arabia, has led to sluggish development in institutions in some societies.

6.3 **Good Governance and the Stages of Development**

One of the well-established empirical facts about governance is that there is a positive relationship between per capita income and governance, irrespective of the indicator chosen. Figure 2.1 shows the correlation between key governance indicators, including corruption perception, government effectiveness, rule of law from the WGI, and gross domestic product per capita income in purchasing power. As seen from the slope of the fitted regression lines and the estimated R-squared coefficients, government effectiveness has the highest correlation, with a coefficient of .61 and R-squared of .595 (followed by regulatory quality with a coefficient of .56 and R-squared of .525). Voice and accountability has the lowest correlation with per capita gross domestic product (GDP), with a coefficient of .38 and R-squared of .236. A composite index of governance, based on an average of all the six indicators, has a correlation with coefficient of .51 and R-squared of .503. Altogether, this seems to confirm a robust correlation between poor countries and poor governance—and that good governance needs to be sustained by an abundant investment of resources, both human and fiscal.

7. **STRUCTURE OF BUREAUCRACIES**

Studies by Evans and Rauch (1999, 2000) suggest that professional bureaucracy matters for effective governance. Drawing on the original insight of Weber (1968), they argue that the Weberian model of professional bureaucracy contributes to government effectiveness. The key characteristics of Weberian bureaucracy include meritocratic recruitment, civil service procedure for hiring and firing, and filling higher levels of the bureaucracy through promotion. Figure 2.2 plots the data Evans and Rauch collected on the degree of meritocracy in the bureaucracy against the World Bank’s Government Effectiveness Index. It shows that the greater the meritocracy in recruitment, the more effective is the government. Figure 2.3 plots the degree of “Weberianness” of the bureaucracy against government effectiveness. Again, there is a positive relationship between the two variables.
Governance in developing Asia

\[ y = -4.69 + 0.51x, \quad R^2 = 0.503 \]

\[ y = -4.98 + 0.54x, \quad R^2 = 0.448 \]

\[ y = -5.14 + 0.56x, \quad R^2 = 0.525 \]

**Notes:** GDP = gross domestic product, PPP = purchasing power parity. Triangles pertain to developing Asia.

**Source:** Author’s estimates.

**Figure 2.1** World governance indicators and income, 2012
Concepts, measurements, determinants and a paradox

Figure 2.1 (continued)
There is now a considerable body of literature on the role of social and cultural factors in determining the measures of governance success. According to Putnam (1993), the differences in governance performance between regions of Italy can be primarily explained by their differences in relative amounts of social capital, which is interpreted as the degree of social engagement and trust in different regions. Putnam states that trust in strangers helps foster...
collective action, which is a requisite for the provision of public goods. Knack and Keefer (1997) and La Porta et al. (1997) find empirical support for this view (that higher social capital in the form of trust and civic engagement leads to better governance performance). Drawing on a sample of about 30 nations from the World Values Surveys, they find that higher-trust societies have better government performance, as measured by the surveys of citizen confidence in government and subjective indicators of bureaucratic efficiency.

Collier and Gunning (1999) attribute the poor governance and high incidence of corruption in Africa to weak social capital, which, in turn, is due to ethnolinguistic fractionalization and economic inequality. In contrast,
Asia exhibits quite a high level of social capital. Zhuang et al. (2010) report that Asia, particularly East Asia, has a high level of trust among people. Even after controlling for income levels, the PRC, India, Indonesia and Viet Nam display a higher level of trust than the international average for that income level.

9. POLITICAL ECONOMY FACTORS AND FORCES

Traditional economic theory takes the view that institutions are efficient and they persist as long as social benefits exceed the social costs of replacing them. In the real world, however, inefficient institutions persist due to the collective action problem, which is often explained by an appeal to political–economic theories. This perspective attributes institutional changes to distributive conflicts whereby institutions and policies are shaped by those in power, who manipulate government policies to control assets and amass resources (see Acemoglu undated).

There are two types of political power: de facto and de jure. De jure political power stems from the political institutions (that is, the type of political regime and the constraints it imposes on politicians). De facto power, on the other hand, can be wielded by the bureaucracy, ethnic groups, religions and lobbies. The distribution of both de facto and de jure determines the particular kind of political equilibrium that exists in a society, which, in turn, defines the nature of its institutions and quality of governance. Political equilibrium, however, is not exclusively determined by political-economic factors, but mediated by the cultural and historical milieu within which political-economic factors operate. The political equilibrium of a country can be disturbed by external shocks, such as wars, economic recessions and natural disasters, which can lead to a new political equilibrium and changes in political institutions and the quality of governance (Islam 2008).

To summarize, governance reform is a complex undertaking for developing economies for four key reasons. First, institutions of governance are path-dependent, whereby some important dimensions of governance are determined by accidents of history and geography. Second, many of the social and cultural dimensions of governance are extremely slow moving, affording little policy intervention. Third, the current state of governance is a reflection of the existing political equilibrium and the distribution of powers in the society. Without upending the power structure, it is difficult to introduce major reforms. And fourth, developing countries are severely resource constrained and major governance reforms are costly.
10. GOVERNANCE PERFORMANCE IN DEVELOPING ASIA

Although developing Asia has achieved stellar success in economic and social development in recent decades, its performance in governance has been less impressive. This can be seen from Table 2.1, which shows the WGIs for 2012 by global regions and subregions. Developing Asia falls below the global average/median and the average for the Organisation for Economic Co-operation and Development (OECD) on all six indicators. The region also performs lower than Latin America and Caribbean in most dimensions except government effectiveness and rule of law. Developing Asia scores lower than non-OECD countries in three indicators (voice and accountability, political stability, regulatory quality), but better than the Middle East and North Africa, and sub-Saharan Africa on these indicators.

Within Asia, Table 2.1 shows substantial heterogeneity in governance among subregions. Some of the key aspects of this are:

- East Asia dominates other subregions in government effectiveness, regulatory quality and control of corruption, but performs worst in voice and accountability.
- South Asia performs best in voice and accountability and rule of law, but fares worst in political stability.
- Southeast Asia lies in the middle of the subregions on all indicators.
- Compared to other subregions, the Pacific ranks worst in government effectiveness and best in political stability, while its performance on other indices lies in the middle.
- Central Asia ranks the worst in three criteria: regulatory quality, rule of law and control of corruption.

10.1 Governance Performance of Selected Asian Economies

This section considers, for comparison, the governance performance of the PRC, India, Indonesia, the Philippines and Viet Nam. These countries are first assessed by the WGI and then by other governance indicators.

10.1.1 People’s Republic of China

Except for government effectiveness, the PRC belongs to the bottom half in all other indicators (Figure 2.4). In voice and accountability, it ranks in the bottom fifth percentile, one of the worst in the world, and its score for this indicator is the lowest in the comparison group. In political stability, the country is slightly above the first quintile, ranking higher than India (12th percentile), the Philippines (15th percentile) and Indonesia.
Table 2.1 Worldwide Governance Indicators in developing Asia, 2012

<table>
<thead>
<tr>
<th>Region/subregion</th>
<th>Control of corruption</th>
<th>Government effectiveness</th>
<th>Political stability</th>
<th>Regulatory quality</th>
<th>Rule of law</th>
<th>Voice and accountability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developing Asia</td>
<td>−0.56</td>
<td>−0.17</td>
<td>−0.91</td>
<td>−0.39</td>
<td>−0.40</td>
<td>−0.61</td>
</tr>
<tr>
<td>Central Asia</td>
<td>−1.03</td>
<td>−0.71</td>
<td>−0.53</td>
<td>−0.92</td>
<td>−0.98</td>
<td>−1.44</td>
</tr>
<tr>
<td>East Asia</td>
<td>−0.42</td>
<td>0.07</td>
<td>−0.49</td>
<td>−0.18</td>
<td>−0.40</td>
<td>−1.45</td>
</tr>
<tr>
<td>Pacific</td>
<td>−0.86</td>
<td>−0.80</td>
<td>−0.37</td>
<td>−0.63</td>
<td>−0.79</td>
<td>−0.05</td>
</tr>
<tr>
<td>South Asia</td>
<td>−0.66</td>
<td>−0.34</td>
<td>−1.43</td>
<td>−0.56</td>
<td>−0.31</td>
<td>0.09</td>
</tr>
<tr>
<td>Southeast Asia</td>
<td>−0.58</td>
<td>−0.22</td>
<td>−0.59</td>
<td>−0.33</td>
<td>−0.53</td>
<td>−0.43</td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td>−0.30</td>
<td>−0.23</td>
<td>−0.28</td>
<td>−0.09</td>
<td>−0.43</td>
<td>0.14</td>
</tr>
<tr>
<td>Middle East and North Africa</td>
<td>−0.56</td>
<td>−0.49</td>
<td>−1.21</td>
<td>−0.67</td>
<td>−0.56</td>
<td>−1.04</td>
</tr>
<tr>
<td>OECD</td>
<td>1.10</td>
<td>1.20</td>
<td>0.45</td>
<td>1.13</td>
<td>1.12</td>
<td>0.98</td>
</tr>
<tr>
<td>Non-OECD Europe</td>
<td>−0.80</td>
<td>−0.37</td>
<td>−0.44</td>
<td>−0.24</td>
<td>−0.62</td>
<td>−0.56</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>−0.86</td>
<td>−0.81</td>
<td>−1.09</td>
<td>−0.71</td>
<td>−0.86</td>
<td>−0.72</td>
</tr>
</tbody>
</table>

Notes: OECD = Organisation for Economic Co-operation and Development. OECD figures exclude the Republic of Korea, which is included in the East Asia figures. Governance indicators weighted by population.

Concepts, measurements, determinants and a paradox

Voice and accountability
Political stability
Regulatory quality
Rule of law
Control of corruption

Viet Nam
Philippines
Indonesia
India
PRC

Note: PRC = People’s Republic of China.


Figure 2.4 Governance performance of selected Asian countries
Governance in developing Asia

(27th percentile). In regulatory quality, it tops every country in the comparison group, except the Philippines. In rule of law, the PRC ranks lower than India, while it ranks above India in control of corruption.

10.1.2 India
India ranks slightly above the bottom half in voice and accountability and rule of law, but slightly below the bottom half in government effectiveness. In political stability and absence of violence, it is in the 12th percentile group (Figure 2.4). In regulatory quality, it is in the 34th percentile, below all the countries in the comparison group except Viet Nam. However, in control of corruption, India fares better than Indonesia and the Philippines, even though it belongs to the lower 35th percentile.

10.1.3 Indonesia
Indonesia ranks in the bottom half in all indicators of governance, except in voice and accountability (Figure 2.4). In political stability and absence of violence, it places in the bottom quarter, with India and the Philippines. In rule of law, government effectiveness and control of corruption, it fares worst in the comparison group. In regulatory quality, it lies around the middle of the comparison group.

10.1.4 The Philippines
The Philippines is in the bottom half for all indicators except regulatory quality and government effectiveness, where it is grouped in the 58th percentile, the best in the comparison group (Figure 2.4). In political stability, it is in the 15th percentile and lies at the bottom of the comparison group, except India. In control of corruption, it lies around the middle of the comparison group.

10.1.5 Viet Nam
Except for political stability and absence of violence, Viet Nam ranks in the bottom half (Figure 2.4), performing worst in voice and accountability, where it ranks in the bottom decile with the PRC. In regulatory quality, it is also ranked in the bottom of the comparison group.

How do the above five countries fare on alternative governance indicators? As Table 2.2 shows, none of them turns in a strong performance, despite their considerable economic success.

Since the governance scores and rankings in Table 2.2 are suggestive, not too much should be read into them. Indeed, on closer scrutiny, they even seem curious. Fukuyama (2013), who provides a critical assessment of the PRC’s 2011 ranking in the WGI, argues that while the country’s low placings in voice and accountability and rule of law are understandable,
its score and ranking in the other four measures of governance are surprising. Fukuyama contends that the low ranking in government effectiveness does not comport with the country’s “miraculous” performance in the macroeconomic management of a hugely complex modernization process over the past three decades.

11. THE ASIAN GROWTH PARADOX

It is almost an article of faith in the development community that good governance leads to higher economic growth, but does this hold true for Asia’s developing economies? Quibria (2006) empirically investigated this under a simple model. The exercise involved first deriving an international reference line, which indicates the expected level of the governance score against per capita real income. This was done by regressing the WGI governance levels of countries against per capita income levels. For this regression, the paper used a composite governance index, which is the average of all six individual indicators of the WGI. The per capita income used is the “real” income of countries in 2003, measured in 2000 purchasing power parity US dollars. The regression uses data for 151 countries, for which WGI is available for 2002.

As expected, the regression line is upward-sloping, indicating that the higher the income level, the better the quality of governance. The international reference line is used to compute countries with “surplus” and “deficit” governance. Countries that lie above the international reference

### Table 2.2 Governance ranking by alternative indicators

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>People’s Republic of China</td>
<td>80</td>
<td>29</td>
<td>96</td>
</tr>
<tr>
<td>India</td>
<td>94</td>
<td>60</td>
<td>134</td>
</tr>
<tr>
<td>Indonesia</td>
<td>114</td>
<td>38</td>
<td>120</td>
</tr>
<tr>
<td>Philippines</td>
<td>94</td>
<td>59</td>
<td>108</td>
</tr>
<tr>
<td>Viet Nam</td>
<td>116</td>
<td>70</td>
<td>99</td>
</tr>
</tbody>
</table>

Notes: CPI = Corruption Perceptions Index, GCI = Global Competitiveness Index.
Doing Business is the World Bank’s Ease of Doing Business Index.

Source: Author’s compilation from original sources.
line are considered as having a governance surplus and those below as having a governance deficit. The paper goes on to compare the economic growth performance of the governance-surplus countries during 1999–2003 with the growth performance of the governance-deficit countries. Contrary to expectations, the countries with presumably better governance fared worse in economic growth than those with poorer governance. Indeed, the average growth rate of the governance-surplus countries was less than half that of the governance-deficit countries. Moreover, these had a lower variance in their growth rates (at 0.1) than that of the governance-surplus countries (at 2.6).

How does one explain this seemingly paradoxical result? One conjecture is that this is largely due to what economists call convergence—that is, poor countries tend to grow faster than richer countries. To investigate the question more rigorously, the paper estimated a parsimonious growth equation as follows: GDP growth = a + b (in GDP per capita) + c (governance) + errors, where a, b and c are the parameters to be estimated. The regression involved 29 Asian countries for which relevant data were available. The estimated equation yielded a significant coefficient for governance, albeit with the wrong sign.

Zhuang et al. (2010) revisited the paradox, using a more disaggregated approach. Rather than taking a composite index of governance, they considered all six components of the WGI separately. They also extended the data set to 1998–2008. Their study suggests that the governance–growth paradox is still salient in Asia. Regressing the annual average GDP growth rate against the six indicators separately (controlling for initial income), they found that except for voice and accountability, which had a statistically significant negative coefficient, other governance indicators did not have statistically significant coefficients. Statistical quibbles aside, the larger point that emerges is that the data do not provide robust evidence of a tight governance–growth relationship in Asia.

There are a number of possible explanations for this apparent paradox. One relates to data imprecision, as the WGI data have many sources of errors, such as definitional ambiguities, exclusive reliance on perceptions, biases in expert assessments, errors in correlated perceptions and data incomparability across countries. It could therefore be argued that the existing data are too crude to capture the nuances of the growth–governance nexus.

Furthermore, it is possible that some aspects of governance are more important than others at a particular stage of development. It is not the overall aggregate score in a particular category of governance—rather its particular dimension—that is salient. For example, it may not be the incidence or the volume of corruption but the organization of corruption
(whether it is centralized or decentralized) that matters for growth (or lack of it). Shleifer and Vishny (1993) note that a decentralized system of corruption in which bribes are paid separately for multiple signatures from different agencies is economically more harmful than a centralized system of corruption in which all bribes are coordinated through a “one-stop shop” for different signatures. But the WGI data do not reveal such distinctions.

Another reason for the apparent paradox is that most developing countries operate in a mixed environment of formal and informal institutions. However, a country’s score is based on an implicit model of governance that exists in advanced western countries. The larger the gradient of the state of governance institutions from the western model, the lower the score. However, the process to initiate and sustain growth in a low-income country can be very different from that of a middle- or high-income country. In such an environment, informal self-enforcing, relationship-based governance (as opposed to a formal, rules-based system) can work efficiently and produce large growth payoffs. The advantage of the informal relation-based system is that it has little or no fixed costs, whereas the formal system requires substantial fixed costs to legislate the law, establish courts to adjudicate disputes and enforce court verdicts (Dixit 2009). The informal system in Southeast and East Asia is pervasive and has been sustained by its high social capital—in the sense of trust (Zhuang et al. 2010).

12. CONCLUSIONS AND A REFORM AGENDA FOR DEVELOPING ASIA

This chapter has shown that most Asian developing countries do not rank high on the indicators of governance. Despite these deficiencies, the region has achieved remarkable economic success. So is there any rationale for governance reform? The answer is decidedly yes.

As Asian economies grow and economic transactions become more complex, there will be greater strains on informal and inefficient institutions; this warrants a move toward a more efficient, formal institutional arrangement—in the form of rule of law, effective government and good regulation—to generate robust and sustained economic growth. Furthermore, good governance—transparency, voice and accountability, and lack of pervasive corruption—is an attribute of a good society. As developing Asia climbs the economic ladder, there will be greater demand for good governance through more transparent, open and inclusive institutional arrangements.

This does not mean that the reform agenda will be identical across
Governance in developing Asia
countries. Despite some common elements, reform agendas—their contents and sequence—will vary across countries for three main reasons. First, if the available data are any indicator, Asian countries are heterogeneous in the nature and extent of their governance deficits. An agenda of reform needs to take these differences in initial conditions into account. Second, different societies, based on their history, traditions and politics, are likely to attach different weights to different elements of good governance. And third, societies differ in their capacities to design appropriate institutional arrangements, which require local knowledge and creativity (Rodrik 2008). This explains why cherry picking best practices and institutions and transplanting them across societies does not work. In other words, one size does not fit all.
In designing reform agendas, governments in developing countries need to be selective and strategic because they have limited budgets and human resources, which constrain their ability to undertake large-scale governance reforms. Every cent spent on judicial reform to improve the rule of law cannot be spent on public goods such as health, education and physical infrastructure (Posner 1998). Reform agendas should therefore be strategic in emphasizing measures that yield the biggest bang for the buck in the form of welfare improvements or productive efficiency.
Countries also need to avoid the pitfalls of random, hit-or-miss reform. Some reforms look good in isolation but can have unintended consequences, encapsulated in the institutional theory of the second best (Stephenson 2007). As is well known, the theory of the second best suggests that in a world of multiple distortions, correction of a single distortion may lead to a reduction in welfare. A simple generic institutional version can be applied to the question of the optimal autonomy of a bureaucracy. The quality of the government depends on the efficiency of its bureaucracy, which is determined by its capacity and autonomy (Fukuyama 2013). The former relates to its education and professionalism; the latter to its autonomy to make independent decisions without being micromanaged.
In countries with capable bureaucracies, the first-best standard is to allow greater bureaucratic discretion in decision making. However, when professional bureaucratic capacity is lacking, permitting more discretion is worse than a situation of less discretion (that is, little autonomy with well-defined rules). Thus, allowing a venal bureaucracy more discretion to judge “case by case” may simply result in “suitcase by suitcase”, as Bardhan (2006) puts it. The theory of the second best applies to many other areas of governance, including judicial reform (Stephenson 2007).
In initiating and sustaining reform, political-economic considerations are critical (Islam 2008). Reform creates winners and losers, and good economics is often bad politics. To initiate and sustain a reform agenda,
political equilibrium needs to be changed in the agenda’s favor. Such change can result from external shocks such as wars and economic crises, the pressure of powerful external agencies that have an influence on the body politic or the internal social dynamics stemming from the pressures of an organized and conscious civil society and the media.

Finally, even though the provenance of institutional innovation is invariably domestic, there are steps that international organizations can take to improve the quality and nature of institutions. One low-hanging fruit of governance concerns the openness and transparency of policymaking (Acemoglu 2008), which is not particularly intensive in human and fiscal resources. Nor does this appear to have any unintended adverse consequence. On the other hand, such a policy can be a powerful antidote to the corruption that is still endemic in many Asian countries, because corruption is in large part due to the close and non-transparent manner in which policies are formulated and implemented. Although transferring best practices and institutions may be thought of as a fool’s errand for international organizations, advocacy of the principles of openness and transparency is not.

ACKNOWLEDGEMENTS

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NOTES

1. The number of respondents for the World Economic Forum’s Executive Opinion Survey has increased over the years, currently exceeding 14000 in 144 countries.
2. Social capital has remained an elusive concept, as different authors have attached different meanings to it. See Quibria (2003) for a critical discussion of the concept as well as the various measurement and estimation issues associated with its empirical application.

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3. Do governance indicators explain growth performance? A cross-country analysis

Xuehui Han, Haider A. Khan and Juzhong Zhuang

1. INTRODUCTION

Development policy discussions in recent years have focused on the need for good governance. While the intrinsic value of good governance as a development end is now universally accepted, its instrumental value as a means to better development performance is still not well understood, despite the emergence of a considerable and still growing body of literature (Rodrik 2008; Acemoglu and Robinson 2012).

Two important developments explain the rising concern over governance and its role in development since the late 1980s. One is the emergence of a new stream of the economics literature known as the new institutional economics. This emphasizes impersonal and impartial institutions for protecting property rights and contracts, which encourage the extension of market exchange, investment and innovation. The second development is increasing concern that the effectiveness of development assistance depends not only on the nature of the policies pursued, but also on the nature of government (Burnside and Dollar 2000, for example). On the basis of empirical observations, Easterly (2006) argues that countries pursuing destructive policies such as high inflation, high black market premiums and chronically high budget deficits may miss out on economic growth, but that it does not follow that growth can simply be created with macroeconomic stability. The involvement of larger structures in the determination of policy, its implementation and outcomes is the entry point for “governance”.

Against this backdrop, this chapter first investigates if a country starting with an above-average quality of governance has a greater chance of growing faster and vice versa. It then looks at whether improving governance quality leads to higher economic growth.
2. A LITERATURE REVIEW ON GOVERNANCE AND DEVELOPMENT PERFORMANCE

Zhuang et al. (2010) comprehensively survey the literature on connections between governance, economic growth and inequality, and they also address issues of causality. Acemoglu and Robinson (2012) examine why and how governance matters by comparing cities adjacent to each other along the United States–Mexico border. They overrule simplistic explanations of differences in location and culture, and instead give a nuanced institutional account based on differences in modes of governance. In their account, the evolution of incentive structures and state-market relationships play a critical role in determining the performance of cities.

Other authors have explored specific dimensions of how governance matters. Goncalves (2013) discusses specific governance mechanisms and components of human development. Gerring et al. (2011) discuss the multiple channels, socioeconomic and political, through which democratic governance affects economic growth. On the political side, the access of citizens to governance mechanisms is intimately linked with development performance, as pointed out in Oster (2009). In a similar vein, Kumar (2013) notes how discriminatory governance mechanisms can lead to poor development. Blaydes and Kayser (2011) study the links between democratic governance, distribution and standards of living.

Although the debate on the connection between the type of governance regime and economic performance seemed to suggest no significant association between the two, recent studies suggest otherwise. In the earlier view, democracies and autocracies perform equally well on average, though democracies may be less volatile (Doucouliagos and Ulubasoglu 2006; Mulligan et al. 2004). The earlier literature also claimed that democracies may find it more difficult to initiate painful, but necessary, economic reforms (Dornbusch and Edwards 1991; Kohli 2004, Leftwich 2005). But the new body of work disputes this view. It finds that when a country’s regime history is taken into account, there is a positive and robust relationship between democratic governance variables and economic growth (Gerring et al. 2005; Persson and Tabellini 2006). In addition, various economic policies deemed essential to growth also remain significant in these analyses (Thacker 2011).

Nevertheless, the possible causal connections between regime history and economic policy and performance remain opaque. The arguments advanced tend to be highly speculative, since the causal pathways are usually difficult to identify and test empirically (Bohara et al. 2004;
Kapstein and Converse 2008; Keefer 2003; Lederman et al. 2005; Montinola and Jackman 2002). This chapter provides empirical evidence supporting positive contributions of governance on economic development.

3. METHODOLOGY AND DATA

3.1 Methodology

We use two complementary methods to empirically examine the relationship between governance and development performance. The first involves dividing the sample countries into two groups: one with (initial) governance in surplus and the other with governance in deficit. The average growth performance is compared across the surplus and deficit governance countries on different measures of governance. The second method furthers the analysis by employing a dynamic generalized method of moments (GMM) panel model to examine the contributions of governance quality on development performance across countries and over time.

According to Quibria (2006) and Zhuang et al. (2010), a country is classified as having a surplus in governance if its governance score is greater than the expected value corresponding to its level of income, with the expected values derived from a cross-country regression of governance scores on real income per capita. Similarly, a country is classified as having a deficit in governance if its governance score is below the expected value corresponding to the country’s income per capita:

\[
\tilde{G}_i = G_i - \hat{G}_i, \text{ surplus when } \tilde{G}_i > 0; \text{ deficit when } \tilde{G}_i < 0,
\]

\[
G_i = \alpha + \beta Y_i + D_i + \varepsilon_i,
\]

where \(G_i\) is the score of a particular governance indicator of country \(i\); \(Y_i\) is the log of gross domestic product (GDP) per capita (in 2005 purchasing power parity terms) of country \(i\); \(D_i\) is a dummy for oil-rich countries; \(\alpha\) and \(\beta\) are parameters to be estimated; and \(\varepsilon_i\) is the error term. The difference \(\tilde{G}_i\) between the observed \(G_i\) and the predicted \(\hat{G}_i\) estimated by equation (3.2) is the criterion to differentiate the surplus and deficit countries. The analysis uses governance scores and log GDP per capita (in 2005 purchasing power parity terms) of 215 countries in 1998 to estimate equations (3.1) and (3.2).

After the countries are classified into two groups, average development
performance in the following years is calculated for each and compared. Various development outcome indicators can measure development performance, such as GDP growth, pace of poverty reduction, quantity and quality of public services, progress on Millennium Development Goals and so on. In this chapter, we focus on GDP per capita growth alone. To control for endogeneity, we use the base-year data to group sample countries and compare development performance during the subsequent period.

Next, a dynamic panel data model is estimated to examine the contribution of governance quality to development outcomes. The specification of the model is

\[ Y_{it} = \alpha_i + \lambda Y_{i,t-1} + \beta G_{it} + \gamma Z_{it} + \epsilon_{it}, \]  

(3.3)

where \( Y_{it} \) is the log real GDP per capita or annual growth of GDP per capita in country \( i \) at time \( t \); \( G_{it} \) are the governance variables, such as voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law, and control of corruption; \( Z_{it} \) are the control variables, such as the share of the working-age population aged 15–64 to the total population, access to improved water sources, access to improved sanitation, economic openness and foreign direct investment (FDI); and \( \epsilon_{it} \) is an i.i.d. error term.

Before running the GMM model on equation (3.3), a principal component analysis is used to deal with the possible multicollinearity problem. The eigenvalues and explained cumulative variance as a share of the total right-hand side variable variance are used to select the number of principal components. The resulting principal components are used as the explanatory variables in the dynamic panel data analysis to examine the contributions of governance quality on development. To test whether the contributions of governance on economic development differ in Asian countries from the rest of the world, we include an interacting term of a dummy for Asian countries and the governance variables. That is, equation (3.3) is transformed into:

\[ Y_{it} = \alpha_i + \lambda Y_{i,t-1} + \delta F_{it} + \theta D_{Asia} F_{g_{it}} + \epsilon_{it}, \]  

(3.4)

where \( F_{it} \) are the principal components, including both governance principal components and the principal components for the controlling variables; \( D_{Asia} \) is a dummy variable for Asian countries; and \( F_{g_{it}} \) is the governance principal component for country \( i \) in time \( t \). The parameter \( \theta \) measures the difference in contribution of governance in Asia compared with other countries in the world. The dynamic GMM analysis is next applied to
estimate the coefficients of equation (3.4). This follows the approach of Blundell and Bond (1998), in which the equation is transformed into a first-order difference equation, and the lagged right-hand side variables for selected periods are used as instruments. Their method also enables us to deal with the problem of endogeneity between log GDP per capita and governance indicators.

3.2 Data

The variables used here are mostly obtained from the World Bank’s World Development Indicators. For governance indicators, the Worldwide Governance Indicators, compiled at the World Bank by Kaufmann et al. (1999) and Kaufmann et al. (2003), are used. The indicators are based on some 30 opinion and perception-based surveys of various governance measures from investment consulting firms, nongovernment organizations, think tanks, governments, and multilateral agencies; and classified into six clusters (Kaufmann et al. 2003). These are:

1. Voice and accountability, measured by the extent to which a country’s citizens are able to participate in selecting their government, as well as freedom of expression, association, and the press.
2. Political stability and absence of violence, measured by the likelihood that a government will be destabilized by unconstitutional or violent means, including terrorism.
3. Government effectiveness, measured by the quality of public services, the capacity of civil services and their independence from political pressure, and the quality of policy formulation.
4. Regulatory quality, measured by the ability of a government to provide sound policies and regulations that enable and promote private sector development.
5. Rule of law, measured by the extent to which agents have confidence in and abide by the rules of society, including the quality of property rights, the police and the courts and the risk of crime.
6. Control of corruption, measured by the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as elite “capture” of the state.

The Worldwide Governance Indicators have been published annually since 1998. Other development indicators are sourced from the World Development Indicators, including GDP per capita in 2005 purchasing power parity terms, annual GDP growth, working-age population share, access to improved water and sanitation, openness measured by share
of imports and exports to GDP, and FDI in current dollars. To align the scaling of variables, FDI is standardized (by subtracting the mean value and dividing by the standard deviation).

4. GOVERNANCE SCORES: WORLD BY REGION AND DEVELOPING ASIA BY SUBREGION

4.1 World by Region

Table 3.1 and Figures 3.1a and 3.1b report average governance scores for various regions in 1998 and 2011. Each composite indicator for each country is constructed to yield a value centered around zero and ranging from −2.5 to 2.5, with larger positive values indicating superior performance. Simple averages are used, instead of weighted averages.

In 2011, high-income OECD countries had the highest governance score, with a positive value in all six dimensions. For other regions, the score varies across the six dimensions: (i) Latin America and the Caribbean ranks second in voice and accountability, political stability, government effectiveness and control of corruption, and third in regulatory quality; (ii) middle-income Europe ranks second in regulatory quality, third in voice and accountability, government effectiveness and rule of law, and fourth in political stability and control of corruption; (iii) developing Asia ranks third in political stability, fourth in voice and accountability and control of corruption, and fifth in government effectiveness, regulatory quality and rule of law; (iv) Middle East and North Africa ranks last in voice and accountability and political stability, fourth in government effectiveness, rule of law and control of corruption and fifth in regulatory quality; and (v) sub-Saharan Africa ranks fifth in voice and accountability and political stability, and last in government effectiveness, regulatory quality, rule of law and control of corruption.

Comparing 2011 with 1998, there is strong persistence in the governance scores and regional rankings. But several changes are also noticeable:

1. High-income OECD economies experienced a sizable reduction in the score of political stability and control of corruption.
2. Latin America and the Caribbean improved their scores considerably on political stability, government effectiveness and control of corruption, but deteriorated in regulatory quality.
3. Middle-income Europe improved its score on all dimensions.
### Table 3.1 Average governance scores by region, 1998 and 2011

<table>
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<tr>
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</thead>
<tbody>
<tr>
<td></td>
<td>Voice and</td>
<td>Political</td>
<td>Government</td>
<td>Regulatory</td>
<td>Rule of</td>
<td>Control of</td>
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<tr>
<td></td>
<td>accountability</td>
<td>stability</td>
<td>effectiveness</td>
<td>quality</td>
<td>law</td>
<td>corruption</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Developing Asia</td>
<td>−0.22</td>
<td>−0.27</td>
<td>−0.29</td>
<td>−0.37</td>
<td>−0.20</td>
<td>−0.33</td>
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<tr>
<td></td>
<td>−0.32</td>
<td>−0.12</td>
<td>−0.32</td>
<td>−0.45</td>
<td>−0.30</td>
<td>−0.42</td>
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<tr>
<td>Europe: Middle income</td>
<td>−0.19</td>
<td>−0.36</td>
<td>−0.54</td>
<td>−0.26</td>
<td>−0.54</td>
<td>−0.58</td>
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<tr>
<td></td>
<td>−0.01</td>
<td>−0.19</td>
<td>−0.24</td>
<td>0.10</td>
<td>−0.25</td>
<td>−0.38</td>
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<tr>
<td>Latin America and the Caribbean</td>
<td>0.36</td>
<td>0.03</td>
<td>0.06</td>
<td>0.29</td>
<td>−0.06</td>
<td>0.00</td>
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<tr>
<td></td>
<td>0.35</td>
<td>0.17</td>
<td>0.13</td>
<td>0.09</td>
<td>−0.06</td>
<td>0.15</td>
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<tr>
<td>Middle East and North Africa</td>
<td>−0.91</td>
<td>−0.43</td>
<td>−0.30</td>
<td>−0.47</td>
<td>−0.20</td>
<td>−0.33</td>
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<tr>
<td></td>
<td>−1.04</td>
<td>−0.72</td>
<td>−0.26</td>
<td>−0.26</td>
<td>−0.29</td>
<td>−0.35</td>
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<td></td>
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<tr>
<td>OECD: High income</td>
<td>1.27</td>
<td>1.00</td>
<td>1.49</td>
<td>1.27</td>
<td>1.39</td>
<td>1.57</td>
<td></td>
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<tr>
<td></td>
<td>1.25</td>
<td>0.84</td>
<td>1.41</td>
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<td></td>
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<tr>
<td>Sub-Saharan Africa</td>
<td>−0.69</td>
<td>−0.62</td>
<td>−0.72</td>
<td>−0.70</td>
<td>−0.77</td>
<td>−0.62</td>
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<tr>
<td></td>
<td>−0.64</td>
<td>−0.56</td>
<td>−0.79</td>
<td>−0.71</td>
<td>−0.75</td>
<td>−0.61</td>
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</tbody>
</table>

**Notes:**

OECD = Organisation for Economic Co-operation and Development.

Simple averages. Developing Asia refers to the 44 developing member countries of the Asian Development Bank; Republic of Korea is included in Developing Asia, not in OECD: High income. Middle-income Europe includes Albania, Belarus, Bosnia, Bulgaria, Kosovo, Latvia, Lithuania, Macedonia, Moldova, Montenegro, Romania, the Russian Federation, Serbia and Ukraine.

**Source:** Authors’ estimates using World Bank, Worldwide Governance Indicators online database (accessed December 2013).
Figure 3.1a  Average governance scores by region, 1998

Source: Authors’ estimates using World Bank, Worldwide Governance Indicators online database (accessed December 2013).

Figure 3.1b  Average governance scores by region, 2011
4. Developing Asia improved on political stability, but worsened on all the other dimensions, especially voice and accountability, rule of law and control of corruption.

5. Sub-Saharan Africa improved slightly in voice and accountability and political stability, but fell in its ranking on government effectiveness.

### 4.2 Developing Asia by Subregion

Table 3.2 and Figures 3.2a and 3.2b show that in 2011 in developing Asia, East Asia ranks highest in government effectiveness, regulatory quality, rule of law and control of corruption, and second-highest in voice and accountability and political stability. The Pacific ranks highest in voice and accountability and political stability, second in rule of law and control of corruption, and lowest in government effectiveness and regulatory quality. Southeast Asia ranks second in government effectiveness and regulatory quality, third in political stability, rule of law and control of corruption, and fourth in voice and accountability. South Asia ranks third in voice and accountability.

<table>
<thead>
<tr>
<th>Subregion</th>
<th>2011</th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Voice and accountability</td>
<td>Political stability</td>
<td>Government effectiveness</td>
<td>Regulatory quality</td>
<td>Rule of law</td>
</tr>
<tr>
<td>Central Asia</td>
<td>−1.21</td>
<td>−0.51</td>
<td>−0.57</td>
<td>−0.57</td>
<td>−0.92</td>
</tr>
<tr>
<td>East Asia</td>
<td>0.09</td>
<td>0.39</td>
<td>0.72</td>
<td>0.72</td>
<td>0.57</td>
</tr>
<tr>
<td>South Asia</td>
<td>−0.50</td>
<td>−1.17</td>
<td>−0.47</td>
<td>−0.71</td>
<td>−0.62</td>
</tr>
<tr>
<td>Southeast Asia Pacific</td>
<td>−0.77</td>
<td>−0.22</td>
<td>0.03</td>
<td>−0.08</td>
<td>−0.22</td>
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<tr>
<td></td>
<td>0.45</td>
<td>0.65</td>
<td>−0.73</td>
<td>−0.89</td>
<td>−0.12</td>
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</table>

<table>
<thead>
<tr>
<th>Subregion</th>
<th>1998</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
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<tbody>
<tr>
<td></td>
<td>Voice and accountability</td>
<td>Political stability</td>
<td>Government effectiveness</td>
<td>Regulatory quality</td>
<td>Rule of law</td>
</tr>
<tr>
<td>Central Asia</td>
<td>−1.03</td>
<td>−0.81</td>
<td>−0.89</td>
<td>−0.94</td>
<td>−1.10</td>
</tr>
<tr>
<td>East Asia</td>
<td>0.06</td>
<td>0.35</td>
<td>0.40</td>
<td>0.59</td>
<td>0.41</td>
</tr>
<tr>
<td>South Asia</td>
<td>−0.55</td>
<td>−0.77</td>
<td>−0.37</td>
<td>−0.47</td>
<td>−0.36</td>
</tr>
<tr>
<td>Southeast Asia Pacific</td>
<td>−0.66</td>
<td>−0.27</td>
<td>0.01</td>
<td>0.01</td>
<td>−0.18</td>
</tr>
<tr>
<td></td>
<td>0.80</td>
<td>0.76</td>
<td>−0.41</td>
<td>−0.73</td>
<td>0.16</td>
</tr>
</tbody>
</table>

**Notes:** Simple averages. Developing Asia refers to the 44 developing member countries of the Asian Development Bank.

**Source:** Authors’ estimates using World Bank, Worldwide Governance Indicators online database (accessed December 2013).
Comparing 2011 with 1998, there is also strong persistence in the governance sphere. Central Asia ranks fourth in political stability, government effectiveness and regulatory quality and last in voice and accountability, rule of law and control of corruption. Central Asia ranks fourth in political stability, government effectiveness and regulatory quality and last in voice and accountability, rule of law and control of corruption.

Accountability and governance effectiveness, fourth in regulatory quality, rule of law and control of corruption, and last in political stability. Finally, Central Asia ranks fourth in political stability, government effectiveness and regulatory quality and last in voice and accountability, rule of law and control of corruption.

Comparing 2011 with 1998, there is also strong persistence in the governance sphere. Central Asia ranks fourth in political stability, government effectiveness and regulatory quality and last in voice and accountability, rule of law and control of corruption.
governance scores and regional rankings within Asia. But several changes are also noticeable:

1. East Asia improved significantly in most of the six governance dimensions, especially government effectiveness, regulatory quality and rule of law.
2. The Pacific worsened significantly in all dimensions except control of corruption, with the worsening particularly significant in voice and accountability, government effectiveness and rule of law.
3. Southeast Asia worsened in voice and accountability, regulatory quality, rule of law and control of corruption, but improved slightly in political stability and government effectiveness.
4. South Asia improved slightly in voice and accountability, but worsened significantly in all other dimensions.
5. Central Asia improved in political stability, government effectiveness, and regulatory quality, but worsened in voice and accountability and control of corruption.

5. EMPIRICAL RESULTS FOR SURPLUS–DEFICIT ANALYSIS

As described in the previous section, to examine whether a higher initial governance score (the base year being 1998) leads to better growth performance in a subsequent period (1998–2011), all the countries with comparable data (about 215) are grouped into (i) those with actual governance scores higher than the international reference level (the mean level of the countries with a similar per capita income), which are the governance surplus countries; and (ii) those with the actual governance score lower than the international reference level or the governance deficit countries.

Table 3.3 shows the estimated results for the international reference lines. All the equations have a good statistical fit, with the $R^2$ ranging from 0.448 for political stability to 0.715 for government effectiveness. The coefficient of GDP per capita is positive, ranging from 0.53 to 0.6573, and is statistically significant. These suggest that the level of per capita income has significant power in explaining cross-country variations in governance indicators. The dummy for oil-rich countries is negative and also statistically significant, suggesting that these countries on average have a lower governance score compared with those at a similar income level.

Table 3.4 classifies the countries in the region into three groups: (i) those with an actual governance score greater than the upper bound of the 90 percent confidence band of the predicted value given by the
Governance in developing Asia

Table 3.3  International reference lines

<table>
<thead>
<tr>
<th>Estimated equation</th>
<th>R²</th>
<th>Number of observations</th>
</tr>
</thead>
<tbody>
<tr>
<td>VA ( \text{Gi} = -4.4756 + 0.5385 \text{Yi} - 1.325 \text{Di} )</td>
<td>0.566</td>
<td>180</td>
</tr>
<tr>
<td>PS ( \text{Gi} = -4.5145 + 0.5300 \text{Yi} - 0.6664 \text{Di} )</td>
<td>0.448</td>
<td>175</td>
</tr>
<tr>
<td>GE ( \text{Gi} = -5.5142 + 0.6573 \text{Yi} - 0.9711 \text{Di} )</td>
<td>0.715</td>
<td>179</td>
</tr>
<tr>
<td>RQ ( \text{Gi} = -5.0456 + 0.6052 \text{Yi} - 1.0469 \text{Di} )</td>
<td>0.645</td>
<td>179</td>
</tr>
<tr>
<td>RL ( \text{Gi} = -5.4216 + 0.6423 \text{Yi} - 0.9471 \text{Di} )</td>
<td>0.681</td>
<td>180</td>
</tr>
<tr>
<td>CC ( \text{Gi} = -5.3140 + 0.6362 \text{Yi} - 1.0371 \text{Di} )</td>
<td>0.653</td>
<td>179</td>
</tr>
</tbody>
</table>

Notes: CC = control of corruption, GE = government effectiveness, PS = political stability, RL = rule of law, RQ = regulatory quality, VA = voice and accountability. Figures in parentheses are t-statistics.

Source: Authors’ estimates.

international reference line (governance in surplus), (ii) those with a governance score smaller than the lower bound of the 90 percent confidence band of the predicted value (governance in deficit), and (iii) those with a governance score lying within the 90 percent confidence band of the predicted value (neither in surplus nor in deficit). Annual growth rates of per capita GDP of these three groups are reported in Table 3.5.¹

For developing Asia, in voice and accountability, countries with governance deficit grew close to 2 percentage points faster annually than those with governance surplus, with the difference statistically significant at 10 percent. In government effectiveness, regulatory quality and control of corruption, governance surplus countries grew close to 2 percentage points faster annually than those with governance in deficit, with the difference also statistically significant at 10 percent, with the exception of regulatory quality, for which the difference is only significant at 20 percent. For rule of law, surplus countries grew 0.32 percentage points faster annually than deficit countries; for political stability, deficit countries grew 0.26 percentage points faster annually than surplus countries, but the difference is insignificant in both cases.

For the Middle East and North Africa, countries with governance surplus in political stability grew about 2.5 percentage points, in
Table 3.4  Governance surplus and deficit economies in developing Asia, 1998

<table>
<thead>
<tr>
<th>Surplus</th>
<th>Neither surplus (S) nor deficit (D)</th>
<th>Deficit</th>
</tr>
</thead>
<tbody>
<tr>
<td>VA</td>
<td>Azerbaijan, Kyrgyz Republic, Turkmenistan, People's Republic of China (PRC), Mongolia, Bangladesh, Bhutan, India, Nepal, Lao People's Democratic Republic (Lao PDR), Philippines, Singapore, Viet Nam, Fiji, Samoa, and Hong Kong, China (total number of economies = 16)</td>
<td>Kazakhstan, Maldives, Sri Lanka, Brunei Darussalam, Cambodia, Malaysia, Federated States of Micronesia (FSM) (7)</td>
</tr>
<tr>
<td>PS</td>
<td>Kyrgyz Republic, Mongolia, Bangladesh, Bhutan, Maldives, Lao PDR, Thailand, Viet Nam, Fiji, Samoa, Solomon Islands, Vanuatu (12)</td>
<td>Armenia, Azerbaijan, Kazakhstan, Turkmenistan, Uzbekistan, PRC, Republic of Korea, Nepal, Brunei Darussalam, Cambodia, Philippines, Singapore, Papua New Guinea, and Hong Kong, China (13)</td>
</tr>
<tr>
<td>GE</td>
<td>Kyrgyz Republic, PRC, Bangladesh, Bhutan, India, Maldives, Nepal, Philippines, Singapore, Viet Nam, Samoa (11)</td>
<td>Armenia, Azerbaijan, Kazakhstan, Turkmenistan, Mongolia, Pakistan, Brunei Darussalam, Cambodia, Lao PDR, Malaysia, Thailand, Papua New Guinea, and Hong Kong, China (13)</td>
</tr>
<tr>
<td>RQ</td>
<td>Armenia, Kyrgyz Republic, Mongolia, India, Maldives, Nepal, Sri Lanka, Cambodia, Philippines, Singapore (10)</td>
<td>Azerbaijan, Georgia, Kazakhstan, Tajikistan, PRC, Bangladesh, Bhutan, Pakistan, Brunei Darussalam, Indonesia, Lao PDR, Malaysia, Thailand, Viet Nam, Fiji, Papua New Guinea, Samoa, and Hong Kong, China (18)</td>
</tr>
</tbody>
</table>
Table 3.4 (continued)

<table>
<thead>
<tr>
<th>Surplus</th>
<th>Neither surplus (S) nor deficit (D)</th>
<th>Deficit</th>
</tr>
</thead>
<tbody>
<tr>
<td>RL</td>
<td>Mongolia, Bhutan, India, Nepal,</td>
<td>Armenia, Azerbaijan, Kazakhstan,</td>
</tr>
<tr>
<td></td>
<td>Sri Lanka, Philippines, Thailand,</td>
<td>Kyrgyz Republic, Turkmenistan, PRC,</td>
</tr>
<tr>
<td></td>
<td>Viet Nam, Kiribati, FSM, Samoa,</td>
<td>Republic of Korea, Bangladesh, Maldives,</td>
</tr>
<tr>
<td></td>
<td>Tonga (12)</td>
<td>Brunei Darussalam, Cambodia, Lao PDR,</td>
</tr>
<tr>
<td>CC</td>
<td>Kyrgyz Republic, Mongolia,</td>
<td>Azerbaijan, Kazakhstan, Tajikistan,</td>
</tr>
<tr>
<td></td>
<td>Bangladesh, Bhutan, India, Nepal,</td>
<td>Turkmenistan, PRC, Maldives, Sri</td>
</tr>
<tr>
<td></td>
<td>Lao PDR, Philippines, Singapore,</td>
<td>Lanka, Brunei Darussalam, Cambodia,</td>
</tr>
<tr>
<td></td>
<td>Viet Nam, Fiji (11)</td>
<td>Malaysia, Thailand, FSM, Samoa, and</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Hong Kong, China (14)</td>
</tr>
</tbody>
</table>

Notes: CC = control of corruption, FSM = Federated States of Micronesia, GE = government effectiveness, PS = political stability, RL = rule of law, RQ = regulatory quality, VA = voice and accountability.

Source: Authors’ estimates.
Table 3.5  Average annual growth rates of GDP per capita, 1998–2011 (%, 2005 PPP $)

<table>
<thead>
<tr>
<th>Governance status</th>
<th>Developing Asia</th>
<th>Europe: Middle income</th>
<th>Latin America and the Caribbean</th>
<th>Middle East and North Africa</th>
<th>OECD: High income</th>
<th>Sub-Saharan Africa</th>
<th>World</th>
</tr>
</thead>
<tbody>
<tr>
<td>Voice and accountability</td>
<td>Deficit</td>
<td>4.57**</td>
<td>4.33</td>
<td>2.01</td>
<td>0.81</td>
<td>1.63</td>
<td>2.14 2.65</td>
</tr>
<tr>
<td></td>
<td>Neither S/D</td>
<td>6.50</td>
<td>3.75</td>
<td>1.56</td>
<td>2.47</td>
<td>1.44</td>
<td>2.04 2.51</td>
</tr>
<tr>
<td></td>
<td>Surplus</td>
<td>2.71**</td>
<td>4.69</td>
<td>1.86</td>
<td>. . .</td>
<td>1.76</td>
<td>2.65 2.42</td>
</tr>
<tr>
<td>Political stability and absence of violence</td>
<td>Deficit</td>
<td>3.78</td>
<td>3.89</td>
<td>1.86</td>
<td>0.54***</td>
<td>1.18**</td>
<td>2.98 2.61</td>
</tr>
<tr>
<td></td>
<td>Neither S/D</td>
<td>5.83</td>
<td>5.65</td>
<td>1.36</td>
<td>1.08</td>
<td>1.40</td>
<td>0.81 2.41</td>
</tr>
<tr>
<td></td>
<td>Surplus</td>
<td>3.52</td>
<td>4.31</td>
<td>2.16</td>
<td>3.00***</td>
<td>1.92**</td>
<td>2.21 2.51</td>
</tr>
<tr>
<td>Government effectiveness</td>
<td>Deficit</td>
<td>2.61**</td>
<td>4.38</td>
<td>1.56</td>
<td>0.73**</td>
<td>1.92</td>
<td>1.97 2.20</td>
</tr>
<tr>
<td></td>
<td>Neither S/D</td>
<td>5.19</td>
<td>. . .</td>
<td>2.31</td>
<td>1.20</td>
<td>3.37</td>
<td>3.32 3.16</td>
</tr>
<tr>
<td></td>
<td>Surplus</td>
<td>4.53**</td>
<td>4.52</td>
<td>2.25</td>
<td>2.31**</td>
<td>1.37</td>
<td>2.13 2.59</td>
</tr>
<tr>
<td>Regulatory quality</td>
<td>Deficit</td>
<td>2.99*</td>
<td>4.37</td>
<td>1.79</td>
<td>1.31</td>
<td>1.38</td>
<td>3.10 2.64</td>
</tr>
<tr>
<td></td>
<td>Neither S/D</td>
<td>4.26</td>
<td>3.75</td>
<td>1.39</td>
<td>0.69</td>
<td>1.90</td>
<td>2.64 2.24</td>
</tr>
<tr>
<td></td>
<td>Surplus</td>
<td>4.85*</td>
<td>4.70</td>
<td>2.19</td>
<td>1.97</td>
<td>1.64</td>
<td>1.77 2.61</td>
</tr>
<tr>
<td>Rule of law</td>
<td>Deficit</td>
<td>3.33</td>
<td>4.35</td>
<td>1.89</td>
<td>1.57</td>
<td>1.80</td>
<td>2.51 2.60</td>
</tr>
<tr>
<td></td>
<td>Neither S/D</td>
<td>5.11</td>
<td>4.79</td>
<td>1.48</td>
<td>0.39</td>
<td>2.55</td>
<td>1.11 3.05</td>
</tr>
<tr>
<td></td>
<td>Surplus</td>
<td>3.65</td>
<td>4.52</td>
<td>2.05</td>
<td>1.20</td>
<td>1.52</td>
<td>2.35 2.29</td>
</tr>
<tr>
<td>Control of corruption</td>
<td>Deficit</td>
<td>2.94**</td>
<td>4.38</td>
<td>1.89</td>
<td>0.82**</td>
<td>1.94</td>
<td>2.34 2.42</td>
</tr>
<tr>
<td></td>
<td>Neither S/D</td>
<td>3.81</td>
<td>. . .</td>
<td>1.33</td>
<td>1.04</td>
<td>2.40</td>
<td>2.87 2.41</td>
</tr>
<tr>
<td></td>
<td>Surplus</td>
<td>4.94**</td>
<td>4.52</td>
<td>2.34</td>
<td>2.56**</td>
<td>1.42</td>
<td>2.16 2.69</td>
</tr>
</tbody>
</table>

Notes:  
S/D = surplus or deficit. Simple average growth rate. *** means that the difference between surplus and deficit countries is statistically significant at 5% level; ** means that the difference is statistically significant at 10% level; * means that the difference is statistically significant at 20% level; . . . means no country is classified into this group.

Source: Authors’ estimates.
government effectiveness 1.6 percentage points and in control of corruption 1.7 percentage points faster annually than countries with governance in deficit in these areas. The difference in political stability was statistically significant at the 5 percent level and in government effectiveness and control of corruption significant at the 10 percent level. In the other three dimensions, the difference in growth performance between surplus and deficit countries was statistically insignificant.

For other regions and for the world as a whole, although countries with governance in surplus grew faster than those with governance in deficit in most of the governance dimensions, the difference is mostly statistically insignificant. Figure 3.3 compares the annual growth rates of per capita GDP of surplus countries during 1998–2011 with those of deficit countries for the six governance dimensions.

6. EMPIRICAL RESULTS FOR THE PANEL DATA ANALYSIS

6.1 Principal Component Analysis

The first step is to apply general principal component analysis to include all the right-hand side variables (11 in total) simultaneously. The initial results show that the first four principal components can explain 89 percent of the total variation in all right-hand side variables. This analysis therefore focuses on the four principal components in undertaking the second step. Tables 3.6 and 3.7 present the final results. As Table 3.8 indicates, all the eigenvalues are greater than one and the four principal components explain 89 percent of the total right-hand side variable variance, supporting the choice of the four principal components.

Table 3.6 ignores the loading factors whose absolute value is smaller than 0.4. The column $H^2$ indicates how much variance in a corresponding variable has been included in the newly constructed principal component. For example, for voice and accountability, the first principal component covers 83 percent of its variance. High $H^2$ values for all variables also imply that the four principal components are appropriate choices.

The results of the principal component analysis show that the variables in $G_{it}$ are well summarized in principal component 1, which we call the governance component. The variables in $Z_{it}$ are summarized into three components, one representing mainly the effect of the share of the working-age population, access to improved water and access to improved sanitation, called here the human development component; another caused solely by openness, called here the openness component;
and the last caused by the variation in FDI, the FDI component. The four principal components fulfill the orthogonal conditions (no correlation). Fortunately, each component corresponds to variables that have similar intuitive meanings. The four principal components are then used in panel regression analysis using equation (3.4).

6.2 Using Log GDP Per Capita as the Dependent Variable

First, we apply the ordinary least squares method to estimate a simple fixed effects model without controlling for the endogeneity as our benchmark. In this model, in addition to common effects from the lagged log GDP per capita and the four principal components of governance, human development, openness and FDI, it is assumed that there is a country-specific unobserved fixed effect capturing the influence of all the other unobserved variables. As Table 3.8 shows, the lagged log GDP per capita has a dominant effect on the dependent variable. The governance component also has a significant positive effect, as do the human development, openness and FDI components. The analysis also tested whether the governance component acts differently in Asian countries by interacting it with a dummy variable for Asia (D_{ASIA}). The results indicate that governance factors in Asia contribute less to economic growth compared with the other regions. The model has an adjusted R-squared at 0.8041 and all the coefficients are significant at the 1 percent level.

To further clarify the contribution of governance quality on economic development, we control for endogeneity by applying the generalized method of moments to estimate equation (3.4). To estimate the model, the equation is transformed by taking the first-order difference, with all lagged governance and human development components used as instruments. The reason for choosing the lagged values for these two variables and all the lagged periods as the instruments is that it avoids the “over identifying” problem judged by the Sargan test and avoids second-order serial correlation judged by the autocorrelation test.

As Table 3.9 shows, after controlling for endogeneity, there are still significant positive effects of the governance component on log GDP per capita. The coefficient of 0.25 is an average contribution of governance to log GDP per capita. The results again suggest that governance appears to matter less for economic development in Asia relative to other regions. The new results are consistent with the ordinary least squares method as presented in Table 3.8. A comparison of Tables 3.8 and 3.9 suggests that the control for endogeneity raises the estimated effect of governance on economic development from 0.11 to 0.25 for the non-Asian countries and from 0.07 to 0.15 for Asian countries.
Governance in developing Asia

Source: Authors’ estimates using data from World Bank, Worldwide Governance Indicators online database (accessed December 2013).

Figure 3.3  Average growth rates of GDP per capita, 1998–2011 (2005 PPP $)
Do governance indicators explain growth performance?

**Figure 3.3** (continued)
To test the contribution of each single governance indicator on economic growth, alternative specifications are also used by entering only one governance indicator at a time, together with the working-age population share, openness and FDI as control variables. The principal component analysis is still applied to deal with multicollinearity. Table 3.10 reports the estimated coefficients of the governance indicators from these alternative specifications. The results show that all coefficients are statistically significant at the 1 percent level, implying that governance quality in all six dimensions has a positive and significant effect on log GDP capita.

Table 3.6  Standardized loading for the four main components

<table>
<thead>
<tr>
<th></th>
<th>PC1</th>
<th>PC2</th>
<th>PC3</th>
<th>PC4</th>
<th>( H^2 )</th>
</tr>
</thead>
<tbody>
<tr>
<td>Voice and accountability</td>
<td>0.88</td>
<td></td>
<td></td>
<td></td>
<td>0.83</td>
</tr>
<tr>
<td>Government effectiveness</td>
<td>0.87</td>
<td></td>
<td></td>
<td></td>
<td>0.94</td>
</tr>
<tr>
<td>Political stability</td>
<td>0.79</td>
<td></td>
<td></td>
<td></td>
<td>0.73</td>
</tr>
<tr>
<td>Regulatory quality</td>
<td>0.85</td>
<td></td>
<td></td>
<td></td>
<td>0.90</td>
</tr>
<tr>
<td>Rule of law</td>
<td>0.90</td>
<td></td>
<td></td>
<td></td>
<td>0.95</td>
</tr>
<tr>
<td>Control of corruption</td>
<td>0.89</td>
<td></td>
<td></td>
<td></td>
<td>0.91</td>
</tr>
<tr>
<td>Share of population aged</td>
<td></td>
<td>0.85</td>
<td></td>
<td></td>
<td>0.84</td>
</tr>
<tr>
<td>15–64</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Access to improved water</td>
<td></td>
<td>0.85</td>
<td></td>
<td></td>
<td>0.87</td>
</tr>
<tr>
<td>Access to improved sanitation</td>
<td></td>
<td>0.86</td>
<td></td>
<td></td>
<td>0.86</td>
</tr>
<tr>
<td>Openness</td>
<td></td>
<td>0.97</td>
<td></td>
<td></td>
<td>0.98</td>
</tr>
<tr>
<td>Foreign direct investment</td>
<td></td>
<td></td>
<td></td>
<td>0.97</td>
<td>0.99</td>
</tr>
</tbody>
</table>

Notes:  PC = Principal component. Only the absolute loading factors higher than 0.43 are reported.

Source: Authors’ estimates.

Table 3.7  Eigenvalue, proportion variance and cumulative variance

<table>
<thead>
<tr>
<th></th>
<th>PC1</th>
<th>PC2</th>
<th>PC3</th>
<th>PC4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eigenvalue</td>
<td>4.87</td>
<td>2.79</td>
<td>1.08</td>
<td>1.07</td>
</tr>
<tr>
<td>Proportion variance</td>
<td>0.44</td>
<td>0.25</td>
<td>0.10</td>
<td>0.10</td>
</tr>
<tr>
<td>Cumulative variance</td>
<td>0.44</td>
<td>0.70</td>
<td>0.79</td>
<td>0.89</td>
</tr>
</tbody>
</table>

Note:  PC = Principal component.

Source: Authors’ estimates.
Do governance indicators explain growth performance?

**Table 3.8  Fixed effects model with log GDP per capita as the dependent variable**

<table>
<thead>
<tr>
<th>Estimated coefficients</th>
<th>T-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lagged log GDP per capita (in 2005 PPP)</td>
<td>0.78</td>
</tr>
<tr>
<td>Governance component</td>
<td>0.11</td>
</tr>
<tr>
<td>DASIA * Governance component</td>
<td>−0.04</td>
</tr>
<tr>
<td>Human development component</td>
<td>0.13</td>
</tr>
<tr>
<td>Openness</td>
<td>0.02</td>
</tr>
<tr>
<td>Foreign direct investment</td>
<td>0.02</td>
</tr>
<tr>
<td>Adjusted R-squared</td>
<td>0.80</td>
</tr>
<tr>
<td>Number of observations</td>
<td>1805</td>
</tr>
</tbody>
</table>

*Note:* GDP = gross domestic product, PPP = purchasing power parity. *** means significant at 1%; ** means significant at 5%; * means significant at 10%.

*Source:* Authors’ estimates.

**Table 3.9  GMM estimation results with log GDP per capita as the dependent variable**

<table>
<thead>
<tr>
<th>Estimated coefficients</th>
<th>Z-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lagged log GDP per capita (in 2005 PPP)</td>
<td>0.48</td>
</tr>
<tr>
<td>Governance component</td>
<td>0.25</td>
</tr>
<tr>
<td>DASIA * Governance component</td>
<td>−0.10</td>
</tr>
<tr>
<td>Human development component</td>
<td>0.32</td>
</tr>
<tr>
<td>Openness</td>
<td>0.06</td>
</tr>
<tr>
<td>Foreign direct investment</td>
<td>0.05</td>
</tr>
<tr>
<td>Sargan test: chi sq with (p value)</td>
<td>140.61 (0.210)</td>
</tr>
<tr>
<td>Second-order serial correlation (p value)</td>
<td>1.06 (0.143)</td>
</tr>
<tr>
<td>Wald test for coefficients: chi sq with (p value)</td>
<td>551.38 (2.22e-16)</td>
</tr>
<tr>
<td>Number of observations</td>
<td>1805</td>
</tr>
</tbody>
</table>

*Notes:* GDP = gross domestic product, GMM = generalized method of moments, PPP = purchasing power parity.

*Source:* Authors’ estimates.
Table 3.10  GMM estimation results with log GDP per capita as the dependent variable using only one governance indicator

<table>
<thead>
<tr>
<th></th>
<th>Voice and accountability</th>
<th>Government effectiveness</th>
<th>Political stability</th>
<th>Regulatory quality</th>
<th>Rule of law</th>
<th>Control of corruption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lagged GDP per capita</td>
<td>0.67</td>
<td>0.68</td>
<td>0.68</td>
<td>0.68</td>
<td>0.60</td>
<td>0.69</td>
</tr>
<tr>
<td></td>
<td>(16.64)***</td>
<td>(15.79)***</td>
<td>(15.28)***</td>
<td>(16.23)***</td>
<td>(11.77)***</td>
<td>(15.24)***</td>
</tr>
<tr>
<td>Governance indicator</td>
<td>0.09</td>
<td>0.06</td>
<td>0.05</td>
<td>0.06</td>
<td>0.09</td>
<td>0.04</td>
</tr>
<tr>
<td></td>
<td>(5.15)***</td>
<td>(3.69)***</td>
<td>(4.43)***</td>
<td>(3.80)***</td>
<td>(4.73)***</td>
<td>(3.26)***</td>
</tr>
<tr>
<td>DASIA * Governance indicator</td>
<td>−0.07</td>
<td>0.08</td>
<td>−0.01</td>
<td>0.02</td>
<td>−0.03</td>
<td>0.01</td>
</tr>
<tr>
<td></td>
<td>(−2.75)***</td>
<td>(2.34)***</td>
<td>(−0.51)</td>
<td>(−0.84)</td>
<td>(−1.45)</td>
<td>(−0.29)</td>
</tr>
<tr>
<td>Working-age population share</td>
<td>0.13</td>
<td>0.13</td>
<td>0.12</td>
<td>0.12</td>
<td>0.18</td>
<td>0.11</td>
</tr>
<tr>
<td></td>
<td>(4.97)***</td>
<td>(4.35)***</td>
<td>(4.33)***</td>
<td>(4.19)***</td>
<td>(5.03)***</td>
<td>(3.80)***</td>
</tr>
<tr>
<td>Openness</td>
<td>0.04</td>
<td>0.04</td>
<td>0.04</td>
<td>0.03</td>
<td>0.05</td>
<td>0.03</td>
</tr>
<tr>
<td></td>
<td>(3.81)***</td>
<td>(3.17)***</td>
<td>(3.29)***</td>
<td>(2.87)***</td>
<td>(4.39)***</td>
<td>(2.91)***</td>
</tr>
<tr>
<td>Foreign direct investment</td>
<td>0.03</td>
<td>0.02</td>
<td>0.02</td>
<td>0.02</td>
<td>0.03</td>
<td>0.02</td>
</tr>
<tr>
<td></td>
<td>(6.03)***</td>
<td>(4.74)***</td>
<td>(4.86)***</td>
<td>(5.20)***</td>
<td>(5.54)***</td>
<td>(−4.68)</td>
</tr>
<tr>
<td>Sargan test: chi sq. with (p value)</td>
<td>146.70</td>
<td>145.99</td>
<td>144.74</td>
<td>147.67</td>
<td>139.93</td>
<td>149.86</td>
</tr>
<tr>
<td></td>
<td>(0.15)</td>
<td>(0.16)</td>
<td>(0.178)</td>
<td>(0.138)</td>
<td>(0.103)</td>
<td>(0.112)</td>
</tr>
<tr>
<td>Second-order serial correlation (p value)</td>
<td>0.57</td>
<td>0.13</td>
<td>0.17</td>
<td>−0.02</td>
<td>0.45</td>
<td>0.01</td>
</tr>
<tr>
<td></td>
<td>(0.284)</td>
<td>(0.449)</td>
<td>(0.432)</td>
<td>(0.491)</td>
<td>(0.325)</td>
<td>(0.495)</td>
</tr>
<tr>
<td>Wald test for coefficients: chi sq. with (p value)</td>
<td>1355.81</td>
<td>1658.18</td>
<td>1424.39</td>
<td>1649.9</td>
<td>1170.16</td>
<td>1730.91</td>
</tr>
<tr>
<td></td>
<td>(2.22e-16)</td>
<td>(2.22e-16)</td>
<td>(2.22e-16)</td>
<td>(2.22e-16)</td>
<td>(2.22e-16)</td>
<td>(2.22e-16)</td>
</tr>
<tr>
<td>Number of observations</td>
<td>1805</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Notes: GDP = gross domestic product, GMM = generalized method of moments. The values in parenthesis are Z test values. All controlling variables and governance indicators are principal components. For each specification, all original lagged governance indicator and working-age population share are used as the instrumental variables. *** means significant at 1%; ** means significant at 5%; * means significant at 10%.

Source: Authors’ estimates.
Table 3.10 shows that the governance indicators have uneven “additional” effects on economic development in Asian countries. Among the indicators, voice and accountability contributes less to economic growth in Asian countries compared with other regions, while government effectiveness contributes more to economic growth.

6.3 Using GDP Growth as the Dependent Variable

When using the annual GDP growth rate as the dependent variable, there are still significant positive effects of the governance component on GDP growth. Table 3.11 reports the results of a fixed-effect model without controlling for the endogeneity. As expected, the lagged log GDP per capita has a negative and significant effect on the GDP growth rate, as higher-income countries tend to have lower growth rates. The four principal components all have a significant and positive effect on annual GDP growth rates, with the estimated coefficient being 8.05 for governance, 10.94 for human development, 1.84 for openness, and 1.69 for FDI. However, the adjusted R squared decreases dramatically in comparison with the specification when log GDP per capita is used as the dependent variable.

Table 3.12 reports the results of applying the GMM analysis, thus controlling for endogeneity. The coefficient of the governance component remains positive and significant, as do the other three components. The negative coefficient of the interacting term (between governance component and the Asia dummy) is not significant. Therefore, when

<table>
<thead>
<tr>
<th>Estimated coefficients</th>
<th>T-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lagged log GDP per capita (in 2005 PPP)</td>
<td>-11.90</td>
</tr>
<tr>
<td>Governance component</td>
<td>8.05</td>
</tr>
<tr>
<td>D_ASIA* Governance component</td>
<td>-1.89</td>
</tr>
<tr>
<td>Human development component</td>
<td>10.94</td>
</tr>
<tr>
<td>Openness</td>
<td>1.84</td>
</tr>
<tr>
<td>Foreign direct investment</td>
<td>1.69</td>
</tr>
<tr>
<td>Adjusted R-squared</td>
<td>0.1024</td>
</tr>
<tr>
<td>Number of observations</td>
<td>1805</td>
</tr>
</tbody>
</table>

Note: GDP = gross domestic product, PPP = purchasing power parity. *** means significant at 1%; ** means significant at 5%; * means significant at 10%.

Source: Authors’ estimates.
Table 3.12  GMM estimation results with GDP growth rate as dependent variable

<table>
<thead>
<tr>
<th>Estimated coefficients</th>
<th>Z-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lagged log GDP per capita (in 2005 PPP)</td>
<td>-36.64</td>
</tr>
<tr>
<td>Governance component</td>
<td>20.95</td>
</tr>
<tr>
<td>DASIA* Governance component</td>
<td>-6.55</td>
</tr>
<tr>
<td>Human development component</td>
<td>26.67</td>
</tr>
<tr>
<td>Openness</td>
<td>4.93</td>
</tr>
<tr>
<td>Foreign direct investment</td>
<td>3.74</td>
</tr>
<tr>
<td>Sargan Test: chi sq with (p value)</td>
<td>135.45 (0.309)</td>
</tr>
<tr>
<td>Second-order serial correlation (p value)</td>
<td>0.77 (0.221)</td>
</tr>
<tr>
<td>Wald test for coefficients: chi sq with (p value)</td>
<td>113.41 (2.22e-16)</td>
</tr>
<tr>
<td>Number of observations</td>
<td>1805</td>
</tr>
</tbody>
</table>

Note:  GDP = gross domestic product, GMM = generalized method of moments, PPP = purchasing power parity. *** means significant at 1%; ** means significant at 5%; * means significant at 10%.

Source:  Authors' estimates.

Governance is examined in an aggregated manner, Asian countries have no significantly different pattern with respect to other regions.

Table 3.13 shows the results of specification where only one governance indicator enters the regression (and principal component analysis) together with the other three controlling variables’ principal components as explanatory variables. The estimated coefficients of all the governance indicators are positive and significant at a normal confidence level.

As shown in Table 3.13, the results for GDP growth rate being the dependent variable are consistent with those for log GDP per capita being the dependent variable in Table 3.10. All governance indicators have a significant positive effect on growth rate. The interaction term between voice and accountability and the dummy for Asia has a negative and significant coefficient, and that between government effectiveness and the dummy for Asia has a positive and significant coefficient. This implies that voice and accountability is less important and government effectiveness is more important in driving growth in Asia than in the rest of the world.
Table 3.13  **GMM estimation results with GDP growth rate as dependent variable**

<table>
<thead>
<tr>
<th></th>
<th>Voice and accountability</th>
<th>Government effectiveness</th>
<th>Political stability</th>
<th>Regulatory quality</th>
<th>Rule of law</th>
<th>Control of corruption</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(-5.88)*****</td>
<td>(-5.67)*****</td>
<td>(-5.32)*****</td>
<td>(-5.55)*****</td>
<td>(-5.45)*****</td>
<td>(-5.00)*****</td>
</tr>
<tr>
<td>Governance Indicator</td>
<td>7.22</td>
<td>5.28</td>
<td>4.75</td>
<td>4.37</td>
<td>5.96</td>
<td>3.30</td>
</tr>
<tr>
<td></td>
<td>(4.84)*****</td>
<td>(3.58)*****</td>
<td>(4.62)*****</td>
<td>(3.67)*****</td>
<td>(3.78)*****</td>
<td>(3.00)*****</td>
</tr>
<tr>
<td>$D_{Asia}$ * Governance</td>
<td>-5.06</td>
<td>8.18</td>
<td>-0.63</td>
<td>3.20</td>
<td>0.21</td>
<td>1.67</td>
</tr>
<tr>
<td>Indicator</td>
<td>(-2.16)**</td>
<td>(3.12)*****</td>
<td>(-0.38)</td>
<td>(1.72)*</td>
<td>(0.11)</td>
<td>(0.93)</td>
</tr>
<tr>
<td>Working-age population</td>
<td>11.15</td>
<td>11.48</td>
<td>10.40</td>
<td>10.61</td>
<td>11.02</td>
<td>10.04</td>
</tr>
<tr>
<td>share</td>
<td>(5.36)*****</td>
<td>(4.88)*****</td>
<td>(4.83)*****</td>
<td>(4.63)*****</td>
<td>(4.74)*****</td>
<td>(4.27)*****</td>
</tr>
<tr>
<td>Openness</td>
<td>3.90</td>
<td>3.76</td>
<td>3.73</td>
<td>3.50</td>
<td>3.84</td>
<td>3.49</td>
</tr>
<tr>
<td></td>
<td>(4.40)*****</td>
<td>(3.78)*****</td>
<td>(3.94)*****</td>
<td>(3.58)*****</td>
<td>(4.07)*****</td>
<td>(3.51)*****</td>
</tr>
<tr>
<td>Foreign direct investment</td>
<td>2.36</td>
<td>2.00</td>
<td>1.83</td>
<td>1.87</td>
<td>2.07</td>
<td>1.64</td>
</tr>
<tr>
<td></td>
<td>(5.69)*****</td>
<td>(4.61)*****</td>
<td>(5.03)*****</td>
<td>(4.92)*****</td>
<td>(4.95)*****</td>
<td>(4.73)*****</td>
</tr>
<tr>
<td>Sargan test: chi sq with (p value)</td>
<td>143.08</td>
<td>145.97</td>
<td>147.78</td>
<td>148.85</td>
<td>144.72</td>
<td>145.47</td>
</tr>
<tr>
<td></td>
<td>(0.204)</td>
<td>(0.160)</td>
<td>(0.136)</td>
<td>(0.123)</td>
<td>(0.178)</td>
<td>(0.167)</td>
</tr>
<tr>
<td>Second-order serial correlation (p value)</td>
<td>0.49</td>
<td>0.22</td>
<td>0.30</td>
<td>0.22</td>
<td>0.22</td>
<td>0.19</td>
</tr>
<tr>
<td></td>
<td>(0.310)</td>
<td>(0.413)</td>
<td>(0.381)</td>
<td>(0.414)</td>
<td>(0.414)</td>
<td>(0.425)</td>
</tr>
<tr>
<td>Wald test for coefficients: chi sq with (p value)</td>
<td>71.50</td>
<td>46.98</td>
<td>56.62</td>
<td>41.06</td>
<td>44.81</td>
<td>50.44</td>
</tr>
<tr>
<td></td>
<td>(=2.01e-13)</td>
<td>(1.89e-8)</td>
<td>(2.18e-10)</td>
<td>(2.81e-7)</td>
<td>(5.10e-8)</td>
<td>(3.84e-9)</td>
</tr>
<tr>
<td>Number of observations</td>
<td>1805</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Notes:** GDP = gross domestic product, GMM = generalized method of moments. The values in parenthesis are Z test values. All controlling variables and governance indicators are principal components. For each specification, all original lagged governance indicator and working-age population share are used as the instrumental variables. *** means significant at 1%; ** means significant at 5%; * means significant at 10%.

**Source:** Authors' estimates.
7. SUMMARY, CONCLUSIONS AND POLICY IMPLICATIONS

By classifying countries into those with governance in surplus and those with governance in deficit using an international reference line as the classification criterion, several interesting findings emerge.

First, when pooling all the countries in the world together, there is no difference in growth performance between governance surplus countries and deficit countries. But when the analysis is broken down by region, governance quality does have a significant impact on growth performance, especially in developing Asia, and the Middle East and North Africa. Regional specificities of both governance and growth are therefore important to consider.

Second, on balance, government effectiveness, political stability, control of corruption and regulatory quality have a positive and more significant impact on growth performance than voice and accountability and rule of law. In developing Asia, countries with governance surplus in government effectiveness, regulatory quality and control of corruption grew close to 2 percentage points faster annually than those with governance in deficit during 1998–2011. In the Middle East and North Africa, countries with governance surplus in political stability, governance effectiveness and control of corruption grew 1.5–2.5 percentage points faster annually than those with governance in deficit during the same period.

Third, the results on voice and accountability and rule of law are mixed. For voice and accountability, developing Asian countries with governance deficit grew faster than those with governance surplus by 1.8 percentage points annually during 1998–2011, and the difference is statistically significant at a normal confidence level for other regions. However, the difference in growth performance between governance surplus and deficit countries is not statistically significant. For rule of law, the difference in growth performance between governance surplus and deficit countries is not statistically significant for all the regions.

The dynamic panel data model suggests two key results. First, the governance component has a positive and significant effect on economic outcomes using both the log GDP per capita and annual growth rate as the dependent variable; the lagged log GDP per capita and the four principal components as the explanatory variables; and by applying both ordinary least squares and the GMM method, which controls for fixed effects, endogeneity and multicollinearity. Entering the governance indicators one at a time together with other controlling variables through principal components and by applying the GMM method, it is found that the six
governance indicators each have a significant positive effect on both the log GDP per capita and annual growth rate.

Second, at an aggregated level, the linkage of governance with economic performance appears to be weaker in Asia than the rest of the world. At the disaggregated level, the linkage of voice and accountability with log GDP per capita and annual growth rate is significantly weaker for Asia than for the rest of the world, whereas the effect of government effectiveness and regulatory quality on economic performance is significantly higher in Asia than in the rest of the world.

These results suggest that governance matters for development. Better governance correlates with faster growth and higher income levels, but its relationship with development may vary across dimensions of governance and a country’s stage of development. In terms of policy, these suggest that priorities of governance reform are likely to be country-specific. Low income countries should perhaps strive for more effective government, better regulatory quality and rule of law, and tighter control of corruption. Graduating to higher income entails improving governance quality with respect to citizen participation and government accountability. Middle- and high-income countries are likely to reap considerable rewards from their citizens’ greater voice, political stability and world-class institutions. By focusing on the biggest hurdles to growth and development, countries are more likely to see their governance reform efforts succeed.

ACKNOWLEDGEMENTS

We thank the participants in the workshops sponsored by the Asian Development Bank (ADB) at the University of California, Riverside and ADB headquarters in Manila. We also thank political scientists at Korbel School, and professors Barry Hughes, Devin Joshi, Aaron Schneider and Tim Sisk for their kind suggestions. We also thank Derek Sarchet and Jacob Fuller for valuable research assistance.

NOTE

1. Similar analysis was also carried out with the countries classified into two groups: governance surplus countries and governance deficit countries. Surplus countries refer to those above the international reference line and deficit countries refer to those below the international reference line. The results lead to similar conclusions and hence are not reported.
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Mulligan, C., R. Gil and X. Sala-i-Martin (2004), ‘Do democracies have different
Do governance indicators explain growth performance?

public policies than nondemocracies?’, *Journal of Economic Perspectives*, 18 (1), 51–74.


4. Governance and development outcomes in Asia

Kunal Sen

1. INTRODUCTION

The relationship between governance and economic development is one of the most important areas of research in international development. Surprisingly, given the need to better understand it, much of the empirical literature has focused on the narrower question of whether good governance leads to higher levels of income (Evans and Rauch 1999; Kaufmann et al. 2009). Yet there is scant literature on the relationship between governance and broader development outcomes, such as poverty and inequality, human development, years of schooling, gender inequality, infant and maternal mortality, and access to adequate sanitation (the main exceptions are Rajkumar and Swaroop 2008 and Hallerod et al. 2013).

With a focus on developing Asia, this chapter examines this relationship. Development institutions are increasingly realizing that good governance is not only a worthy goal in itself, but also a way to affect a variety of other outcomes, particularly economic growth and development (Gisselquist 2012). In poorly governed countries, high levels of corruption lead to the evasion of taxes that could have been used to finance productive government investment and service delivery to the poor (Rajkumar and Swaroop 2008). Low state administrative capacity and weak accountability of service providers to citizens imply that government expenditures in health, education and infrastructure are not spent effectively for poverty reduction and the achievement of broader development outcomes (World Bank 2004). As former United Nations Secretary General Kofi Annan noted, “good governance is the single most important factor in eradicating poverty and promoting development” (United Nations Development Programme [UNDP] 2002).

Whether better governance leads to broader development outcomes over and above improvements in living standards is particularly relevant in the context of developing Asia. Here, economic growth has been strong in many countries and the expansion of public services has been impressive
in recent decades, but government performance on the delivery of public services and in broader development outcomes varies widely, such as in infant and maternal mortality, schooling and access to sanitation (Asian Development Bank 2013). Furthermore, developing Asia has been characterized by weak and dysfunctional governance systems, relative to other regions of the world (this issue is discussed in Chapter 2).

In examining the causal relationship between governance and broad development outcomes, this chapter looks at whether higher levels of governance improve economic and social development. To measure these, a wide range of development indicators are used, including head count poverty, infant and maternal mortality, human development, literacy, gender inequality, access to sanitation and quality of infrastructure. We then examine the relationship between the quality of governance and development outcomes, and assess whether it is stronger or weaker in developing Asia.

How to conceptualize and measure governance is a matter of considerable debate (Fukuyama 2013). It is now widely understood that a single definition or measure does not adequately capture the different dimensions of governance (Langbein and Knack 2010). But the literature on governance does distinguish between three interrelated but conceptually separate dimensions: (i) state administrative capacity—the quality of a bureaucracy and its ability to deliver services (Fukuyama 2013); (ii) legal infrastructure—the ability of government to enforce laws and regulations (Besley and Persson 2011); and (iii) accountability and state legitimacy—the extent to which the state is accountable for its own actions and the responsiveness of state institutions to citizens (UNDP 2011).

In this study’s empirical analysis, the concept of governance and use of disaggregated measures of governance are used to capture different dimensions of governance. This allows for the possibility that different dimensions of governance can affect development indicators differently and that the use of a single measure of good governance may not be useful from a policy point of view to assess which dimension of governance matters more in impacting one development indicator relative to others.

From a theoretical standpoint, the relationship between governance and broader economic and social development is less well understood than the relationship between governance and economic growth. For example, does better governance lead to improvements in child and maternal mortality through its direct effect of increasing income levels and, by doing so, enable poor households to invest more in schooling, nutrition and health? Or does better governance occur by enabling the state to improve tax collection, thereby increasing revenue to finance social expenditure? Or, alternatively, is the effect of better governance mostly attained by improving the delivery of public goods to the poor? This chapter explores
these very different causal mechanisms between governance and development to better understand the specific pathways by which governance can affect development, and it assesses which of these are most important for developing Asia.

A key finding is that governance clearly affects most development outcomes, except levels of schooling. This is particularly evident for the variables of state administrative capacity and legal infrastructure, but less so for state accountability. However, we find that the benign relationship between governance and development is weaker for developing Asia on several of these indicators. We also find that mobilizing more domestic resources and increasing the effectiveness of how these are spent on social sectors are key mechanisms by which governance affects development.

2. THE RELATIONSHIP BETWEEN GOVERNANCE AND DEVELOPMENT

How would improvements in the quality of governance affect social development? In this section, we sketch out a framework for understanding the causal links from governance to social development outcomes. The first of three mechanisms examined here by which better governance can affect development (and the one most commonly studied in the literature) is increasing the level of per capita incomes, especially the incomes of the poor. This allows households to invest more in health, nutrition and education. The relationship between governance and levels of income has been well studied in the literature (Evans and Rauch 1999; Hall and Jones 1999; Aron 2000; Acemoglu et al. 2001; Glaeser et al. 2004; Rodrik et al. 2004).

Better governance, such as improvements in legal infrastructure, provides firms with incentives to invest in capital and to develop new goods and production technologies, leading to higher growth. Better governance also provides incentives for households to spend more on health and education, which are encouraged by the higher potential for reaping the benefits of these long-term investments. In turn, higher levels of health and education also raise growth. And households need to divert less of their incomes to bribe corrupt government officials for essential services or to spend more on measures that protect their investments; again, raising investment levels and therefore income levels.

The second mechanism by which governance affects development is by allowing the state to collect more tax revenue and, consequently, spend more on the social sector. Expanding the administrative capacity of government allows for more efficient tax collection, while increased capacity to tackle corruption should lessen leakage in tax revenue (Mookherjee 1998).
The third is more effective delivery of social sector spending and public goods. Greater accountability of service providers to citizens and politicians ensures that education and health services actually reach the majority of the population, while lower corruption implies lower leakage of public funds to the nonpoor (World Bank 2004). Dawson (2010) finds evidence that improvements in the rule of law reduce child mortality. Rajkumar and Swaroop (2008) find that lower corruption leads to more effective service delivery. And Hallerod et al. (2013) find that greater quality of government has a strong positive effect on a wide range of measures of child poverty and nutrition.

Figure 4.1 summarizes the three mechanisms. Note that they are not independent of each other; for example, a higher level of income also implies higher tax revenues if the elasticity of taxes to income is high. In general, it is expected that the three mechanisms work simultaneously, though their strength may differ, both cross-nationally and by region.

3. EMPIRICAL STRATEGY, VARIABLES AND DATA

In this section, we describe our chosen measures of governance, present the empirical strategy and then discuss the sources of the data.
Although a range of governance measures is available cross-nationally, we use the World Bank’s Worldwide Governance Indicators (WGI) as the main one, for three reasons. First, the WGIs are based on other governance indicators and each sub-measure is constructed using principal component analysis from a wide range of sources of secondary data on different dimensions of governance (Kaufmann et al. 2009). Second, unlike other measures—such as Holmberg and Rothstein’s quality of government measure (2013) or the measure of bureaucratic quality and control of corruption from the International Risk Country Guide—which have limited coverage of developing Asian countries, the WGIs have data on 35 of them. And third, the WGIs provide disaggregated data on different dimensions of governance, such as state administrative capacity, legal infrastructure and accountability.

The five WGI measures we use are (i) voice and accountability, (ii) government effectiveness, (iii) regulatory quality, (iv) rule of law, and (v) control of corruption. These indicators are based on 30 underlying data sources reporting the perceptions of governance from a large number of survey respondents and expert assessments worldwide. Government effectiveness and control of corruption measure state administrative capacity, regulatory quality measures legal infrastructure, and rule of law and voice and accountability measure the accountability and legitimacy of states. Each measure ranges from −2.5 (weak governance) to +2.5 (strong governance). For all the indices, a higher score indicates a better rating.

Table 4.1 shows the averages by region for 2010 for the five indicators. Except for East Asia, the other regions of Asia do badly in governance quality relative to other developing country regions (though the Pacific does surprisingly well in voice and accountability). East Asia’s score in regulatory quality is the same as North America and Western Europe, though it does not do so well in control of corruption and voice and accountability. Quality of governance also varies widely within Asia. In general, South Asia’s performance is the worst and comparable to sub-Saharan Africa.

We use the WGIs as our preferred measure of governance to assess whether better governance leads to better development outcomes and whether the relationship between governance and development is different for developing Asia compared with the rest of the world. We estimate regressions of the following form:

$$D_i = a_1 + a_2*G_i + a_3*ASIA_i + a_4*ASIA*G_i + a_5 Z_i + e_i \quad (4.1)$$

Where i stands for country, D is the development outcome for country i, G is the relevant WGI measure of governance quality, ASIA is a dummy
<table>
<thead>
<tr>
<th>Region</th>
<th>Government effectiveness</th>
<th>Control of corruption</th>
<th>Regulatory quality</th>
<th>Rule of law</th>
<th>Voice and accountability</th>
<th>Number of observations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transition economies</td>
<td>−0.12</td>
<td>−0.13</td>
<td>0.33</td>
<td>0.05</td>
<td>0.27</td>
<td>20</td>
</tr>
<tr>
<td>Latin America</td>
<td>−0.30</td>
<td>−0.29</td>
<td>−0.23</td>
<td>−0.57</td>
<td>−0.03</td>
<td>20</td>
</tr>
<tr>
<td>North Africa and Middle East</td>
<td>0.01</td>
<td>−0.09</td>
<td>−0.04</td>
<td>−0.05</td>
<td>−0.86</td>
<td>20</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>−0.79</td>
<td>−0.61</td>
<td>−0.71</td>
<td>−0.74</td>
<td>−0.64</td>
<td>48</td>
</tr>
<tr>
<td>Advanced economies</td>
<td>1.56</td>
<td>1.63</td>
<td>1.46</td>
<td>1.52</td>
<td>1.33</td>
<td>27</td>
</tr>
<tr>
<td>Central Asia</td>
<td>−0.49</td>
<td>−0.88</td>
<td>−0.39</td>
<td>−0.77</td>
<td>−1.01</td>
<td>8</td>
</tr>
<tr>
<td>East Asia</td>
<td>0.21</td>
<td>−0.04</td>
<td>1.46</td>
<td>1.52</td>
<td>−0.21</td>
<td>6</td>
</tr>
<tr>
<td>Southeast Asia</td>
<td>−0.09</td>
<td>−0.37</td>
<td>−0.22</td>
<td>−0.09</td>
<td>−0.74</td>
<td>11</td>
</tr>
<tr>
<td>South Asia</td>
<td>−0.51</td>
<td>−0.63</td>
<td>−0.73</td>
<td>−0.57</td>
<td>−0.47</td>
<td>8</td>
</tr>
<tr>
<td>Pacific</td>
<td>−0.66</td>
<td>−0.34</td>
<td>−0.86</td>
<td>0.08</td>
<td>0.55</td>
<td>12</td>
</tr>
<tr>
<td>Caribbean</td>
<td>0.46</td>
<td>0.54</td>
<td>0.26</td>
<td>0.33</td>
<td>0.80</td>
<td>13</td>
</tr>
</tbody>
</table>

Source: World Bank, Worldwide Governance Indicators online database (accessed June 2013), and author’s calculations.
variable, which takes the value one for all developing Asian countries (zero, otherwise) and Z is a vector of control variables. For D, we look at eight indicators that capture the range of economic and social development outcomes that we are interested in. These are (i) head count poverty at $1.25 a day, (ii) under-five years mortality rate, (iii) maternal mortality rate, (iv) the UNDP's Human Development Index (UNDP 2002), (v) the UNDP's Gender Inequality Index, (vi) years of schooling for children below 15 years,⁵ (vii) proportion of households with access to adequate sanitation and (viii) a combined measure of the quality of ports, railroads, and electricity supply.⁶

Depending on the development indicator, we expect $a_2$ to be positive or negative. We expect $a_2$ to be negative for head count poverty, under-five years and maternal mortality rates and the Gender Inequality Index, and we expect $a_2$ to be positive for years of schooling, households with access to adequate sanitation and quality of ports, railroads and electricity supply. We can assess the sign and significance of the interaction term, $\text{ASIA} \times G$, if $a_2$ is negative and significant, the same coefficient for $a_4$ suggests that the relationship between governance and development is stronger in Asia, while a positive and significant relationship suggests a weaker (or even perverse) relationship. Conversely, if $a_2$ is positive and significant, a negative and significant coefficient suggests that the relationship between governance and development is weaker in Asia, while a positive and significant relationship suggests that the relationship is stronger.

The following three variables are used as controls: the ratio of net development assistance to gross domestic product (GDP), the share of urban population and the number of developmental civil society organizations as a ratio of population. It would be expected that higher aid flows to developing countries enable them to use some or all these resources for social sector spending. Hence, countries with higher aid flows are expected to do better in development outcomes, although donor countries may also target assistance at countries with poor development performance. The literature on public service delivery suggests that it is easier to target more urbanized populations, so that the relationship between urbanization and development outcomes is expected to be positive. A greater presence of developmental civil society organizations in a country should allow for the greater provision of services by the non-state sector to the poor.

We estimate equation (4.1) by Ordinary Least Squares, using cross-sectional data (with head count poverty; under-five years mortality rate; maternal mortality rate; Human Development Index; the Gender Inequality Index; years of schooling; access to adequate sanitation; quality of ports, railroads and electricity supply; the ratio of net development assistance to gross domestic product and the share of urban population in
Governance and development outcomes in Asia

logs). Similar to the methodology followed by Hall and Jones (1999) and other studies that examine the long-term effect of institutions on levels of income using cross-sectional regression methods, we examine the long-run effects of governance on broader developmental outcomes such as success in reducing poverty, inequality and malnutrition, which are long-term phenomena.5

One concern with the Ordinary Least Squares estimate of equation (4.1) is that there may be a possibility of reverse causality from development outcomes to governance. Note that reverse causality is less of an issue in our case than in estimating the causal effect of governance on economic growth. In the latter, greater economic prosperity may lead to the adoption of better governance institutions. This is a less likely possibility in the case of a governance–development relationship as it is difficult to expect that, with a reduction in poverty or infant mortality, countries will improve their governance systems, as they may do when the level of income increases. However, to allow for the possibility of reverse causality from development outcomes to governance,6 we also use Two Stage Least Squares regressions, where we instrument governance quality with standard variables that are conventionally used in the literature as instruments.

We use the settler mortality rate (Acemoglu et al. 2001), country latitude and colonial origin of legal systems. The settler mortality rate has been extensively used in the growth-institutions literature. It is an indirect measure of the disease environment in colonies and, thus, measures the likelihood of Europeans settling in a particular colony and setting up institutions of private property. Acemoglu et al. (2001) find a high correlation between the mortality rates faced by soldiers, bishops and sailors in colonies and European settlements and early measures of institutions, and between early institutions and current institutions. As these authors show, the settler mortality rate is not able to explain current development outcomes directly and thus meets the exclusion restriction for a valid instrument. Geographical variables like latitude have been used extensively as instruments for institutions and governance; for example, the further one is from the equator, the more likely it is that countries adopted better Western-style institutions (Hall and Jones 1999). Finally, we use the colonial origin of the legal system. La Porta et al. (1999) have shown greater institutional quality is associated with countries with English common law systems compared to French civil law systems. We also experiment with two alternate measures of governance. The first is the government impartiality measure developed by the Quality of Government Institute (Teorell et al. 2008), which scores the public administration of countries based on their impartiality. In the view of Holmberg and Rothstein (2013), this is a measure of good governance. The second is the International Country
Risk Guide (ICRG) (1997) measure of the quality of government, which is the mean value of the ICRG variables of corruption, law and order, and bureaucratic quality, based on perceptions of experts on these indicators for 139 countries.

A common criticism of cross-sectional methods is that they are not able to address unobserved time-invariant country attributes which may drive both the dependent and independent variables—in our case, development outcomes and governance quality. For example, a more homogenous or less fractionalized population will be correlated with better governance if elites share a common vision and are less polarized and may imply that public good provision is more likely in a country with such a population pattern (Alesina and Zhuravskaya 2011; Alesina et al. 1999; Alesina et al. 2003). Unfortunately, the WGIs are not appropriate for use in a panel data format, so we use two measures from the ICRG—bureaucratic quality and control of corruption—which are available from 1984 for a limited number of countries (15 of them in Asia).

Data sources are obtained from the University of Gothenburg’s Quality of Government Institute, which provides cross-sectional data on a variety of governance and development variables compiled from secondary sources of data. The development indicators are from the World Bank’s World Development Indicators for 2010 or the nearest year for which data are available. For the control variables, aid as a ratio of GDP and share of urban population are obtained from the World Development Indicators, while developmental civil society organizations as a ratio of GDP are from Grimes (2008), who provides data on the number of civil society organizations active in social and economic development (as in the quality of government data). The WGIs are for 2010. The other governance variables are from the quality of government data set for 2010, while the time-series data on bureaucratic quality and control of corruption are from the ICRG for 1984–2010.

4. EMPIRICAL ANALYSIS AND RESULTS

We begin the empirical analysis by looking at patterns in the eight development indicators by region (Table 4.2). Asia does worse in most of these indicators than other regions, except for sub-Saharan Africa. The only exception is the quality of infrastructure, in which Asia does better than Latin America and the Caribbean, and the Middle East and North Africa. In gender inequality, Asia does not do significantly worse than these regions. Within Asia, development outcomes vary widely, with Central and East Asia doing better than South Asia, Southeast Asia and the Pacific in
Table 4.2 Averages for development indicators by global region

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Transitional economies</th>
<th>Latin America and the Caribbean</th>
<th>Middle East and North Africa</th>
<th>Advanced economies</th>
<th>Sub-Saharan Africa</th>
<th>Asia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Head count poverty, $1.25 a day (percent)</td>
<td>0.52</td>
<td>6.75</td>
<td>1.43</td>
<td>. . .</td>
<td>47.60</td>
<td>15.10</td>
</tr>
<tr>
<td>Under-five mortality rate</td>
<td>11.80</td>
<td>21.90</td>
<td>20.40</td>
<td>4.30</td>
<td>104.60</td>
<td>34.20</td>
</tr>
<tr>
<td>Maternal mortality rate</td>
<td>17.90</td>
<td>84.00</td>
<td>54.30</td>
<td>7.50</td>
<td>580.10</td>
<td>181.80</td>
</tr>
<tr>
<td>Human Development Index</td>
<td>0.77</td>
<td>0.71</td>
<td>0.72</td>
<td>0.88</td>
<td>0.44</td>
<td>0.64</td>
</tr>
<tr>
<td>Gender Inequality Index (between 0 and 1)</td>
<td>0.23</td>
<td>0.44</td>
<td>0.41</td>
<td>0.14</td>
<td>0.59</td>
<td>0.40</td>
</tr>
<tr>
<td>Access to adequate sanitation</td>
<td>92.10</td>
<td>80.40</td>
<td>90.90</td>
<td>99.90</td>
<td>34.40</td>
<td>72.00</td>
</tr>
<tr>
<td>Quality of infrastructure (between 3 and 21)</td>
<td>10.50</td>
<td>9.30</td>
<td>11.20</td>
<td>15.90</td>
<td>9.40</td>
<td>11.60</td>
</tr>
<tr>
<td>Years of schooling</td>
<td>10.60</td>
<td>8.40</td>
<td>7.60</td>
<td>10.80</td>
<td>5.40</td>
<td>7.80</td>
</tr>
</tbody>
</table>

Note: . . . = data not available.

Source: World Bank, World Development Indicators online database (accessed June 2013) and author’s calculations. The year of the observations is 2010 or the nearest year for which data are available.
Governance in developing Asia

Table 4.3  Averages for development indicators by subregion in developing Asia

<table>
<thead>
<tr>
<th>Subregion</th>
<th>HCR</th>
<th>HDI</th>
<th>GII</th>
<th>U5M</th>
<th>MMR</th>
<th>AAS</th>
<th>YOS</th>
<th>INFS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Asia</td>
<td>5.00</td>
<td>0.67</td>
<td>0.35</td>
<td>41.00</td>
<td>41.10</td>
<td>93.60</td>
<td>9.70</td>
<td>11.20</td>
</tr>
<tr>
<td>South Asia</td>
<td>19.00</td>
<td>0.47</td>
<td>0.46</td>
<td>48.20</td>
<td>362.90</td>
<td>50.30</td>
<td>5.40</td>
<td>10.00</td>
</tr>
<tr>
<td>East Asia</td>
<td>13.10</td>
<td>0.77</td>
<td>0.20</td>
<td>15.00</td>
<td>57.80</td>
<td>78.80</td>
<td>9.80</td>
<td>10.10</td>
</tr>
<tr>
<td>Southeast Asia</td>
<td>18.80</td>
<td>0.63</td>
<td>0.39</td>
<td>30.90</td>
<td>206.50</td>
<td>70.50</td>
<td>7.10</td>
<td>11.70</td>
</tr>
<tr>
<td>Pacific</td>
<td>. . .</td>
<td>0.62</td>
<td>0.67</td>
<td>30.30</td>
<td>186.50</td>
<td>65.90</td>
<td>6.80</td>
<td>10.50</td>
</tr>
</tbody>
</table>

Notes:
... = data not available, AAS = proportion of households with access to adequate sanitation, GII = Gender Inequality Index, HCR = head count ratio ($1.25 a day), HDI = Human Development Index, INFS = combined measure of the quality of port and railroad infrastructure and reliability of electricity supply, MMR = maternal mortality rate, U5M = under-five years mortality rate, YOS = years of schooling for population under 15 years. HCR and AAS are in percentages, HDI and GII are between 0 and 1 (higher values of HDI imply higher human development, higher values of GII imply lower gender inequality), U5M is per 1000 and MMR is per 100000 live births, YOS is average years of schooling, INFS is a value that ranges from 3 to 21.

Source: Author's calculations based on data from the World Bank’s World Development Indicators online database (accessed June 2013).

most outcomes (Table 4.3). Surprisingly, Central Asia does better than East Asia in lower head count poverty, lower maternal mortality and access to adequate sanitation.

Table 4.4 shows the regression estimates of equation (4.1) for state administrative capacity and legal infrastructure, government effectiveness, control of corruption and regulatory quality. Here, we find that improvements in government effectiveness and regulatory quality are associated with lower head count poverty, but improvements in the control of corruption are not.

The interaction terms are not significant for government effectiveness, control of corruption and regulatory quality, suggesting that the relationship between governance and poverty for developing Asia is no different than the rest of the world. In the case of the Human Development Index, the under-five years mortality rate, Gender Inequality Index and all three measures of governance (government effectiveness, control of corruption, regulatory quality) are associated with better outcomes, with the coefficients on the governance variables of the right sign and statistically significant (Table 4.4, columns 2 to 4). However, for government effectiveness, the relationship for Asia is weaker than the rest of the world, as the coefficients on the interaction terms are negative and positive for the Human
<p>| Table 4.4  Regression results, administrative capacity and legal infrastructure |
|---------------------------------|----------------|----------------|-------------|----------------|----------------|----------------|----------------|----------------|
| Explanatory variables          | (1) HCR        | (2) HDI        | (3) GII      | (4) U5M       | (5) MMR        | (6) AAS        | (7) YOS        | (8) INFS       |
| GE                              | -0.77*         | 0.16***        | -0.22***     | -0.59***      | -0.72***       | 0.26***        | 0.16**         | 0.17***        |
|                                 | (0.099)        | (0.000)        | (0.000)      | (0.000)       | (0.000)        | (0.003)        | (0.015)        | (0.001)        |
| Asia                            | 0.18           | 0.07           | -0.14*       | -0.19         | -0.21          | 0.14           | 0.17           | 0.09           |
|                                 | (0.772)        | (0.115)        | (0.082)      | (0.280)       | (0.461)        | (0.323)        | (0.107)        | (0.160)        |
| GE<em>Asia                         | 1.08           | -0.15**        | 0.05         | 0.30          | 0.59</em>          | -0.40**        | -0.08          | 0.16           |
|                                 | (0.240)        | (0.008)        | (0.060)      | (0.186)       | (0.094)        | (0.033)        | (0.543)        | (0.117)        |
| R-square                        | 0.38           | 0.73           | 0.33         | 0.57          | 0.53           | 0.50           | 0.47           | 0.37           |
| CC                              | -0.49          | 0.11***        | -0.16**      | -0.54***      | -0.54***       | 0.18**         | 0.10**         | 0.11**         |
|                                 | (1.080)        | (0.000)        | (0.006)      | (0.000)       | (0.003)        | (0.043)        | (0.044)        | (0.045)        |
| Asia                            | 0.09           | 0.13*          | 0.18*        | -0.40*        | -0.37          | 0.18           | 0.10           | 0.26**         |
|                                 | (0.909)        | (0.098)        | (0.100)      | (0.050)       | (0.326)        | (0.367)        | (0.381)        | (0.306)        |
| CC<em>Asia                         | 0.80           | -0.08          | 0.05         | 0.04          | 0.40           | -0.28          | -0.19          | 0.24           |
|                                 | (0.408)        | (0.274)        | (0.713)      | (0.150)       | (0.344)        | (0.193)        | (0.123)        | (0.122)        |
| R-square                        | 0.30           | 0.70           | 0.26         | 0.56          | 0.49           | 0.47           | 0.46           | 0.28           |
| RQ                              | -0.75</em>         | 0.13***        | -0.15***     | -0.42***      | -0.69***       | 0.20**         | 0.08           | 0.09**         |
|                                 | (0.066)        | (0.000)        | (0.002)      | (0.000)       | (0.000)        | (0.010)        | (0.165)        | (0.044)        |</p>
<table>
<thead>
<tr>
<th>Explanatory variables</th>
<th>(1) HCR</th>
<th>(2) HDI</th>
<th>(3) GII</th>
<th>(4) U5M</th>
<th>(5) MMR</th>
<th>(6) AAS</th>
<th>(7) YOS</th>
<th>(8) INFS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia</td>
<td>-0.06</td>
<td>0.11**</td>
<td>-0.20**</td>
<td>-0.36*</td>
<td>-0.32</td>
<td>0.21</td>
<td>0.23**</td>
<td>0.12*</td>
</tr>
<tr>
<td></td>
<td>(0.919)</td>
<td>(0.018)</td>
<td>(0.019)</td>
<td>(0.065)</td>
<td>(0.255)</td>
<td>(0.162)</td>
<td>(0.043)</td>
<td>(0.080)</td>
</tr>
<tr>
<td>RQ*Asia</td>
<td>0.79</td>
<td>-0.09</td>
<td>0.03</td>
<td>0.09</td>
<td>0.47</td>
<td>-0.27</td>
<td>0.02</td>
<td>0.26*</td>
</tr>
<tr>
<td></td>
<td>(0.416)</td>
<td>(0.119)</td>
<td>(0.766)</td>
<td>(0.695)</td>
<td>(0.171)</td>
<td>(0.141)</td>
<td>(0.884)</td>
<td>(0.055)</td>
</tr>
<tr>
<td>R-square</td>
<td>0.32</td>
<td>0.71</td>
<td>0.28</td>
<td>0.53</td>
<td>0.53</td>
<td>0.49</td>
<td>0.45</td>
<td>0.29</td>
</tr>
<tr>
<td>Number of observations</td>
<td>69</td>
<td>119</td>
<td>99</td>
<td>119</td>
<td>119</td>
<td>116</td>
<td>93</td>
<td>80</td>
</tr>
</tbody>
</table>

Notes:
AAS = proportion of households with access to adequate sanitation, CC = control of corruption, GE = government effectiveness, GII = Gender Inequality Index, HCR = head count ratio ($1.25 a day), HDI = Human Development Index, INFS = combined measure of the quality of port and railroad infrastructure and reliability of electricity supply, MMR = maternal mortality rate, U5M = under-five years mortality rate, RQ = regulatory quality, YOS = years of schooling for population under 15 years.
Control variables: log of net development assistance/GDP, log of urban population share of total population, and log of development civil society organizations per capita. The p-values are in parentheses; ***, ** and * denote significance at 1%, 5% and 10%, respectively.

Source: Author’s estimates.
Governance and development outcomes in Asia

Development Index and under-five years mortality rate, respectively. For maternal mortality, access to adequate sanitation, years of schooling, quality of infrastructure, and all three governance measures have a positive impact on these outcomes, except for years of schooling, on which regulatory quality has no discernible effect (columns 5 to 8). The relationship between governance and the development outcome in question, in developing Asia, is weaker for government effectiveness in the case of maternal mortality and access to sanitation. However, the relationship is stronger for regulatory quality with respect to the quality of infrastructure for these countries.

We now consider the effects of state accountability on development outcomes. The results, in Table 4.5, show that voice and accountability has no discernible negative effect on poverty, but that the rule of law does (column 1). Both voice and accountability and rule of law have the expected effects on human development, gender inequality and the under-five years mortality rate. The coefficients are of the right signs and statistically significant (columns 2 to 4). However, the relationship between governance and human development is weaker for developing Asia for both voice and accountability and the rule of law and, in the case of gender inequality, for voice and accountability. For human development and gender inequality, the magnitude of the interaction term swamps the direct effect of voice and accountability, suggesting that there is a perverse negative relationship between human development and gender equality on one hand and voice and accountability on the other in developing Asia. For maternal mortality and access to adequate sanitation, both governance measures have a positive impact on these outcomes, though the relationship between both governance measures and access to sanitation is weaker in developing Asia (columns 5 and 6). For years of schooling, we see no discernible effect of these two governance measures (column 7). For quality of infrastructure, voice and accountability has no effect, though regulatory quality has a positive effect and the relationship is stronger for developing Asia.

Why do we see a weaker relationship between government effectiveness and voice and accountability on the one hand and several of the development indicators on the other for Asian countries as compared to the rest of the world? To answer this, consider Tables 4.1 and 4.3 again. In developing Asia, East Asia has a particularly low score in voice and accountability and Central Asia in government effectiveness and the rule of law. However, these subregions have done well in several of the development indicators, including the Human Development Index, reduced maternal mortality and improved access to adequate sanitation. They have also done better than expected in development given their governance quality.
### Table 4.5  Regression results, state accountability and legitimacy

<table>
<thead>
<tr>
<th></th>
<th>(1) HCR</th>
<th>(2) HDI</th>
<th>(3) GII</th>
<th>(4) U5M</th>
<th>(5) MMR</th>
<th>(6) AAS</th>
<th>(7) YOS</th>
<th>(8) INFS</th>
</tr>
</thead>
<tbody>
<tr>
<td>VA</td>
<td>-0.15</td>
<td>0.11***</td>
<td>-0.11**</td>
<td>-0.31***</td>
<td>-0.44***</td>
<td>0.07</td>
<td>0.08</td>
<td>0.04</td>
</tr>
<tr>
<td></td>
<td>(0.707)</td>
<td>(0.000)</td>
<td>(0.012)</td>
<td>(0.000)</td>
<td>(0.000)</td>
<td>(0.327)</td>
<td>(0.218)</td>
<td>(0.394)</td>
</tr>
<tr>
<td>Asia</td>
<td>0.34</td>
<td>0.09*</td>
<td>-0.18*</td>
<td>-0.40*</td>
<td>-0.05</td>
<td>0.15</td>
<td>0.27</td>
<td>0.04</td>
</tr>
<tr>
<td></td>
<td>(0.639)</td>
<td>(0.058)</td>
<td>(0.102)</td>
<td>(0.050)</td>
<td>(0.867)</td>
<td>(0.346)</td>
<td>(0.128)</td>
<td>(0.647)</td>
</tr>
<tr>
<td>VA*Asia</td>
<td>0.98</td>
<td>-0.11**</td>
<td>0.31***</td>
<td>0.05</td>
<td>0.79***</td>
<td>-0.28*</td>
<td>0.05</td>
<td>-0.05</td>
</tr>
<tr>
<td></td>
<td>(0.209)</td>
<td>(0.025)</td>
<td>(0.002)</td>
<td>(0.794)</td>
<td>(0.009)</td>
<td>(0.086)</td>
<td>(0.812)</td>
<td>(0.618)</td>
</tr>
<tr>
<td>R-square</td>
<td>0.30</td>
<td>0.70</td>
<td>0.28</td>
<td>0.51</td>
<td>0.51</td>
<td>0.47</td>
<td>0.45</td>
<td>0.19</td>
</tr>
<tr>
<td>RL</td>
<td>-0.94**</td>
<td>0.13***</td>
<td>-0.17***</td>
<td>-0.51***</td>
<td>-0.62***</td>
<td>0.23***</td>
<td>0.17</td>
<td>0.13***</td>
</tr>
<tr>
<td></td>
<td>(0.024)</td>
<td>(0.002)</td>
<td>(0.000)</td>
<td>(0.000)</td>
<td>(0.009)</td>
<td>(0.253)</td>
<td>(0.009)</td>
<td></td>
</tr>
<tr>
<td>Asia</td>
<td>0.57</td>
<td>0.09</td>
<td>-0.16*</td>
<td>-0.36</td>
<td>-0.19</td>
<td>0.10</td>
<td>0.19</td>
<td>0.17**</td>
</tr>
<tr>
<td></td>
<td>(0.721)</td>
<td>(0.111)</td>
<td>(0.099)</td>
<td>(0.106)</td>
<td>(0.572)</td>
<td>(0.576)</td>
<td>(0.118)</td>
<td>(0.045)</td>
</tr>
<tr>
<td>RL*Asia</td>
<td>1.49</td>
<td>-0.11*</td>
<td>0.04</td>
<td>0.08</td>
<td>0.58</td>
<td>-0.40**</td>
<td>-0.04</td>
<td>0.20*</td>
</tr>
<tr>
<td></td>
<td>(0.140)</td>
<td>(0.092)</td>
<td>(0.390)</td>
<td>(0.756)</td>
<td>(0.139)</td>
<td>(0.049)</td>
<td>(0.808)</td>
<td>(0.085)</td>
</tr>
<tr>
<td>R-square</td>
<td>0.40</td>
<td>0.70</td>
<td>0.28</td>
<td>0.55</td>
<td>0.51</td>
<td>0.49</td>
<td>0.45</td>
<td>0.33</td>
</tr>
<tr>
<td>Number of observations</td>
<td>69</td>
<td>119</td>
<td>99</td>
<td>119</td>
<td>119</td>
<td>93</td>
<td>80</td>
<td></td>
</tr>
</tbody>
</table>

**Notes:**

AAS = proportion of households with access to adequate sanitation, GII = Gender Inequality Index, HCR = head count ratio ($1.25 a day), HDI = Human Development Index, INFS = combined measure of the quality of port and railroad infrastructure and reliability of electricity supply, MMR = maternal mortality rate, RL = rule of law, U5M = under-five years mortality rate, VA = voice and accountability, YOS = years of schooling for population under 15 years.

Control variables: log of net development assistance/GDP, log of urban population share of total population, and log of developmental civil society organizations per capita. The p-values are in parentheses; ***, ** and * denote significance at 1%, 5% and 10%, respectively.

**Source:** Author’s estimates.
Governance and development outcomes in Asia

(voice and accountability in East Asia and government effectiveness and the rule of law in Central Asia). This implies that the strong relationship between low governance and low development observed in the rest of the world is not quite so evident in developing Asia.

We also find that voice and accountability does not have a positive effect on access to sanitation or infrastructure provision, and that only government effectiveness and control of corruption have a positive effect on educational attainment. The first result is not surprising as political empowerment is unlikely to play an important role in a state’s provision of infrastructure (including sanitation). The second result suggests that the role of governance in human capital formation may be limited to state administrative capacity and that other factors, such as those that shape returns to education, may be more important.

Table 4.6 summarizes the main findings. The relationship between better governance and better development outcomes generally holds true for all development outcomes, except years of schooling. However, the effect of greater voice and accountability on better development outcomes is not evident from our results across all development indicators. We also find that in general the relationship between governance and development is weaker for developing Asia, except in the case of quality of infrastructure, where the relationship is stronger.

4.1 Alternate Specifications and Robustness Tests

The main results show a clear positive relationship between governance quality and development indicators for most governance measures and development indicators. However, given criticisms of the WGI, we now examine whether these results are robust to alternate measures of governance quality, namely, the measure of government impartiality developed by the Quality of Government Institute and the ICRG’s measure of governance. We also estimate equation (4.1), using Two Stage Least Squares and the settler mortality rate, the legal origin of the country and its latitude as instruments for this governance measure. A panel data set with time-varying measures of governance quality from ICRG is used to address unobserved time-invariant country attributes that may explain both high levels of governance and higher attainment of social development (for example, cultural factors). We look at two alternate time-series governance measures from the ICRG—bureaucratic quality and control of corruption. In all these robustness checks, we find that the coefficients on the different measures of governance are of the right sign and statistically significant (Sen 2013 for detailed results). Thus, there is strong evidence that the relationship between governance quality and social
### Table 4.6 Summary of main results

<table>
<thead>
<tr>
<th></th>
<th>HCR</th>
<th>HDI</th>
<th>GII</th>
<th>U5M</th>
<th>MMR</th>
<th>AAS</th>
<th>YOS</th>
<th>INFS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Does better governance quality lead to improvements in the development indicator?</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes, but not VA</td>
<td>Yes, but only for GE and CC</td>
<td>Yes, but not for VA</td>
</tr>
<tr>
<td>Is the relationship stronger or weaker for Asia, or the same?</td>
<td>Same</td>
<td>Weaker, for GE, VA and RL, negative for all three</td>
<td>Weaker, for VA (negative relationship)</td>
<td>Same</td>
<td>Weaker, for GE and VA (negative relationship)</td>
<td>Weaker, for GE and RL. For VA, the effect is negative</td>
<td>Same</td>
<td>Stronger for RQ and RL, the same for others</td>
</tr>
</tbody>
</table>

**Notes:**
- AAS = proportion of households with access to adequate sanitation, GE = government effectiveness, GII = Gender Inequality Index, HCR = head count ratio ($1.25 a day), HDI = Human Development Index, INFS = combined measure of the quality of port and railroad infrastructure and reliability of electricity supply, MMR = maternal mortality rate, RL = rule of law, RQ = regulatory quality, U5M = under-five years mortality rate, VA = voice and accountability, YOS = years of schooling for population under 15 years.
- Yes, when the coefficient on the governance is of the right sign and statistically significant at 10% or less; Same, when the coefficient of the interaction term of the governance measure with the Asia dummy is statistically not significant at 10% or less; Weaker/stronger, when the coefficient of the interaction term of the governance measure with the Asia dummy is statistically significant at 10% or less.

**Source:** Author’s estimates.
development outcomes is robust to a variety of alternate specifications, measures of governance and estimators.

4.2 Testing for Causal Mechanisms

The three mechanisms by which governance affects development—per capita income, tax revenue and greater effectiveness of the social sector—are tested here, with the results shown in Table 4.7. First, we examine the validity of these mechanisms for the regions of the world and then for Asian countries. For the “income effect”, per capita income in the specification set out in equation (4.1) is included. If the income effect is valid, we would expect that the coefficient on per capita would be positive and significant, and the coefficient on our governance measure would be insignificant. We find that the coefficient on per capita income is positive and significant; the coefficient on the governance measure (control of corruption is the preferred governance measure) remains positive and significant (column 1). This suggests that while the income effect is important, so are the other mechanisms. Testing for the income effect specifically for Asia, we find the interaction term of income with the Asia dummy is not significant, suggesting that this mechanism works in the same way for Asia as it does for the rest of the world (column 2).

Testing for the effect of governance on tax revenue mobilization (by including tax revenue as an explanatory variable), we see that the coefficient on tax revenue is positive and significant, but the coefficient on the governance measure is not significant (column 3). This suggests that the tax revenue mechanism is particularly strong and this may be a key mechanism by which governance affects development. Next, we look at the social sector spending mechanism by including public expenditure on health and education as explanatory variables. Here, the coefficient on public health spending is positive and significant, but the coefficient on public education spending is not. Interestingly, the coefficient on the governance measure is not significant. This suggests that the social spending mechanism is also important for the manner in which governance affects development outcomes (column 5). We do not see any difference in the way these two mechanisms operate for developing Asian countries compared with the rest of the world, as is evident by the lack of significance in the interaction terms of tax and social expenditure with the Asia dummy (columns 4 and 6). Overall, the results suggest that governance has affected social development mostly by leading to a greater mobilization of resources and the effectiveness of spending on these resources for health. The income effect of governance on social development appears to be less important.
### Table 4.7 Testing for causal mechanisms

<table>
<thead>
<tr>
<th></th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
<th>(5)</th>
<th>(6)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HDI</td>
<td>HDI</td>
<td>HDI</td>
<td>HDI</td>
<td>HDI</td>
<td>HDI</td>
</tr>
<tr>
<td>CC</td>
<td>0.05**</td>
<td>0.04**</td>
<td>0.020</td>
<td>0.030</td>
<td>0.050</td>
<td>0.050</td>
</tr>
<tr>
<td></td>
<td>(0.036)</td>
<td>(0.041)</td>
<td>(0.625)</td>
<td>(0.512)</td>
<td>(0.167)</td>
<td>(0.165)</td>
</tr>
<tr>
<td>CC*Asia</td>
<td>-0.08</td>
<td>-0.07</td>
<td>-0.002</td>
<td>-0.02</td>
<td>-0.14*</td>
<td>-0.13</td>
</tr>
<tr>
<td></td>
<td>(0.106)</td>
<td>(0.205)</td>
<td>(0.979)</td>
<td>(0.783)</td>
<td>(0.059)</td>
<td>(0.116)</td>
</tr>
<tr>
<td>Asia</td>
<td>0.08*</td>
<td>-0.31</td>
<td>0.14**</td>
<td>-0.21</td>
<td>0.13**</td>
<td>0.27</td>
</tr>
<tr>
<td></td>
<td>(0.072)</td>
<td>(0.346)</td>
<td>(0.032)</td>
<td>(0.523)</td>
<td>(0.026)</td>
<td>(0.109)</td>
</tr>
<tr>
<td>Per capita income</td>
<td>0.21***</td>
<td>0.21***</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>...</td>
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<tr>
<td></td>
<td>0.000</td>
<td>(0.00)</td>
<td>(0.481)</td>
<td>(0.106)</td>
<td>(0.205)</td>
<td>(0.979)</td>
</tr>
<tr>
<td>Per capita income*Asia</td>
<td>...</td>
<td>-0.02</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>Tax revenue</td>
<td>...</td>
<td>...</td>
<td>0.08***</td>
<td>0.08***</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td></td>
<td>(0.001)</td>
<td>(0.003)</td>
<td>(0.001)</td>
<td>(0.003)</td>
<td>(0.001)</td>
<td>(0.003)</td>
</tr>
<tr>
<td>Tax revenue*Asia</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>0.130</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td></td>
<td>(0.283)</td>
<td>(0.283)</td>
<td>(0.283)</td>
<td>(0.283)</td>
<td>(0.283)</td>
<td>(0.283)</td>
</tr>
<tr>
<td>Public expenditure on health</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>0.12***</td>
<td>0.120</td>
<td>...</td>
</tr>
<tr>
<td></td>
<td>0.000</td>
<td>(0.002)</td>
<td>(0.002)</td>
<td>(0.002)</td>
<td>(0.002)</td>
<td>(0.002)</td>
</tr>
<tr>
<td>Public expenditure on health*Asia</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>-0.030</td>
<td>...</td>
</tr>
<tr>
<td></td>
<td>0.002</td>
<td>(0.030)</td>
<td>(0.030)</td>
<td>(0.030)</td>
<td>(0.030)</td>
<td>(0.030)</td>
</tr>
<tr>
<td>Public expenditure on education</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>0.002</td>
<td>(0.514)</td>
</tr>
<tr>
<td></td>
<td>(0.946)</td>
<td>(0.514)</td>
<td>(0.946)</td>
<td>(0.514)</td>
<td>(0.946)</td>
<td>(0.514)</td>
</tr>
<tr>
<td>Public expenditure on education*Asia</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>-0.110</td>
<td>...</td>
</tr>
<tr>
<td></td>
<td>(0.683)</td>
<td>(0.683)</td>
<td>(0.683)</td>
<td>(0.683)</td>
<td>(0.683)</td>
<td>(0.683)</td>
</tr>
<tr>
<td>Method of estimation</td>
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<td>OLS</td>
<td>OLS</td>
<td>OLS</td>
<td>OLS</td>
<td>OLS</td>
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<tr>
<td>R-squared</td>
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<td>0.37</td>
<td>0.41</td>
<td>0.79</td>
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</tr>
<tr>
<td>Number of observations</td>
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<td>116</td>
<td>49</td>
<td>49</td>
<td>69</td>
<td>69</td>
</tr>
</tbody>
</table>

**Notes:**
- ... = data not included, CC = control of corruption, HDI = Human Development Index, OLS = Ordinary Least Squares. Control variables: log of net development assistance/GDP, log of urban population share of total population, and log of developmental civil society organizations per capita; tax revenue and public health expenditure as ratio of GDP, and public expenditure education per capita. The p-values are in parentheses; ***, ** and * denote significance at 1%, 5% and 10%, respectively.

**Source:** Author’s estimates.
5. CONCLUSIONS AND POLICY IMPLICATIONS

This econometric analysis shows a clear role for governance to affect most development outcomes, except schooling levels. This is particularly evident for administrative capacity and legal infrastructure and less evident for voice and accountability. However, we find that the benign relationship between governance and development is weaker for the Asian countries for several of the development indicators. We also find that the key mechanisms by which governance affects development are by increasing the mobilization of domestic resources and increasing the effectiveness by which these resources are spent on social sectors.

These findings have three clear policy implications. First, measures that improve governance systems around state administrative capacity and state legitimacy can lead to gains in social development, such as lower infant and maternal mortality and reductions in income poverty. Such measures can include improvements in the quality of the bureaucracy that lead to better public implementation capacity and stronger anticorruption initiatives that lead to lower leakage in public goods provision. Second, governance quality is lower in developing Asia than other regions of the world, except sub-Saharan Africa, and the mechanisms linking governance and development are weaker in developing Asia. This suggests that improvements in governance, along with strengthening the mechanisms by which governance affects social development, can deliver particularly strong gains in social development in developing Asia. And third, the results suggest that while improvements in voice and accountability have an intrinsic value of their own, they have less of a role to play in affecting development outcomes compared to state administrative capacity and legal infrastructure. For policymakers in countries with weak governance facing choices on which dimension of governance to act on, the highest payoffs in gains in social development may be in targeting improvements in the functioning of the bureaucracy and in the quality of regulatory institutions.

ACKNOWLEDGEMENTS

I would like to thank Ananya Basu, Steven Helfand and Utsav Kumar for their comments, as well comments received from participants in the workshops sponsored by the Asian Development Bank (ADB) at the University of California, Riverside and ADB headquarters in Manila.
NOTES

1. Governance can be defined as “the manner in which power is exercised in the management of a country’s economic and social resources for development” (World Bank 1991).
2. For details on the underlying data sources, the aggregation method and the interpretation of the indicators, see Kaufmann et al. (2010).
3. Average schooling years in the total population aged 15 and less from Barro and Lee (2010) and the World Bank’s World Development Indicators.
4. World Development Indicators report the quality of port and railroad infrastructure and electricity supply in a range from 1 to 7 for each measure, where 1 = extremely underdeveloped and 7 = efficient by international standards. Data is from the World Economic Forum’s Global Competitiveness Report.
5. In addition, the WGIIs are not appropriate to use in panel format as the sources of the WGI data have changed over time (see Chapter 2 in this book), and several of the development indicators used in this study are available infrequently for many low-income countries.
6. A possible mechanism may be that a more literate population demands greater accountability and transparency in government.

REFERENCES


5. Corruption in Asia and the Pacific: a manifestation of weak governance

Shikha Jha and Pilipinas F. Quising

1. INTRODUCTION

Weak governance is often assumed to be synonymous with corruption; however, corruption is an outcome of bad governance. Governance relates to the state’s authority and capability through rules and institutions to manage the process of development and to provide public services. Corruption on the other hand refers to the use of public office for personal gain, and is reflected in, among other things, money laundering, bribes to government officials (even for routine public services), ghost beneficiaries of public programs, the diversion of supplies, the use of substandard construction material and embezzlement of funds.

Such practices are commonplace in Asia and the Pacific.1 When laws are not enforced, police officers get away with charging motorists with bogus traffic violations and municipal officials demand payment for legitimate connections of piped water to residences. Without adequate awareness and voice, the poor are denied benefits to which they are entitled. In education and health, corruption undermines the provision of these basic public services when teachers skip class or doctors fail to attend public health clinics. In all these areas, public officials need to be held accountable for their services.

The Asian Development Bank (ADB) defines corruption as the

abuse of public or private office for personal gain. Corruption involves behavior on the part of officials in the public and private sectors, in which they improperly and unlawfully enrich themselves and/or those close to them, or induce others to do so, by misusing the position in which they are placed. (ADB 2010, 31)

The World Bank defines corruption as “the abuse of public power for private benefit.” Transparency International regards it as “the abuse of entrusted power for private gain” (other definitions avoid the word “abuse”). For Kurer (2005, 230), corruption “involves a holder of public
office violating the impartiality principle in order to achieve a private gain.” Rothstein (2011) views the absence of corruption in terms of impartiality; that is, to the equal treatment of people irrespective of relationships and personal preferences. The Organisation for Economic Co-operation and Development (OECD) and the United Nations Convention against Corruption, meanwhile, do not define corruption, but identify corrupt practices.

In the public sector, three types of corruption can be identified (Tanzi 1998; Gray et al. 2004). The first is grand corruption, which refers to acts of political elites to manipulate or influence economic decisions and policies, laws, rules and regulations. For example, politicians can change, stop or hinder the implementation of national policies to serve their interests at the expense of the common good. The second is legislative corruption to influence legislative agendas. This can involve vote buying or bribing legislators to support bills favoring a particular person or group. In the third type, administrative or bureaucratic corruption relates to nepotism and patronage; in other words, how civil servants influence the implementation of established rules through their interactions with citizens. In the performance of their duties and tasks, they can show favoritism in issuing contracts, making public sector appointments or extorting money from individuals to speed up bureaucratic processes. The third type is the form of corruption most relevant to the discussion in this book and relates directly to the provision of public services.

Clearly, not all acts of corruption involve money directly (Banerjee et al. 2012; Tanzi 1998; Sietsema 2005). On the ground, corruption can take many nuanced forms; for example theft of time or resources, such as employees claiming to be sick to take time off; rent seeking, such as food ministry officials allocating more subsidized food to their home areas; self-dealing, such as doctors in public health centers promoting their private practices; or nepotism and patronage. When public service providers shirk work, especially in remote and inaccessible areas, which are difficult to monitor but where public services are needed the most, they reduce the effectiveness of public policies and retard improvements in living standards. Corruption harms the poor in particular, because they cannot afford to pay bribes to obtain basic public services.

The cost of corruption accounts for a significant portion of economic activity. The World Economic Forum puts this at more than 5 percent of global gross domestic product, with an estimated $1 trillion paid in bribes each year. The Global Financial Integrity organization estimates that the developing world lost almost $950 billion due to illicit outflows in 2011, an increase of more than 13 percent over 2010. The accumulated loss from 2002 to 2011 was estimated at $6 trillion.
The scourge of corruption is growing. According to Transparency International’s 2013 Global Corruption Barometer, over half of 114,000 respondents from 107 countries reported a rise in corruption. Compared to surveys in 2005, 2007 and 2009, when 10 percent of respondents reported paying bribes for public services and to public institutions, more than a quarter of respondents in the 2013 survey said they had done so. In the World Economic Forum’s *Global Competitiveness 2013–2014 Report*, respondents asked to identify the top five “problematic factors” for doing business ranked corruption first or second. Oxford Analytica (2013) found that following the global economic downturn in 2008, more executives considered corruption and fraud as accepted business practices.

Both the greater awareness of and growing scope for corruption have given rise to a radical shift in the anticorruption debate (Wolfensohn 1997; Wesberry 1997; Tanzi 1998; Campos and Pradhan 2007), once a taboo area for discussion in development institutions. The international donor community has actively begun pursuing programs to tackle corruption. The academic community has responded with a surge in theoretical and empirical work. This chapter assesses the extent of corruption in Asia, summarizes its causes and detrimental effects, and discusses possible solutions and policy recommendations for reducing it in the region.

2. PREVALENCE OF CORRUPTION IN ASIA AND THE PACIFIC

Because of corruption’s many facets, the complexity of its processes and the secrecy of its execution, a precise and unique measure is hard to come by. A number of indicators and measures have emerged, nonetheless, to determine corruption levels (see Chapter 2).

Svensson (2005) categorizes measures of corruption into three types: risk assessment measures, perception-based measures and bribes. These are highly correlated to each other, indicating that the definitions and method of aggregation matter only marginally. The most popular risk assessment measure is the International Country Risk Guide, which is comparable across time. However, it does not directly measure corruption, but the political risk associated with corruption (Williams and Siddique 2008). Among perception-based measures, the countries and years covered, as well as the sources of these measures, differ from each other and may vary from year to year. Three prominent such sources are: Transparency International’s Corruption Perceptions Index, the World Bank’s Control of Corruption Index and the World Economic Forum’s measure of the occurrence of diversion of public funds and irregular payments, which is
part of the Global Competitiveness Index. Bribery can be measured using surveys of firms or households. A widely used measure in the form of a cross-country survey of firms is the World Bank’s Enterprise Surveys, which estimate the cost of bribes firms pay.

Going by these measures, corruption is widespread in Asia, and its countries rank low in controlling it, in comparison with other regions. According to Transparency International’s Corruption Perceptions Index 2013, the average Asian score in combating corruption is barely half that of the Group of Three economies (the eurozone, Japan and the United States [US]) and very close to the averages for sub-Saharan Africa, the Middle East and North Africa, Eastern Europe and Central Asia (Figure 5.1). Within developing Asia and the Pacific, only a handful of economies—Brunei Darussalam; Bhutan; Georgia; Hong Kong, China; the Republic of Korea; Malaysia; Singapore and Taipei, China—lift the region’s average score, with most other economies falling short of the average score for the region. The World Bank’s Control of Corruption Index shows similar rankings. By this measure, the average ranking for the region is just over the 40th percentile, indicating that only 40 percent of the countries in the world are perceived to have higher corruption levels than in the region (Figure 5.2). However, there is significant spread in rankings: Afghanistan is placed lowest at the 1.91 percentile and Singapore highest in the 97.13 percentile. Disaggregated corruption-related indicators, including the World Economic Forum’s Global Competitiveness Report, consistently rank Hong Kong, China; Singapore; and Taipei, China among the top Asian performers in controlling corruption (Figure 5.3).

Likewise, data from the Heritage Foundation places most Asian economies in the lower half of the freedom from corruption rankings (Table 5.1). Only 8 out of 40 economies score higher than the global average for the freedom from corruption index (scores highlighted in bold in Table 5.1). Only Singapore, long lauded for its low degree of corruption, has remained in the top five since 2005.

Not only is the region’s performance below par in perceived corruption, many Asian countries fare worse than in prior years (Figure 5.4). Out of the twenty Asian economies included in Transparency International’s Global Corruption Barometer 2013 survey, only six (Azerbaijan; Cambodia; Fiji; Georgia; Philippines; Taipei, China) reported a higher percentage of respondents who believed that corruption had decreased in the last two years. In the remaining countries, a higher percentage considered corruption had worsened. In India, Indonesia, Pakistan, Papua New Guinea and Vanuatu, 70–80 percent of respondents felt that corruption had considerably worsened.

In terms of bribery, Low et al. (2014) quantify the pervasiveness of
Corruption in Asia and the Pacific

Corruption Perceptions Index score

Notes: PRC = People’s Republic of China, DMC = developing member country, EECA = Eastern Europe and other Central Asia, EUWE = European Union and Western Europe, Lao PDR = Lao People’s Democratic Republic, MENA = Middle East and North Africa, SSA = sub-Saharan Africa.

The score relates to the degree to which corruption is perceived to exist among public officials and politicians by business people and country analysts. The score ranges between 100 (very clean) and 0 (highly corrupt).


Figure 5.1 Transparency International’s Corruption Perceptions Index, 2013
corruption in Asia based on data on enforcement of the US’s Foreign Corrupt Practices Act (Figure 5.5). The act “prohibits the payment of bribes to foreign officials to assist in obtaining or retaining business.” In their study, Low et al. (2014) reported four Asia-related enforcement actions. Although these were fewer than those reported in 2012, the report

Notes: FSM = Federated States of Micronesia, PRC = People’s Republic of China, Lao PDR = Lao People’s Democratic Republic.

noted that investigations under the act and the United Kingdom’s Bribery Act are being conducted as a result of major anticorruption investigations in the People’s Republic of China.

The World Bank’s Enterprise Surveys ask firms about their experience with giving informal gifts or bribes to obtain a range of public services to “get things done”, including water and electricity connections, obtaining permits and licenses, securing government contracts, and in meetings with tax officials and civil servants. Participating firms are also asked to provide an estimate of the cost of such bribes, a useful cardinal measurement of corruption. The surveys show a high level of corruption (Table 5.2). Transparency International’s Global Corruption Barometer 2013 survey reported households’ experience with bribes, and the experience varies widely across Asia. According to the survey, one in every four respondents reported paying a bribe in the previous year. The average is slightly higher at 29 percent for the developing Asian countries surveyed. For government institutions, the police are seen as the most corrupt followed by the judiciary and land administration and registry offices (Figure 5.6). Medical and education services come next, while utilities are the least corrupt sector, although even here the levels of corruption are still high.

Individual country studies also support the results of these cross-country surveys. Henderson and Kuncoro (2006) found the average costs of bribes and loss of management time of public servants in Indonesia to be 8 percent and 10 percent of a firm’s total costs, respectively. Corruption cases in Indonesia’s education sector are estimated to cost about 139 billion rupiah (0.12 percent of the 2013 education budget), while one-third of the total budget allocated to the sector was misappropriated (Nurdiani 2013). In Viet Nam, corruption in the procurement of medicines often takes the form of higher prices. In a study conducted between 2002 and 2010, health facilities pay more than eight times the international benchmark price for branded drugs and close to two times for generic drugs (Nguyen 2011). In another study, 70 percent of the medical staff interviewed was found to receive (and ask) for informal payments (Vian et al. 2011). In other sectors, 60 percent of firms in a 2009 survey think that their industry peers make informal payments to corrupt public officials which, based on their estimates, accounts for 0.7 percent of sales (Nguyen and van Dijk 2012).

Banerjee et al. (2012), Chaudhury et al. (2006) and Chaudhury and Hammer (2004) find high levels of “theft of time” through absenteeism by government school teachers and public health workers in many Asian countries, including Bangladesh and India. Other forms of corruption in the region include unqualified doctors and pharmacists employed in public health services, medical insurance fraud, bribes for jumping the queue on service provision, issuing driving licenses, registering property

Figure 5.3 World Economic Forum Global Competitiveness Index, corruption-related measures, 2013–14
Governance in developing Asia

3. DRIVERS OF CORRUPTION

A variety of factors influence the level of corruption. Table 5.3 lists the variables that have been empirically found to be important determinants. Although this table is not specific to any particular region, it has important implications for Asian economies.

Large and intrusive governments with obstructive political arrangements go hand in hand with higher corruption, while more open systems

Table 5.1  Heritage Foundation 2014 Index of Economic Freedom: freedom from corruption

<table>
<thead>
<tr>
<th>Economy</th>
<th>Score</th>
<th>Economy</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Singapore</td>
<td>91.9</td>
<td>Armenia</td>
<td>26.7</td>
</tr>
<tr>
<td>Hong Kong, China</td>
<td>82.3</td>
<td>Philippines</td>
<td>26.1</td>
</tr>
<tr>
<td>Taipei, China</td>
<td>59.7</td>
<td>Kazakhstan</td>
<td>25.7</td>
</tr>
<tr>
<td>Bhutan</td>
<td>58.8</td>
<td>Timor-Leste</td>
<td>25.4</td>
</tr>
<tr>
<td>Republic of Korea</td>
<td>54.0</td>
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<td>Bangladesh</td>
<td>23.3</td>
</tr>
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<td>44.3</td>
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<td>22.7</td>
</tr>
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<td>Pakistan</td>
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<td>Samoa</td>
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<td>Maldives</td>
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<tr>
<td>People’s Republic of China</td>
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<td>Thailand</td>
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<td>Vanuatu</td>
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<td>20.0</td>
</tr>
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<td>Tajikistan</td>
<td>19.4</td>
</tr>
<tr>
<td>India</td>
<td>31.5</td>
<td>Kyrgyz Republic</td>
<td>19.2</td>
</tr>
<tr>
<td>Federated States of Micronesia</td>
<td>30.0</td>
<td>Cambodia</td>
<td>18.7</td>
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<tr>
<td>Kiribati</td>
<td>29.2</td>
<td>Lao People’s Democratic Republic</td>
<td>18.6</td>
</tr>
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<td>Tonga</td>
<td>28.6</td>
<td>Turkmenistan</td>
<td>13.4</td>
</tr>
<tr>
<td>Mongolia</td>
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<tr>
<td>Viet Nam</td>
<td>26.9</td>
<td>Afghanistan</td>
<td>10.0</td>
</tr>
</tbody>
</table>

Note: ^a Out of 185 economies.


rights and getting information on land, as well as pilferage, nepotism, clientelism and favoritism.
discourage corruption (Table 5.1). Montinola and Jackman (2002) demonstrate the effect of political competition and democratic reform on corruption rates. Their findings suggest that autocracies are associated with higher levels of corruption than full democracies, but with lower levels of corruption than in countries governed by partial democracies. Autocratic regimes essentially legalize an inherently illicit act, which establishes an implicit property right, and improves the efficiency of corruption. Bribe payers know that a standard bribe rate applies and the payment will probably lead to the desired service.

Moving from an autocratic regime to a partial democracy can actually create incentives for leaders to engage in corrupt acts. Diamond (2007, 119) argues that “where power confers virtually unchecked opportunities for personal, factional, and party enrichment, it is difficult if not impossible to sustain democratic rules of the game. The democratic spirit of elections drowns in vote-buying, rigging, violence, or all three.” Figure 5.7


Figure 5.4 Transparency International, change in corruption over the previous two years, 2013
partly illustrates the above findings as it correlates the degree of democracy in a country with the perception of its ability to control corruption. At the top end of the scale, democratic states are perceived to have higher control of corruption than other forms of political institutions. At the lower end of the scale, authoritarian economies seem to control corruption better than their counterparts of partial democracies. Countries in the middle range—between authoritarian regimes and full democracy—show the worst performance as their control of corruption falls below the average. The pattern is equally applicable in Asia—shown by triangles—as elsewhere.

Treisman (2000, 439), using data from 64 countries, emphasizes the importance of the length of time a state has been democratic: “The fact that a country is democratic today makes just about no difference to how corrupt it is perceived to be. What matters is whether or not it has been democratic for decades. . . . (It is) a painfully slow process by which democracy undermines the foundations of corruption.” In a new democracy, the bribe culture will remain without enforcement of the bribe rates as bureaucrats, facing political competition and with shorter horizons than autocratic rulers, will be more self-serving. In a new bureaucracy, multiple bureaucrats will fleece businesses for the same service, thereby

Figure 5.5 US Foreign Corrupt Practices Act, corrupt conduct cited in corporate cases, 2012–13

Note: US = United States.

Source: Adapted from Low et al. (2014).
Table 5.2  Estimates of the extent of corruption in manufacturing firms in selected countries

| Country        | Year | Percent of firms expected to give gifts to public officials “to get things done” | Percent of firms expected to give gifts in meetings with tax officials | Percent of firms expected to give gifts to secure a government contract (Value of gift expected to secure a government contract (% of contract value)) | Percent of firms expected to give gifts to get an operating license | Percent of firms expected to give gifts to get an import license | Percent of firms expected to give gifts to get a construction permit | Percent of firms expected to give gifts to get an electrical connection | Percent of firms expected to give gifts to get a water connection |
|----------------|------|---------------------------------------------------------------------------------|---------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------|
| All Countries  |      | 19.7                                                                             | 12.1                                                                | 18.2                                                                                                                                  | 1.8                                                                                                                                  | 13.7                                                                                                                   | 12.6                                                                                                                   | 21.0                                                                                                                   | 15.1                                                                                                                   | 15.5                                                                                                                   |
| Afghanistan    | 2014 | 33.5                                                                             | 31.7                                                                | 16.3                                                                                                                                  | 2.3                                                                                                                                  | 36.1                                                                                                                   | 20.7                                                                                                                   | 53.5                                                                                                                   | 53.6                                                                                                                   | 79.5                                                                                                                   |
| Azerbaijan     | 2009 | 52.2                                                                             | 43.2                                                                | 14.2                                                                                                                                  | 1.1                                                                                                                                  | 34.6                                                                                                                   | 27.7                                                                                                                   | 71.4                                                                                                                   | 54.3                                                                                                                   | 40.6                                                                                                                   |
| Bangladesh     | 2013 | 48.5                                                                             | 41.0                                                                | 35.5                                                                                                                                  | 2.9                                                                                                                                  | 58.0                                                                                                                   | 77.2                                                                                                                   | 54.6                                                                                                                   | 47.6                                                                                                                   | 56.3                                                                                                                   |
| Bhutan         | 2009 | 10.1                                                                             | 2.5                                                                 | 7.0                                                                                                                                  | 0.3                                                                                                                                  | 1.4                                                                                                                   | 0.0                                                                                                                   | 9.4                                                                                                                   | 8.5                                                                                                                   | 0.0                                                                                                                   |
| Cambodia       | 2007 | 61.2                                                                             | 60.3                                                                | 76.8                                                                                                                                  | 14.9                                                                                                                                  | ...                                                                                                                   | 43.9                                                                                                                   | 91.6                                                                                                                   | 58.0                                                                                                                   | 33.3                                                                                                                   |
| PRC            | 2012 | 10.7                                                                             | 10.9                                                                | 8.8                                                                                                                                  | 0.2                                                                                                                                  | 7.8                                                                                                                   | 19.2                                                                                                                   | 18.8                                                                                                                   | 3.0                                                                                                                   | 6.2                                                                                                                   |
| Fiji           | 2009 | 10.2                                                                             | 4.5                                                                 | 3.0                                                                                                                                  | 0.0                                                                                                                                  | 1.2                                                                                                                   | 2.4                                                                                                                   | 5.3                                                                                                                   | 19.2                                                                                                                   | 31.4                                                                                                                   |
| FSM            | 2009 | 0.0                                                                              | 0.0                                                                 | 0.0                                                                                                                                  | 0.0                                                                                                                                  | 0.0                                                                                                                   | 0.0                                                                                                                   | 0.0                                                                                                                   | 18.8                                                                                                                   | 7.3                                                                                                                   |
| India          | 2006 | 47.5                                                                             | 52.3                                                                | 23.8                                                                                                                                  | 1.0                                                                                                                                  | 52.5                                                                                                                   | 46.0                                                                                                                   | 67.0                                                                                                                   | 39.6                                                                                                                   | 26.6                                                                                                                   |
| Indonesia      | 2009 | 14.9                                                                             | 14.0                                                                | 38.1                                                                                                                                  | 1.8                                                                                                                                  | 25.9                                                                                                                   | 19.5                                                                                                                   | 37.1                                                                                                                   | 23.3                                                                                                                   | 22.3                                                                                                                   |
| Kazakhstan     | 2009 | 34.0                                                                             | 25.1                                                                | 44.9                                                                                                                                  | 5.2                                                                                                                                  | 30.0                                                                                                                   | 36.6                                                                                                                   | 36.7                                                                                                                   | 25.1                                                                                                                   | 21.5                                                                                                                   |
| Korea, Rep. of | 2005 | 14.1                                                                             | 21.3                                                                | 25.8                                                                                                                                  | 0.2                                                                                                                                  | ...                                                                                                                   | ...                                                                                                                   | ...                                                                                                                   | ...                                                                                                                   | ...                                                                                                                   |
| Kyrgyz Republic| 2013 | 51.5                                                                             | 54.5                                                                | 48.8                                                                                                                                  | 2.5                                                                                                                                  | 59.0                                                                                                                   | 65.4                                                                                                                   | 42.3                                                                                                                   | 53.3                                                                                                                   | 59.4                                                                                                                   |
| Lao PDR        | 2012 | 35.5                                                                             | 23.1                                                                | 44.5                                                                                                                                  | 3.3                                                                                                                                  | 18.6                                                                                                                   | 33.5                                                                                                                   | 42.3                                                                                                                   | 22.9                                                                                                                   | 33.0                                                                                                                   |
| Mongolia       | 2009 | 33.4                                                                             | 20.8                                                                | 38.9                                                                                                                                  | 3.2                                                                                                                                  | 31.3                                                                                                                   | 23.1                                                                                                                   | 31.7                                                                                                                   | 15.6                                                                                                                   | 14.3                                                                                                                   |
Table 5.2 (continued)

<table>
<thead>
<tr>
<th>Country</th>
<th>Year</th>
<th>Percent of firms expected to give gifts to public officials “to get things done”</th>
<th>Percent of firms expected to give gifts in meetings with tax officials</th>
<th>Percent of firms expected to give gifts to secure a government contract</th>
<th>Value of gift expected to secure a government contract (% of contract value)</th>
<th>Percent of firms expected to give gifts to get an operating license</th>
<th>Percent of firms expected to give gifts to get an import license</th>
<th>Percent of firms expected to give gifts to get a construction permit</th>
<th>Percent of firms expected to give gifts to get an electrical connection</th>
<th>Percent of firms expected to give gifts to get a water connection</th>
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</thead>
<tbody>
<tr>
<td>Nepal</td>
<td>2013</td>
<td>14.3</td>
<td>10.4</td>
<td>51.3</td>
<td>4.3</td>
<td>18.9</td>
<td>39.1</td>
<td>18.8</td>
<td>21.5</td>
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<td>7.7</td>
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<td>2008</td>
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<td>33.0</td>
<td>26.6</td>
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<td>32.8</td>
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<td>2.6</td>
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<td>12.7</td>
<td>1.4</td>
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<td>41.9</td>
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<td>2008</td>
<td>59.5</td>
<td>52.4</td>
<td>48.9</td>
<td>2.5</td>
<td>58.9</td>
<td>70.5</td>
<td>53.3</td>
<td>6.4</td>
<td>11.0</td>
</tr>
<tr>
<td>Vanuatu</td>
<td>2009</td>
<td>4.3</td>
<td>4.6</td>
<td>8.8</td>
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<td>6.5</td>
<td>4.3</td>
<td>13.0</td>
<td>15.2</td>
<td>15.8</td>
</tr>
</tbody>
</table>

Notes:
. . . = data not available.
PRC = People’s Republic of China, FSM = Federated States of Micronesia, Lao PDR = Lao People’s Democratic Republic.

raising the level of corruption (see, for instance, Waller et al. 2002; Shleifer and Vishny 1993). Older democracies present a different picture. Drawing from India’s long democratic experience, The Economist (2014) notes that the incentive for corruption declines when bureaucrats lack discretionary powers or when their tasks are narrowly focused, of limited duration, regularly repeated and of great prestige and when budgets are limited and the tasks are under public scrutiny.

Table 5.3 also indicates that federal states may be more corrupt than others. Many Asian economies have moved or are moving toward decentralized systems of federal governance (see Chapter 8 in this book). They are decentralizing along political, fiscal and administrative lines to improve accountability and public service delivery. It is often believed that decentralization will reduce corruption. Yet, the relationship between decentralization and corruption is not fully understood. Fisman and Gatti (2002a), in cross-national empirical studies, demonstrated that decentralization leads to greater accountability and lower corruption levels. The authors later confirmed the findings in an empirical examination of US states (Fisman and Gatti 2002b). Local officials are more responsive to public concerns on corruption than centralized bureaucrats because they are closer to constituents and represent a more geographically concentrated group (Shah 1998).

Note: Asia refers to the 23 developing Asian economies included in the Global Corruption Survey.


Figure 5.6 Asia bribery rates by service, 2013
Nevertheless, the quality of governance varies widely across local governments. In a federal and decentralized system, better local information can in principle be brought to bear on the selection and targeting of government programs. In some situations localization may increase opportunities for

Table 5.3 Variables affecting corruption

<table>
<thead>
<tr>
<th>Positive association</th>
<th>Negative association</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Economic variables</strong></td>
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<tr>
<td>Income inequality</td>
<td>Economic growth</td>
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<tr>
<td>Inflation</td>
<td>Foreign direct investment</td>
</tr>
<tr>
<td>Dependence on natural resources</td>
<td>Productivity at the country level</td>
</tr>
<tr>
<td>Risk premium on government debt</td>
<td>International economic integration</td>
</tr>
<tr>
<td></td>
<td>Financial reporting standards</td>
</tr>
<tr>
<td></td>
<td>Level of human capital stock</td>
</tr>
<tr>
<td></td>
<td>Technological innovations</td>
</tr>
<tr>
<td><strong>Public policy variables</strong></td>
<td></td>
</tr>
<tr>
<td>Trade barriers</td>
<td>Freedom of press</td>
</tr>
<tr>
<td>Capital controls</td>
<td>Utility competition</td>
</tr>
<tr>
<td>Complexity of tax systems</td>
<td>Utility privatization</td>
</tr>
<tr>
<td>Barriers to business entry</td>
<td>Energy policy stringency</td>
</tr>
<tr>
<td>Utility capacity constraints</td>
<td>Level of public sector wages</td>
</tr>
<tr>
<td>Size of public sector</td>
<td>Transparency of rules, laws and processes</td>
</tr>
<tr>
<td>Number of rules and regulations</td>
<td>Effectiveness of institutional controls</td>
</tr>
<tr>
<td>Provision of subsidies or goods and services</td>
<td>Impartiality and speed in the execution of justice and imposition of penalties</td>
</tr>
<tr>
<td>Below market prices</td>
<td></td>
</tr>
<tr>
<td>Discretionary decisions</td>
<td></td>
</tr>
<tr>
<td>Privatization</td>
<td></td>
</tr>
<tr>
<td><strong>Political structure variables</strong></td>
<td></td>
</tr>
<tr>
<td>Barriers to political entry</td>
<td>Democracy</td>
</tr>
<tr>
<td>Federal states</td>
<td>Parliamentary system</td>
</tr>
<tr>
<td>Shares of candidates elected from party list</td>
<td>Political stability</td>
</tr>
<tr>
<td>Election costs</td>
<td>Bureaucratic efficiency</td>
</tr>
<tr>
<td></td>
<td>Bureaucratic quality</td>
</tr>
<tr>
<td></td>
<td>Length of democratic experience</td>
</tr>
<tr>
<td><strong>Social/demographic variables</strong></td>
<td></td>
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<tr>
<td>Ethno linguistic fractionalization</td>
<td>Collectivist values</td>
</tr>
<tr>
<td>Male domination in parliament and senior bureaucracy positions</td>
<td>Former British colony</td>
</tr>
</tbody>
</table>

Source: Authors’ compilation.
corruption and elite capture; for example, local elites diverting resources to suit their interests or locally elected representatives not levying taxes for fear of becoming unpopular. Decentralized expenditure systems can lead to a classical “overgrazing the commons” dilemma since more bureaucrats have opportunities to seek bribes and party officials are not able to control bribe levels (see, for instance, Mullins 2003; Montinola and Jackman 2002). Examining local allocation of public services across types of service programs and recipient groups, Bardhan and Mookherjee (2012) find that politicians who are in a position to do so may distribute benefits to the poor in exchange for their political support.

Interestingly, the strongest predictors of corruption are the static socio-economic and demographic variables, which limit corruption remediation measures (Treisman 2000). Criminology literature suggests that transitional countries struggle to establish rule of law. Periods of transition weaken social norms, undermine public institutions and limit the ability

Notes:
EIU = Economist Intelligence Unit.
The Control of Corruption Index ranges from −2.5 to 2.5, with a higher score indicating lower corruption; the EIU’s Democracy Index rates countries on a scale from 0 (authoritarian regimes) to 10 (full democracy). Triangles pertain to developing Asian economies. A total of 161 economies are included.


Figure 5.7 State of democracy and perception of corruption
of the youth to integrate into society (Becker 1968). The very fabric of society is eroded, leading to reduced restraints and increases in all types of criminal activity. Socially unaccepted activities in the past become tools of survival as individuals attempt to understand the new social dynamic. This can lead to more corruption and previously lucrative government offices are eliminated or face the risk of elimination (Lotspeich 2003).

Transitioning from planned to free market economies necessitates fully recognized property rights. Yet, these rights are not recognized under communist regimes and may take a long time to establish. Thus, entrepreneurs sometimes turn to organized crime for protection. Organized crime may also grow from the need to collude to extract bribes (Vaksberg 1992), with the corrupt ring contributing to corruption by paying bribes to evade detection (Chambliss 1988).

Table 5.3 shows that economic variables such as abundance of natural resources, high inequality, high inflation, structural weaknesses, public policy variables such as restrictions on trade and businesses, and the large presence of government provide fertile ground for corruption to flourish. In contrast, human capital development, high productivity, good financial and accounting standards, integrated markets, and open, market-based and internationally integrated policies are associated with less corruption. We discuss two examples: traffic regulation and civil service wages.

In many developing countries traffic police are perceived to use vague and complex traffic regulations to extract bribes, and police check points along highways and borders are used for shakedowns. Anecdotal evidence suggests that the costs of this type of corruption in time and bribes can be significant, increasing shipping prices up to $1000 for high-value merchandise. Thus, expanding highway infrastructure may also lead to more illicit opportunities for corrupt officials.

It is often argued that without adequate remuneration, bureaucrats and public servants have little to lose by engaging in corrupt and illegal acts to provide for “customary needs” (Berg 1993). Lindbeck (1998) attributed the low level of corruption in Sweden during the late 19th and early 20th centuries to high wages received by public sector administrators. In a cross-national study, Van Rijckeghem and Weder (2001) found corruption levels to be inversely related to civil service wage levels relative to local manufacturing salaries. This topic is of particular relevance in Asian economies where civil service salaries are not usually competitive. Singapore, one of the least corrupt countries by most corruption indices, pegs civil service salary rates to equivalent levels in the private sector.

The analysis of the effect of wages on the degree of corruption stems from the seminal paper of Becker and Stigler (1974), who argue that higher wages coupled with supervision can deter public officials from engaging
in corrupt practices. Linking it to the penalty system, higher wages will increase the opportunity cost of imprisonment due to corruption. Becker’s (1968) theory of crime and punishment posits that the level of corruption is a function of the severity of punishment and probability of being convicted. Theoretically, the severity of the penalties should reduce corruption, but higher penalties could also lead to higher bribes since the cost of being caught increases. Legal, political and administrative impediments must be removed for penalties to be effective in the fight against corruption. Without changing monitoring or prosecution levels, wages may not have any impact on the level of corruption. If bribery is the norm and goes unpunished, why stop, regardless of the wage level? If a public official and bribe giver haggle over the amount of the bribe, a higher wage would mean a higher opportunity cost for losing one’s job if caught and therefore would result in higher bribes (Mookherjee and Png 1995).

Wider empirical evidence on the relationship between wages and corruption is mixed. Some find no relationship (Treisman 2000; Azfar et al. 2001). Fjeldstad (2003) reports that wage hikes in Tanzania as part of an anticorruption program had little effect on long-term corruption levels. This could, in part, be due to the interplay of familial obligations and salary levels. As workers earn higher wages, more is expected from their extended families. Thus, wage increases could actually pressure bureaucrats to engage in more and bolder corrupt acts. Similarly, not all people will react the same way to incentives. Regardless of the level of wages, some are more inclined to be corrupt because of their mental, psychological or moral makeup, or because the cost of not engaging in corruption is too high (Tanzi 1998).

4. CONSEQUENCES OF CORRUPTION

Corruption diverts public resources from necessary investments in infrastructure, health and education, and so hinders economic growth and social development. While conventional wisdom suggests that corruption has a deleterious effect on economic development, experts are divided as to its effect: does it really grease the wheels of growth or sand them? Early revisionists postulated that corruption helped improve the overall efficiency of public administration by “greasing the wheels.” Huntington (1968) expressed this hypothesis eloquently: “In terms of economic growth the only thing worse than a society with a rigid, over-centralized, dishonest bureaucracy is one with a rigid, over-centralized, honest bureaucracy.” Huntington argued that corruption eases social conflicts and hinders violence in modernizing societies. The grease hypothesis originates from the
idea that corruption can substitute for deficient institutions in a second-best world: corruption allows the private sector to circumvent regulations, thereby easing obstacles to trade, investment and other economic decisions favorable to growth (Leff 1964; Huntington 1968; Acemoglu and Verdier 1998; Campos and Dimova 2010). This promotes efficiency and increases economic activity.

However, the relationship between quality of governance and corruption is not straightforward. According to Meon and Weill (2008), corruption is harmful in countries where institutions are effective. Conversely, it increases efficiency in countries with ineffective institutions. A fitting metaphor is that corruption “oils the unturnable wheels of a state bureaucracy and facilitates the working of the government and the delivery of services to the people” (Wijewardena 2012). The East Asian paradox of rapid economic growth in Cambodia, the People’s Republic of China, Indonesia, Myanmar, the Philippines, Thailand and Viet Nam, despite rampant corruption, is often highlighted as an example. All have historically been perceived as having greater government effectiveness and better regulatory quality than might be warranted by their levels of corruption.

In historically centralized systems, bribes flow to the top and are divided among bureaucrats; bribe payers, meanwhile, receive public services without paying additional kickbacks to other layers of the bureaucracy. In contrast, bureaucrats in decentralized systems often demand bribes at different levels of hierarchy—and there is no guarantee of service delivery. Moreover, bribes are often set at higher levels under weak, decentralized governments so that corruption is more distortionary than under strong, centralized governments. Indeed, it has been suggested that bribes to get things done were smaller under the “East Asian model of corruption”.

The literature, however, does not lack evidence to support that corruption is detrimental to growth and economic development. Weak governments that do not control their agencies experience high corruption levels, whereas stronger and more centralized governments experience lower corruption (Shleifer and Vishny 1993; MacIntyre 2001). Aidt (2009) provides evidence that corruption hinders sustainable development, even if the average effect of corruption on gross domestic product growth is close to zero. In low-income countries corruption is a significant constraint to economic performance (Pande 2007), and it also increases poverty and worsens income inequality and other development outcomes (Gupta 1998; Gupta et al. 2000).

The size of the economy matters as well in this discussion, because corruption is more damaging in small economies than in large ones (Rock and Bonnet 2004). According to them, the experience of newly industrialized
Corruption in Asia and the Pacific

countries shows that centralized corruption networks enable big businesses to cultivate “stable and mutually beneficial exchanges of promotional privileges for bribes and kickbacks”. Efforts to reduce corruption may not lead to the desired economic outcome, unless two conditions are present: that the economy is large enough and that the central bureaucracy has monopolized corruption to an extent that the equitable distribution of benefits is possible. Countries where corruption is predictable tend to attract higher levels of investment than those where it is not (World Bank 1997; Campos et al. 1999).

Li and Wu (2007) identify level of public trust as an important requisite of corruption-induced growth. For them, the “growth puzzle” in the People’s Republic of China can be explained by the high level of trust prevailing in the country. Here, government officials and the private sector believe that each will deliver what is expected and corruption therefore becomes efficient. The same cannot be said of a country where politicians and government officials award contracts to relatives and friends.

The negative effect of corruption can also be seen in the diversion of resources away from productive uses toward rent-seeking activities (Murphy et al. 1991). Using data from the World Bank’s Enterprise Surveys from 107 countries, Freund et al. (2014) show that demands for bribes from firms delay getting a construction permit or operating license by 1.5 times, clearing customs for exports by 1.2 times and for imports by 1.4 times. When firms know that some of their profits will be lost due to corruption, they may choose to postpone expansion, operate in the informal sector or be part of the underground economy (Bates 1981; De Soto 1989). Moreover, firms may also choose to adapt to the presence of corruption by using less expensive but less efficient technology to minimize losses in case corrupt officials force them to shut down operations (Choi and Thum 1998; Svensson 2005).

Ostrom (1998) raises the issue of why people who stand to benefit from corruption would be interested in creating efficient institutions? In societies with systemic corruption, it is not easy to convince individuals that it pays to be honest (Box 5.1). It requires a credible institution established through collective action to do this. This idea of corruption as a collective action is related to the so-called built-in institutional inertia of corrupt systems advanced by Harris (2003, 63) in which “just as a predominantly non-corrupt system will self-correct to deal with corrupt individuals and the legislative or political flaws that facilitated their corruption, so will a predominantly corrupt system self-correct to maintain its corruption following a purge.” Meon and Weill (2010, 254) assert that a country that allows unfettered corruption may eventually find itself “with an
As long as corruption persists, compromise will always be an object of the policy process. In this regard, two recommendations for co-opting corruption deserve attention. These are the Sietsema and Basu propositions, each addressing two different actors in corrupt transactions: the bribe taker and the bribe giver. Under the current international trend in criminalizing bribery offenses, both are held liable.

Sietsema (2005) proposes “a scheme where the acceptance of bribes is not per se legal, yet officials can immunize themselves from prosecution by fully reporting the amount of bribes that they accept.” Such a scheme would allow for the recruitment of competent public servants, promote a culture of honesty, increase transparency in bribe collection and become an anticorruption tool. Transparency in bribe reporting could create an efficient market for bribery so that the scope of corruption can be measured and an effective fight against it can be waged. Sietsema argues that letting both the giver and receiver of bribes go free will allow the country “to take advantage of the economic benefits of corruption as well as keep corruption under control . . . .”

Basu (2011) proposes that instead of treating both bribe giver and bribe taker as criminals, it would be better to legalize bribe giving, albeit only in cases of “harassment bribes”, whereby officials demand bribes for services which the bribe giver is entitled to. Examples of harassment bribes include paying for water or electricity connection before the service is provided or before a land certificate is issued. By removing the threat of legal action, Basu’s proposal encourages bribe givers to report corruption and recover the money paid to bribe takers. Such a setup would enormously tilt the incentive for bribery against bribe takers. In addition to paying back the bribe, bribe takers would be punished for the crime and less likely to continue demanding bribes. A significant drop in the incidence of bribery could be expected under this model.

However, many arguments have been put forth to explain why legalizing bribe giving would not work. Drèze (2011) argues that a bribe giver has three options: refuse to pay a bribe, pay the bribe and then blow the whistle and pay the bribe but remain silent. Although Basu’s proposal enhances the attractiveness of the second option, it also enhances the attractiveness of the third option since the bribe giver no longer feels guilty remaining silent. Given this, the incidence of bribery could be expected to increase and not decrease. Bhargava (2011) argues that to persuade bribe givers to file complaints, the fear of retaliation from bribe takers must be very low or absent and the belief that the authorities will be able to punish bribe takers must be strong.

Other perceived shortcomings of Basu’s proposal are that (i) it does not treat the root cause of the problem, which is weak governance and lack of transparency; (ii) vulnerable and marginalized citizens could be hurt more if corrupt public officials increase bribe amounts to compensate for the higher risk of getting caught; (iii) bribe payers should be held accountable for corrupting public officials; (iv) the legalization of one type of bribe may send mixed signals and affect anticorruption efforts; and (v) it is contrary to national laws and international commitments (Mayer and Ruano 2011).

Basu et al. (2014) show that under asymmetric punishment, a bribe will be paid as long as the total expected fines are less than the gains from the public good or
even worse global institutional framework, and thus end up in a bad governance/low efficiency trap.”

Indeed, educated and affluent citizens are increasingly demanding and driving more democratic and decentralized modes of governance as well as new institutions to support the rule of law, transparency and accountability.

Some empirical research suggests that regulations do not just appear, but are methodically introduced into the bureaucracy to allow for the extraction of bribes. Under this thinking, the more a firm bribes, the more it is subject to red tape and other bureaucratic obstacles (Wei and Kaufmann 1999). Thus, complex tax systems, high compliance costs and tax evasion, combined with bureaucratic delays, add to the costs of corruption and reduce government efficiency (Gill and Kharas 2007).

Mauro (1997) succinctly enumerates the costs of corruption in terms of (i) the loss of tax revenue when corruption significantly reduces capital gains from corrupt practices, (ii) the adverse budgetary consequences from loss of tax revenue, (iii) the lower quality of infrastructure and public services caused by the improper allocation of procurement contracts, (iv) the reduction in the effectiveness of aid flows through fund diversions, and (v) the distortion in the composition of government expenditures as government officials choose expenditures solely on the basis of the opportunity to extort bribes. Other qualitative effects of corruption are that it reduces the ability of governments to correct market failures, distorts incentives and allocation of resources as firms and individuals engage in rent-seeking activities, diminishes government’s ability to enforce contracts and protect property rights and impedes the growth of small and medium enterprises, the engines of growth in most developing countries (Tanzi 1998).

5. REMEDIES FOR CORRUPTION

The United Nations Convention against Corruption in 2003 recognized that corruption is a transnational phenomenon affecting all societies and transcending national borders. Some 171 countries have so far signed the convention, a unique initiative not only because of its global coverage but
Governance in developing Asia

also because of its emphasis on both preventive and punitive measures to address the cross-border nature of corruption. As a result of the convention, international cooperation to prevent and control corruption is getting more attention. Box 5.2 outlines efforts in Asia.

In general, policies to tackle corruption require greater accountability, such as encouraging civic engagement, participation and monitoring; higher transparency, such as improving access to information and public awareness; and more competition, such as engaging with the private sector. However, Billger and Goel (2009) show that the effectiveness of anticorruption policies varies across countries with different economic systems. Box 5.3 looks at Singapore’s anticorruption effort.

Although countries differ in the level of attention paid to certain aspects of the fight against corruption, efforts to improve integrity and

BOX 5.2  COLLABORATIVE ANTICORRUPTION MEASURES IN ASIA

Anticorruption legislation and law enforcement have greatly improved in Asia and the Pacific (ADB-OECD 2006). Countries have established formal anticorruption agencies specializing in the prevention of corruption, investigating corruption-related complaints and communicating anticorruption initiatives to citizens. Not only have countries legislated enabling laws, but they have also made them compliant with international standards. In cases where corruption goes beyond national borders, bilateral and multilateral arrangements have been established to provide mutual legal assistance, repatriate illicit funds and extradite corrupt individuals. An example of this is the Asian Development Bank and OECD Anti-Corruption Initiative for Asia and the Pacific. This is a regional network of member countries of both organizations to support national and multilateral action to fight corruption, and has 31 member economies.

The 10 members of the Association of Southeast Asian Nations (ASEAN), in 2004, signed the ASEAN Mutual Legal Assistance Treaty to “facilitate and enhance efforts to combat transnational crime in the ASEAN region.”

Although these regional agreements are broad enough to cover most corruption offenses, issues and challenges still exist. These include the application of jurisdiction in extradition cases committed outside a suspect’s home country and the treatment of evidence found outside a suspect’s home country; neither have been tested in court in an Asian country. Furthermore, extradition requests are often denied because cases are classified under the rubric of “essential interests” and “political offenses”, with both terms having different meanings across countries (ADB-OECD 2006, 55).

Note: * Afghanistan; Australia; Bangladesh; Bhutan; Cambodia; People’s Republic of China; Cook Islands; Fiji; Hong Kong, China; India; Indonesia; Japan; Kazakhstan; Republic of Korea; Kyrgyz Republic; Macau, China; Malaysia; Mongolia; Nepal; Pakistan; Palau; Papua New Guinea; Philippines; Samoa; Singapore; Solomon Islands; Sri Lanka; Thailand; Timor-Leste; Vanuatu; and Viet Nam.

* Afghanistan; Australia; Bangladesh; Bhutan; Cambodia; People’s Republic of China; Cook Islands; Fiji; Hong Kong, China; India; Indonesia; Japan; Kazakhstan; Republic of Korea; Kyrgyz Republic; Macau, China; Malaysia; Mongolia; Nepal; Pakistan; Palau; Papua New Guinea; Philippines; Samoa; Singapore; Solomon Islands; Sri Lanka; Thailand; Timor-Leste; Vanuatu; and Viet Nam.
BOX 5.3  SINGAPORE’S ANTICORRUPTION STRATEGY

Singapore has gained a reputation as one of the least corrupt countries in Asia and, indeed, the world. This is evidenced by its consistently high ranking in surveys gauging its ability to address corruption. For example, its rank in Transparency International’s Corruption Perceptions Index has never been below 9th place; in most years, it is among the top five countries perceived to be the least corrupt. Since 1995, Singapore has maintained top ranking in the Political and Economic Risk Consultancy’s surveys, which examine the extent to which corruption undermines the business environment. Singapore’s percentile rank in the World Bank’s Control of Corruption Index has never been below the 96th percentile.

But this commendable performance has not always been the case. During the colonial period, corruption was rampant and seen as a low-risk, high-return activity. Quah (2007) identifies three causes of corruption in Singapore during this period: low salaries of public officials, ample opportunities for corruption and low risk of detection, and light punishments for those caught. Even though corruption was made illegal as early as 1871, Singapore only got its first dedicated anticorruption law when the colonial government enacted the Prevention of Corruption Ordinance in 1937. That ordinance created an Anti-Corruption Branch within the Criminal Investigation Department.

However, the Anti-Corruption Branch was ineffective in curtailing corruption because of inadequate manpower, and the police force itself was riddled with corruption. That early failure to curb corruption led to the creation in 1952 of Singapore’s first independent anticorruption agency, the Corrupt Practices Investigation Bureau. It was not effective at first, but the rise of the People’s Action Party to office in 1959 provided the much-needed impetus. The new government embarked on a two-pronged anticorruption strategy to reduce opportunities and incentives for corruption.

To take on the first part of the strategy, the government enacted the Prevention of Corruption Act in 1960; this had broader coverage than the 1937 ordinance and explicitly defined corruption in terms of various forms of “gratification”. The act also toughened the penalties for corruption offences and gave the Corrupt Practices Investigation Bureau (CPIB) more powers and, effectively, a new lease of life (Quah 2007, 19). To ensure that the act remains effective, the government amends it whenever necessary or legislates new laws to deal with emerging corruption issues. As Singapore’s sole anticorruption agency, the CPIB spearheads the fight against corruption through both the investigation and implementation of preventive measures (CPIB 2013, 3). In 2013, the bureau received 792 complaints of which 152 were registered for investigation. This resulted in 140 cases going to court and, of these, 134 convictions (CPIB 2013, 8). It is noteworthy that the CPIB uses a holistic approach to fighting corruption by dealing with big and small cases in the public and private sectors—and going after bribe givers and takers alike (Quah 2014). For example, the bureau’s own former assistant director Edwin Yao was accused of misappropriating 1.76 million Singapore dollars ($S) from 2008 to 2012, found guilty and sentenced to 10 years imprisonment (Quah 2014). Among its corruption prevention measures, the bureau reviews procedures and practices in government agencies, conducts public outreach programs, and participates in international forums and compliance reviews of the country’s anticorruption effort.
The government has demonstrated its commitment and political will to face corruption head-on, not only by enhancing the legal powers of the bureau, but also by enabling it through increased manpower and funding. From less than 20 officers in 1960, the Corrupt Practices Investigation Bureau now has an estimated 177 permanent staff. Its budget has increased from around S$1 million in 1978 to over S$50 million in 2014 (Government of Singapore 2014).

To further lessen the opportunities for public officials to use their discretionary power for corruption, the government has reduced red tape and expanded e-governance. In 1991, the Service Improvement Unit was formed to improve the quality of service in the Singapore Civil Service. In 2004, the Online Applications System for Integrated Services was launched for the public to apply for 85 different types of licenses online. To improve efficiency and transparency in government procurement, the online portal GeBiz was launched in 2000 for internet procurement.

Another facet of the government’s anticorruption strategy involved improving salaries and working conditions of civil servants to reduce incentives for corruption. This did not happen immediately after independence, because the economy was struggling in the 1960s. The government first focused on strengthening the legal structure to curtail corruption. But as the economy improved, it increased salaries and benefits in the public sector to make it competitive with the private sector. This was to control corruption and to prevent an exodus of competent civil servants to the private sector. Clean and honest government needs competent and capable leaders. To quote Singapore’s former prime minister Lee Kuan Yew, “adequate remuneration is vital for high standards of probity in political leaders and high officials” (Lee 2000, 193).

The political will of the government to eradicate corruption was supported by a favorable policy environment: small land area and population, high gross domestic product per capita and political stability (Quah 2014). Indeed, not all countries will be able to adopt Singapore’s anticorruption strategy. Countries with less favorable circumstances will have more difficulty implementing their anticorruption strategies.

transparency in the public sector remain a cornerstone of Asia’s anticorruption policies. Asia’s electorates, legislatures and judiciaries can hold the executive accountable in two ways: for its use of funds and the results of its actions; and public employees within the executive for their use of resources, administrative decisions and the results of those decisions. Both levels of accountability are enhanced by transparency in decision making, public audit institutions, access to relevant and timely information, and public and media scrutiny.

Over the past years, policies and reform measures aimed at individual public officials and organizations have been implemented to strengthen safeguards against corruption in the public sector. At the individual level, governments have adopted codes of conduct and the mandatory submission of assets and liabilities to discourage and identify corruption. At the organizational level, limiting discretion and increasing
transparency in the decision making of public offices have led these reform measures.

Another area receiving attention is the political arena. If there is no information asymmetry and citizens are fully aware of corruption, then the political process can offer the right incentives to curb or eliminate it (Olken 2009). Countries have realized the importance of addressing corruption among political leaders and have implemented measures to enhance the integrity of elected officials and improve the transparency of financial transactions involving them and their political parties. As Singapore’s former prime minister Lee Kuan Yew put it, “the bane of most countries in Asia has been the high cost of elections” (Lee 2000, 90). This has triggered a cycle of corruption as winners seek to recoup the cost of getting elected and amass funds to contest future elections. It also invites patronage politics since donations to political parties are often used to influence government. The implementation of reform measures to tackle this area remains a challenge.

The role of civil society in anticorruption efforts is gaining increasing recognition and many Asian governments have entered into memorandums of understanding and partnerships with civil society organizations for their advocacy programs, information campaigns and other activities. Civil society and nongovernment organizations, for their part, can petition government to take action on important issues. For example, the collective action of some 20 nongovernment workers from the Republic of Korea that formed the Civic Solidarity Network for the Legislation of Law to Prevent Corruption led to the establishment of the Korea Independent Commission against Corruption (United Nations Development Programme 2008). In some countries, governments are targeting the youth and teaching them early on about the perils of corruption and what they can do to prevent and eliminate it. Although some encouraging developments have taken place, much still needs to be done in this area. Moreover, civil society’s involvement in guarding against corruption still needs to be clearly defined and institutionalized.

Not only have the legal procedures to address corruption been strengthened, but ways to detect and investigate corruption have also been intensified. Hong Kong, China’s Independent Commission against Corruption and Singapore’s CPIB are good examples of specialized anticorruption agencies dedicated to minimize corruption. Specialized agencies are considered more efficient because they have a high degree of autonomy and expertise, narrower and more focused goals and objectives and clearly defined tasks and jurisdiction. On the other hand, a proliferation of anticorruption agencies results in “duplication, layering and turf wars” (Quimson 2006, 30). Some countries in developing Asia now have
programs to encourage citizens to take an active role in anticorruption efforts. For example, the Whistleblower Protection Act 2010 of Malaysia treats retaliatory actions against whistleblowers as criminal offences. In Thailand, the amended Organic Act on Counter Corruption provides protective measures for whistleblowers and their close family members through the use of safe houses, police protection and monetary assistance (Norton Rose 2012).

The private sector is another challenging yet crucial area in the fight against corruption. Over time, the increasing role of governments in the economy, the proliferation of economic rules and regulations, the growth of international trade and businesses, and the privatization of state-owned enterprises creates new avenues for corruption. Lambsdorff (2006) gives an extensive survey of the literature on this issue. Corruption in the private sector comes in various forms, such as corporate fraud, manipulating financial accounts, bribing public officials and insider trading. However, compared with reforms directed at the public sector, corruption prevention in the private sector receives less attention. But where government initiatives have been lacking, the private sector has taken up the slack to show its willingness to root out corruption. These findings suggest that policy reforms to privatize and reduce public sector intervention could help reduce corruption levels.

Clarke and Xu (2004) use data on telephone and energy utilities in 21 transition economies in Eastern Europe and Central Asia to show that privatization increased competition and that the profit motive encouraged management to limit corruption. Privatization of key organizations in the energy sector, and unbundling regulation, planning and utility functions, can have a dramatic effect on corruption levels because this creates incentives for management to improve collection rates and profitability. Moreover, privatizing the collection of energy user charges provides market-based incentives for collection and reduces bribery of utility employees. Increasing privatization in the sector can therefore increase available funds for infrastructure investment to lift energy supply.

Separating regulation from electricity production can help improve the independence of regulators. However, anecdotal evidence suggests that small regulatory organizations with less than 100 employees spun off during unbundling may not have the critical mass or the resilience to fulfill their primary mission. Furthermore, questions of accountability and organizational structure are paramount to ensuring that the new institution is not “captured” or the unbundling will not have practical effects. Empirical analysis of OECD countries demonstrates that industry-specific variables also impact the amount of regulatory capture. More stringent regulation occurs when bribery coordination is more difficult, such as in
competitive industries. Energy-intensive sectors such as manufacturing have more incentive to bribe, and are more likely to overcome coordination costs. This suggests that any changes in the institutional structure of regulatory bodies in these sectors should be carefully considered.

On the user side, large payment arrears could lead to greater bribery. Although bribery is a criminal offence in most Asian economies, a number of issues make enforcement less than ideal. Deficiencies in anti-bribery reforms include: (i) overlapping domestic bribery offenses, often with inconsistent terminology, resulting in ambiguous interpretation; (ii) lack of a unified definition of “public official”; (iii) nonexplanation and non-quantification of the magnitude and extent of the cause and effects of bribery; (iv) the presence of “valid” defenses for bribery, which international standards do not allow (for example, extortion and coercion, and payment for foreign and domestic bribery); and (v) noninclusion of the bribery of foreign public officials into a country’s criminal law (ADB-OECD 2010).

In an analysis of the provision of public services such as roads and sanitation in the 19th-century US, Glaeser (2001) theorized that private provision may lead to more corruption than public provision. This is because management is in a position to exploit or bribe government bodies that interact with firms by demanding subsidies or favorable prices. To ensure better control of corruption, Glaeser argues that privatization must be accompanied with appropriately designed regulatory frameworks and institutions of accountability.

The use of modern information technology is key for “dehumanizing” routine administrative procedures in this day and age. Formal and social media have valuable roles to play in exposing corruption because they can sustain faster, open and transparent exchanges of information and ideas, and help promote an environment intolerant of corruption. In the Philippines in 2013, allegations over irregularities in the use of the Priority Development Assistance Fund (commonly called “pork barrel”: this is a public fund allocated to legislators for spending at their discretion on development projects) led to a call by a social media network for “a day of protest by the silent majority”. This spread like wildfire through other social media networks, helping fuel a growing public clamor for scrapping the pork-barrel system.

In India, civil society organizations have used the Right to Information Act extensively to expose corruption scandals in, among other things, the public distribution system for food subsidies, the 2014 Commonwealth Games and spectrum allocations for mobile phones. The exercise of the right to information is increasing transparency, reducing power asymmetries between citizens and the state, and enhancing the accountability
of service providers. Based on an experimental trial in Delhi to test the effectiveness of the act, Pesisakhin and Pinto (2010) found that while bribery is still the most efficient way to access government services, filing a right-to-information request is almost as effective.

6. CONCLUSIONS

Several factors have increased awareness of corruption: the democratization of countries has led to a much freer environment to discuss corruption, globalization has enabled countries and individuals to interact more closely and share knowledge and experiences, and nongovernment organizations are playing a more active role in the policy arena. In addition, increased competition among countries and market players has placed greater importance on cost efficiency and attention to increases in costs due to corrupt practices, and developments in information and communication technology have facilitated wider coverage and faster transmission of information, allowing civil society to join forces for mass actions more easily.

Asia has tried both demand- and supply-side solutions to fight corruption and several lessons are worth noting. One, corruption and governance are cross-cutting issues that need to be addressed holistically. A piecemeal approach to fighting corruption will probably give immediate results, but this will likely be temporary as established corrupt institutions overcome new institutions. Using a holistic approach in the fight against corruption has led countries to consolidate legislation to forge comprehensive anti-corruption laws and insert individual reform projects in long-term corruption strategies that form part of national development plans. Two, there are no blanket policies to address corruption. Anticorruption initiatives and policy reforms must be designed to address country-specific norms, the nature and dynamics of corruption, and a country’s institutions and systems. Three, the political will of leaders is key to curbing corruption since they make and implement laws and allocate resources. If leaders are corrupt, there is little chance of cleansing a nation of corruption for “the very people who are the greatest beneficiaries of corruption have the greatest power and use the corrupt nature of government to maintain that power” (Quah 2007, 46). Four, citizens can make a difference because corruption affects not only government but society at large. The continued culture of silence in many countries is a serious challenge undermining the fight against corruption.

Overall, there has been considerable progress in developing Asia. However, there is still much room for improvement. More than ever, the
momentum to combat corruption needs to be sustained to bring the benefits of public services to the masses.

NOTES

1. In this chapter, we use Asia and the Pacific, developing Asia and Asia interchangeably.

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PART II

Service Delivery as the Face of Governance
6. The state of public services in developing Asia

Anil B. Deolalikar and Shikha Jha

1. INTRODUCTION

Developing Asia made great strides in improving its social indicators over the last quarter-century. Infant and child mortality rates are down significantly, as are maternal mortality, fertility and illiteracy rates. School enrollment at all levels has markedly increased and, even more impressively, the gender gap between male and female enrollment has narrowed appreciably. The proportion of the population with access to safe drinking water and better sanitation has grown remarkably. As a result, many countries in developing Asia have met or are on target to meet their Millennium Development Goals. An important factor—though obviously not the only one—in the region’s improved social outcomes has been an increase in the supply of public services, especially in education, health and infrastructure. This has occurred in large part because of improved fiscal situations, the result of rapid economic growth.

The situation, however, is not entirely rosy, for three reasons. First, there are large variations across countries in the provision of public services. Second, there are large disparities in the provision of services within countries. And third, even though the poorest parts of developing Asia have made great progress in expanding access to public services, the quality of public services in these areas remains inadequate.

2. UNEVEN PUBLIC SERVICE ACCESS ACROSS COUNTRIES

There are large variations in access to public services at the regional level. For example, electricity coverage shown by electrification rate is significantly lower in developing Asia than in Latin America and the Caribbean, the Middle East and North Africa (Table 6.1). Moreover, there are laggards even within Asia’s sub-regions, as Figure 6.1 shows, with some countries in
Governance in developing Asia

Table 6.1  Electricity access by world region, 2011

<table>
<thead>
<tr>
<th>Region</th>
<th>Population without electricity (millions)</th>
<th>Electrification rate (percent)</th>
<th>Urban electrification rate (percent)</th>
<th>Rural electrification rate (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developing countries</td>
<td>1257.0</td>
<td>76.5</td>
<td>90.6</td>
<td>65.1</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>598.7</td>
<td>42.6</td>
<td>65.2</td>
<td>27.8</td>
</tr>
<tr>
<td>North Africa</td>
<td>1.0</td>
<td>99.4</td>
<td>100.0</td>
<td>98.7</td>
</tr>
<tr>
<td>Developing Asia</td>
<td>614.7</td>
<td>83.1</td>
<td>95.0</td>
<td>74.9</td>
</tr>
<tr>
<td>China, People’s Rep. of</td>
<td>2.5</td>
<td>99.8</td>
<td>100.0</td>
<td>99.6</td>
</tr>
<tr>
<td>India</td>
<td>306.1</td>
<td>75.3</td>
<td>93.9</td>
<td>66.9</td>
</tr>
<tr>
<td>Rest of developing Asia</td>
<td>172.4</td>
<td>61.4</td>
<td>81.9</td>
<td>51.7</td>
</tr>
<tr>
<td>Latin America</td>
<td>23.8</td>
<td>94.8</td>
<td>98.5</td>
<td>81.1</td>
</tr>
<tr>
<td>Middle East</td>
<td>18.7</td>
<td>91.0</td>
<td>98.5</td>
<td>75.8</td>
</tr>
<tr>
<td>Transition economies</td>
<td>1.1</td>
<td>99.9</td>
<td>100.0</td>
<td>99.7</td>
</tr>
<tr>
<td>and OECD</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>World</td>
<td>1258.1</td>
<td>81.9</td>
<td>93.7</td>
<td>69.0</td>
</tr>
</tbody>
</table>

Note: OECD = Organisation for Economic Co-operation and Development.


South Asia performing much worse than those in Southeast and East Asia. For instance, even as recently as 2011, less than half of the population in Cambodia and Myanmar had access to electricity, while coverage was 90 percent or more in Brunei Darussalam, the People’s Republic of China, Malaysia, Singapore, Thailand and Viet Nam.

Safe drinking water and sanitation are critical public services. East Asia has significantly higher access to improved drinking water, but South Asia has achieved only very modest levels of access (Figure 6.2). The entire Asia region still ranks below Middle East and North Africa and Latin America and the Caribbean in piped water coverage. In South Asia, only 25 percent of the population has piped water on the premises. In East Asia, the number is significantly higher (72 percent), but it is still much lower than in the Middle East and North Africa (84 percent) or Latin America and the Caribbean (88 percent).

Asia also compares poorly in access to sanitation services. Only 40 percent of the population of South Asia has access to sanitation, lower than any other world region with the exception of sub-Saharan Africa (Figure 6.3). Although East Asia (at 67 percent) and Southeast Asia
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(71 percent) have better sanitation coverage, both regions are behind Latin America and the Caribbean (82 percent) and Middle East and North Africa (90 percent).

This bleak picture of public service deficiencies extends to other types of infrastructure. Developing Asia is plagued by large infrastructure deficits, particularly in transport and connectivity. For instance, in terms of railway length per million people and road length per 100 square kilometers of land area, the region is significantly behind the Organisation for Economic Co-operation and Development (OECD) and the world average (Figure 6.4).

Another area of service delivery in which Asia fares poorly compared with other regions is government services relating to crime and justice. As Figure 6.5 shows, most of the Asian countries surveyed fared worse than the average for other regions. This implies that people in developing Asia generally have poor access to public safety and legal recourse.

The situation for access to public services provided to businesses is no different. On average, it takes a long time in much of developing Asia for

Notes: * Data for 2010, Lao PDR = Lao People’s Democratic Republic, PRC = People’s Republic of China.


Figure 6.1 Access to electricity across developing Asia, 2011

[graph showing access to electricity across developing Asia, 2011]
Governance in developing Asia

Figure 6.2 Access to piped water by world region, 2012

Notes: LAC = Latin America and the Caribbean, MENA = Middle East and North Africa, SSA = sub-Saharan Africa.


Figure 6.3 Access to sanitation by world region, 2012

Notes: LAC = Latin America and the Caribbean, MENA = Middle East and North Africa, SSA = sub-Saharan Africa.

businesses to obtain permits, register businesses and enforce business contracts. But there are large differences across countries here too. Figure 6.6 shows how many days on average it takes to enforce a business contract in India, Pakistan, the Philippines and the People’s Republic of China. In India it typically takes nearly four years to enforce a business contract, three and a half times as long as in the People’s Republic of China. There are also large differences in the time it takes to register a business property in these countries, although the process usually takes less than two months.

Notes: PRC = People’s Republic of China, Lao PDR = Lao People’s Democratic Republic, OECD = Organisation for Economic Co-operation and Development. For railway length, world refers to the 83 countries in the World Development Indicators database with available data; for road density, world refers to the 92 economies in the World Development Indicators database with available data.

3. DISPARITIES IN PUBLIC SERVICE ACCESS WITHIN COUNTRIES

Service delivery in developing Asia is marked by a large disparity in the provision of services within countries. Throughout the region, as in many other parts of the world, the benefits of public services tend to accrue disproportionately to the nonpoor. Table 6.2 shows that access to skilled health personnel during child delivery is much lower among the poor compared to the better-off. In Bangladesh and Nepal, the percentage of pregnant women receiving antenatal care from a skilled health provider is nearly five times as high among women in the richest quintile compared to women in the poorest quintile.
The state of public services in developing Asia

Figure 6.6  Average number of days to enforce a business contract and register a business property, 2013

Table 6.2  Percentage of women receiving antenatal care by wealth quintile

<table>
<thead>
<tr>
<th>Country</th>
<th>Year</th>
<th>Lowest</th>
<th>Second</th>
<th>Third</th>
<th>Fourth</th>
<th>Highest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>2007</td>
<td>22.4</td>
<td>27.7</td>
<td>37.4</td>
<td>56.8</td>
<td>79.8</td>
</tr>
<tr>
<td>Cambodia</td>
<td>2005</td>
<td>55.2</td>
<td>63.7</td>
<td>68.4</td>
<td>77.6</td>
<td>90.2</td>
</tr>
<tr>
<td>India</td>
<td>2005–06</td>
<td>52.0</td>
<td>64.5</td>
<td>76.4</td>
<td>87.7</td>
<td>96.2</td>
</tr>
<tr>
<td>Indonesia</td>
<td>2007</td>
<td>82.2</td>
<td>92.1</td>
<td>95.5</td>
<td>98.5</td>
<td>99.2</td>
</tr>
<tr>
<td>Nepal</td>
<td>2006</td>
<td>17.7</td>
<td>30.5</td>
<td>38.4</td>
<td>60.7</td>
<td>84.1</td>
</tr>
<tr>
<td>Pakistan</td>
<td>2006–07</td>
<td>36.9</td>
<td>48.3</td>
<td>61.4</td>
<td>73.7</td>
<td>91.9</td>
</tr>
<tr>
<td>Philippines</td>
<td>2008</td>
<td>77.1</td>
<td>91.4</td>
<td>95.9</td>
<td>97.6</td>
<td>98.3</td>
</tr>
<tr>
<td>Viet Nam</td>
<td>2002</td>
<td>51.7</td>
<td>61.7</td>
<td>68.9</td>
<td>78.8</td>
<td>97.0</td>
</tr>
</tbody>
</table>

Note: Care is from a skilled health provider for the most recent birth in the five years preceding the survey year.

Source:  Wang et al. (2011), Table 7.
In most of developing Asia, there are also large disparities in access to public services between rural and urban areas. Rural areas are typically much poorer than urban ones and have far lower levels of access to services. In South Asia, for instance, the urban electrification rate is nearly two times as large as the rural electrification rate (Table 6.1).

Even public services for businesses are characterized by disparities. Small firms routinely face significantly more hurdles than large firms in obtaining government services, such as license approvals, property titles, dispute resolutions and electricity connections. Some of this differential arises because small firms are typically located in remote regions that have less access to publicly provided business services, but some of the disparity arises because of the inability of small firms to pay as much as larger firms in bribes to civil servants for obtaining business services.

4. POOR QUALITY OF SERVICES

The quality of public service delivery is of great concern. Although much of developing Asia has undergone a large expansion in service delivery in recent years, the quality remains woefully inadequate. One indicator of the quality of public services is the absence of providers from work on any given day. There is a growing literature measuring absenteeism among health and education service providers in developing countries. Unannounced visits to schools and health centers are now established methods to estimate teacher or health worker absence rates (Chaudhury et al. 2006; Kremer et al. 2011; Muralidharan et al. 2013). By measuring direct outcomes and with the availability of subnational data, these measures provide a more fine-tuned and accurate picture of the quality of public service provision.

Absenteeism among teachers in government schools and health workers in public clinics was prominently discussed in the World Bank’s *World Development Report 2004* — and the problem appears to have grown since then. A comprehensive study by Chaudhury et al. (2006) found absence rates ranging from 11 percent in Peru to 27 percent in Uganda. And even if teachers are present, this is no guarantee that the standard of education provided will be high. Teachers evaluated on the test score outcomes of their students, for example, may decide to only “teach to the test” and make less effort in improving other dimensions of teaching (Glewwe et al. 2010; Figlio and Getzler 2002).

The evidence suggests that the situation is even worse in the health sector. Chaudhury and Hammer (2004), measuring absence rates in health centers in Bangladesh, found the rate for doctors in larger clinics was as high as 40 percent. Where monitoring was poor, absence rates were even
higher: single doctors posted to the most remote rural clinics were absent 74 percent of the time, according to the study. For primary health centers, Chaudhury et al. (2006) find absence rates ranging from 25 percent in Peru to 40 percent in India; Banerjee et al. (2004) find absence rates of 45 percent in local health centers in rural Udaipur in India.

But, as noted earlier, mere attendance does not indicate a high quality of health care. Health workers, for one thing, may resort to rule-of-thumb decisions and overmedicate patients rather than follow through with time-intensive diagnosis. Das and Hammer (2004) evaluated the quality of doctors in Delhi by testing their ability to diagnose and treat a range of common illnesses. The authors presented doctors with a set of five hypothetical cases and asked for suggested treatments. The average quality of doctors was found to be very low: for diarrhea, a common illness in developing countries, the probability that an average provider prescribes an oral rehydration therapy—the correct treatment—was as low as 30 percent. And even if doctors provided the correct treatments in the hypothetical cases, they often deviated from the textbook treatments when treating real patients.

A study of teacher absence rates in India found that despite substantial improvement in several measures of school quality, including school infrastructure and pupil–teacher ratios, teacher absence rates barely changed between 2003 and 2010 (Muralidharan et al. 2013). However, there were large differences in the change in absence rates across states. Punjab, Chhattisgarh, Uttarakhand, Bihar and Assam experienced large declines in teacher absence rates, but Himachal Pradesh, Madhya Pradesh and Uttar Pradesh saw the rate increase over the period. The study calculates the fiscal cost of teacher absenteeism in India at about $1.5 billion per year, and estimates that investing in improved governance by increasing the frequency of teacher monitoring would yield a nine-fold return on investment. There is some evidence to suggest an inverse relationship between absenteeism rates and living standards, although the analysis is based on relatively few data points (Chaudhury et al. 2006). This suggests that the problem of service delivery is worse in poorer countries and regions, and generally improves with per capita income. The subnational data on teacher absenteeism rates in India also suggest this association, with the poorest states showing higher rates.

5. GOVERNMENT’S ROLE IN PUBLIC SERVICE PROVISION

As household incomes rise, there is a growing preference for non-state providers such as private schools and reputable health facilities, usually
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seen as offering better services. Indeed, the use of public–private partnerships in developing Asia has expanded in recent years, reducing the risks and responsibilities of the state, lowering fiscal costs, and widening access to quality public services. However, greater involvement and proliferation of partnerships with non-state entities in providing services requires more effective state regulation and controls for ensuring accountability. But there are three types of public services that need to be provided by governments: (i) basic services with the characteristics of public goods, such as water, sanitation, elementary education and primary health care; (ii) services for which competitive markets do not exist; for example, national defense, police and street lighting; and (iii) services which help to reduce inequality and social outcomes such as educational scholarships, subsidized medicines for the poor and welfare programs.

Many economic and social services—in social protection, health, and education—are particularly resource intensive. Yet, on average, the share in total government expenditure devoted to goods and services by governments in Asia declined between 2000 and 2010. Studies (James et al. 2010; Xu et al. 2010) show that, on average, countries spending 5 percent and above of their gross domestic product (GDP) on health care achieve better financial risk protection and have good population health outcomes. But in many countries in Asia and the Pacific total health spending falls short of 5 percent of GDP (Figure 6.7). Those spending above 5 percent are predominantly island countries (Republic of the Marshall Islands, Tuvalu, Kiribati and Palau all spend above this level), as well as the OECD countries in Asia. Countries in the region with lowest health expenditure relative to their GDP per capita are Bangladesh, Brunei Darussalam, Lao People’s Democratic Republic and Turkmenistan. Out of the total spending on health—which rises with per capita income of the country—spending by the government is even lower because out-of-pocket expenses by households account for a substantial share of total spending in many countries (Figure 6.8).

Similar to health, government education expenditure as a share of GDP remains below 5 percent for much of Asia. It also rises with per capita income but only up to a point, beyond which it declines as private educational institutions take hold (Figure 6.9). Countries in the region spending above the average are Maldives, Tajikistan and Thailand, while Georgia, Pakistan and Sri Lanka spend the lowest levels, compared to other countries with the same income levels.

Although increasing budget allocation is important, it is not in itself sufficient to improve public service provision if funds are not spent well. For example, higher government spending may not result in better public services in countries with high rates of embezzlement of money, pilferage of
supplies (say, construction material for roads) and diversion of resources (such as use of workers for public officials’ personal work rather than for building a school or a maternity ward). To maximize the return on this spending, it is crucial that countries provide a certain level and quality of public services at minimum cost. To reduce costs, it is necessary to deal with governance issues and improve accountability and responsiveness of government service providers. For education, other factors that can improve outcomes include longer instruction time and higher teacher–student ratios. Better achievement in health indicators requires more patient beds, modern medical equipment and better-skilled health workers. The government needs to identify poorly performing health units, provide them incentives to perform better and implement effective monitoring and performance evaluation to keep costs in check.

Equity in public spending is also a concern. This reflects the belief that the role of government in society involves some redistribution toward groups and areas that lag in development. Quality fiscal adjustments
Governance in developing Asia

require reallocation of public expenditure; for example, from inequitable, expensive and untargeted subsidies to essential services and targeted programs. Resource constraints faced by governments also create a trade-off between funding capital expenditures in relation to recurrent operating and maintenance costs, a vital input to sustaining quality public services. Reorienting scarce public resources from largely capital expenditure toward recurrent, especially nonwage, expenditure will be an essential tool for policymakers to improve access to public services by the poor.

A major problem in analyzing service delivery is that few, if any, countries have a system of routine collection of service quality data. The only available data are from nonrandom surveys of providers and facilities. As such, it is difficult to make rigorous comparisons of service quality across countries. This is in contrast to measures of service utilization and outcomes, data on which are routinely collected by administrative agencies in most developing countries. A useful starting point for collecting better data on service quality would be agreeing on a set of indicators that reflect service quality in different sectors. In the health sector, for

Notes: GDP = gross domestic product, PPP = purchasing power parity. Black dots show Asian Development Bank developing member countries.

Source: Authors’ estimates based on data from World Bank, World Development Indicators online database (accessed September 2014).

Figure 6.8 Public health spending and income, 2012
example, service quality at a health facility would include availability of essential drugs; water, electricity and sanitation; essential medical equipment (stethoscopes, blood pressure monitors and so on); number of health workers by skill and their absence rates; health expenditures reaching the facility; workload per clinician; delays in health worker salaries; qualification and hours of work of frontline service providers; and skills to handle complications for newborns and mothers. Once a common set of indicators is agreed upon, data on them could be collected on a regular basis.

6. CONCLUSION

There is now a consensus on the fundamental importance of better service delivery for improving governance and advancing poverty reduction and growth prospects. The problems of limited availability of public services,
large socioeconomic disparities in their access and their generally low quality mean that the poor, for whom public services are vitally important, get the least access to quality services. In recent years, this has resulted in the wholesale flight of even the poor to private services, particularly in health and education. Many countries in developing Asia have seen the rise of low-cost private schools and health clinics for the poor. Although these schools and clinics may be cheaper compared to facilities for the affluent, they are still expensive for the poor and pose a major burden on their finances.

Efficient public services, particularly roads and telecommunication systems, effective police, law and judiciary reduce transaction costs and promote trade and economic activity. The provision of health care and schooling increases the quality of human capital, which is an important input for progress in today’s knowledge-based economies. Poor government services to business affect the rate of investment and capital formation. Inadequate and low-quality services thus reduce the potential for GDP growth. A major challenge for policymakers is therefore devising suitable strategies to improve both the quantity and quality of government services, and to extend these services to poor households and small businesses.

Many Asian governments underspend on basic services of greatest benefit to the poor, such as public housing, primary education, preventive health care and safe drinking water. It is important to note in this context that the combined effect of different public services makes the use of scarce public resources more cost effective. For instance, investment in women’s education has striking benefits for health and mortality. Likewise, improving the supply of safe water and sanitation reduces waterborne diseases, which in turn reduces child and infant mortality rates. Thus, supplying safe drinking water and sanitation and high-quality educational services for girls can increase the cost effectiveness of publicly provided medical services.

Finally, although there is a strong case for governments to take responsibility for some essential services, increased allocation of public resources alone is not enough. Governance is also at the core of service delivery problems. A challenge is to improve the quality of public services, which is intricately linked to the larger issue of dysfunctional governance systems including, among other things, lack of accountability and responsiveness, corruption, leakage of public funds meant for service delivery, and rent-seeking by public providers.
NOTE

1. Likewise, instead of relying on subjective assessments of corruption, public expenditure tracking surveys are now widely used to follow the flow of funds (Reinikka and Svensson 2003; Koziol and Tolmie 2010).

REFERENCES


7. Harnessing public–private service delivery arrangements in developing Asia

Joseph J. Capuno

1. INTRODUCTION

In many countries, public agencies or private firms or organizations are gradually moving away from being exclusive providers of goods and services that traditionally were assigned to the state or markets, respectively. Increasingly, state agencies and private organizations are collaborating to finance, produce or provide public services as varied as large infrastructure and utilities projects and local public and merit goods that confer localized or purely private benefits to targeted population groups.

Although limited, the data on such arrangements are quite revealing. In Asia and the Pacific, the World Bank reports that from less than 20 joint projects with firms or consortiums in the energy, telecommunications, transport and utility sectors in 1990, these projects reached 2457 by 2010.1 In other instances, nonprofit, private organizations are engaged in the provision of social services. While it is not known exactly how many civil society and nongovernment organizations (NGOs) are involved in this area, their presence is widening. The World Association of Non-Governmental Organizations has 923 members in Southeast Asia, 3524 in South and Central Asia, 724 in Western Asia and 395 in East Asia.2 In Bangladesh, in 2006 there were around 2000 NGOs, and the four largest that extend microfinance services had 14.2 million borrowers (World Bank 2006). In the Philippines, some 10000 non-stock, nonprofit organizations were officially registered in 2013, with the Department of Social Welfare and Development engaging 421 NGOs to help implement its conditional cash transfer program to alleviate poverty (Ronda 2013).

One reason for the rising collaboration is the recognition of the limitations of purely public or private provision (World Bank 1997, 2004), especially in light of changing market conditions and how institutions operate. Governments now recognize the comparative advantages of private
companies in handling large infrastructure projects through management and technical expertise, access to capital and technology, and in the drive for efficiency (Fiszbein and Lowden 1999). Tapping these advantages enables the state to spread its financial risk, which is imperative when budget deficits or macroeconomic imbalances worsen. And when the state fails or falters in its mission, due, for example, to a natural disaster or political crisis, non-state providers often step in to extend humanitarian relief or secure the health and welfare of vulnerable and marginalized groups. In doing so, they acquire special knowledge and expertise in dealing with these groups. And when community trust is important, NGOs sometimes have this rare currency that state agencies can tap for effective service delivery.

Democratization has made governments willing partners in development with non-state actors, and decentralization has expanded the number of state actors that can collaborate with private organizations. Globalization has opened developing countries up to foreign donors, including international NGOs. These partnerships, especially with NGOs, can further empower underprivileged groups. To the extent that private sector providers are more responsive to the demands of their clients, partnerships can also help public agencies improve their services. Even so, despite the advantages, such partnerships are not always feasible or successful, due to the failure of the parties to agree on the ends or means of their collaboration, as numerous scholars point out (Bräutigam and Segarra 2007; Brinkerhoff and Brinkerhoff 2002, 2011; Feiock and Jang 2009; Joshi and Moore 2004; McLoughlin 2011).

This chapter aims to identify the factors behind the successes and failures of public–private service delivery arrangements. It focuses on the institutional factors that facilitate or impede such arrangements and on the role of incentives in the effective joint delivery of public services. The study broadly defines a public–private service delivery arrangement as an alliance, collaboration or agreement between a public agency and a private organization for the provision of a public service. The service can be a state-provided public good (that is, a non-rivalrous or non-excludable good) or private good targeted to underprivileged groups. The public sector entity could be a national government agency (ministry, department or bureau) or a local government unit. The private sector entity could be a for-profit firm or a civil society organization, which in most cases is a local organization, but possibly with foreign donors, partners or affiliated organizations.

A public–private service delivery arrangement can take the form of an agency relationship that remunerates a private entity for undertaking an activity for a public entity. It can also be a collaboration in which
Harnessing public–private service delivery arrangements

Public and private entities are codependent and jointly determine the policy or project design and share in the cost of the public provision. A public–private service delivery arrangement can also be sealed by a legally-binding contract (say, a memorandum of agreement) or by a less formal “meeting of minds” (such as a memorandum of understanding). The assumption here is that the parties voluntarily agree to become partners. As such, a for-profit firm may agree to do pro bono work for the government, while a nonprofit private organization could get paid. By and large, however, private sector providers engage with state agencies based on their primary organizational goals: whether to earn profit or to pursue their advocacies.

The public–private service delivery arrangements considered in this chapter are different from arm’s-length procurement contracts whereby a private organization’s role is limited to the provision of contracted inputs, services or output, and has no substantial say in the financing, production, operation or delivery of a public project. Public–private service delivery arrangements encompass typical public–private partnerships (PPP) such as design-build-operate, design-build-finance-operate or build-operate-transfer schemes and joint ventures. They also include arrangements with civil society organizations that are characterized by mutual cooperation and risk sharing.

Clearly, the full range of public–private service delivery arrangements is larger than the arrangements described and analyzed here. Fiszbein and Lowden (1999) and Marin (2009) analyze PPPs in more detail, and Weisbrod (1998), James (1998) and Brinkerhoff (2002) do the same for state partnerships with NGOs. This study draws from these works in developing a framework for comparative analysis of collaborative service delivery arrangements in developing Asia.

2. INCENTIVES IN PUBLIC–PRIVATE SERVICE DELIVERY ARRANGEMENTS

This section discusses the role of incentives, both monetary and nonmonetary, used in various types of public–private service delivery arrangements. The focus is on the critical factors that determine the choice of a private sector partner and of the incentives promoting social objectives. The main concern is the design of the service delivery mechanism rather than simply the optimal level of public service provision. Figure 7.1 shows some of the main service delivery arrangements and incentive schemes. To aid the discussion on harnessing public–private service delivery arrangements in developing Asia, it introduces the five “Ms”—mobilize, mission, match,
Example: Small-scale utilities (water and sewerage), personal health care services
Delivery mechanism: Pure public or public-NGO provision
Incentives or motivational factors: Low-powered incentives in the public sector, cost-sharing with NGOs

Example: Infrastructure (airports or highways)
Delivery mechanism: Privatization or public-private partnership (with for-profit firms)
Incentives: Fee for services with regulation; variants of build-operate-transfer schemes or joint ventures, concessions (depending on the required capital investment and tolerance for risks)

Examples: National defense, monetary policy, foreign affairs
Delivery mechanism: Pure public provision; required investment is high; government valuation is higher than private value; possibility of hold up
Incentives or motivational factors: Electoral incentives; career concerns, promotion, public recognition, morale, ethics

Examples: Local mangrove or forest protection; public parks and recreation areas
Delivery mechanism: Pure public provision; co-provision with NGOs; club good (excludable) possibly with for-profit firm
Incentives or motivational factors: Electoral incentives, career concerns, mission-oriented advocacies, cost sharing with NGOs

Note: NGO = nongovernment organization.

Source: Author.

Figure 7.1 Service delivery arrangements and incentive schemes
motivate and monitor—adapted from Besley and Ghatak (2007), which are used to guide the selection of an appropriate service delivery mechanism.

Figure 7.1 implicitly assumes that the state is able to mobilize the potential private sector partner. Mobilization encompasses laying the requisite legal and administrative framework for public–private service delivery arrangements and the willingness of state agencies, including local governments, to engage private sector partners. In PPPs for infrastructure, mobilization involves passing the necessary build-operate-transfer laws and building the capacity of state agencies to solicit and evaluate bids and then to monitor and regulate performance (Asian Development Bank [ADB] 2008).

In public–private service delivery arrangements involving NGOs, mobilization can include registration and accreditation systems to allow these organizations to use government funds. While NGOs operate even in difficult situations, there is merit in policies adopting a legal–administrative framework to facilitate NGO operations. And even though the presence of NGOs is sometimes misconstrued to signal government failure, their performance in an open environment, much like firms in a free market, indicates their own preferences and organizational capacities. This, in turn, signals their suitability as a service delivery partner to state agencies. Conversely, in a restrictive environment, in which only government-sponsored or accredited NGOs operate, their success or failure may be due more to the government than their own performance, which then undermines the intent of such a partnership.

Mission pertains to understanding the typical organizational goals and the relative strengths and weakness of for-profit firms and NGOs. Given their organizational goals, the next step is to match them to a type of public service, which typically involves the provision of a public or private good, or both, to a target population. To ensure private sector partners deliver, it is also necessary to motivate them with pecuniary or non-pecuniary incentives, or both. An ideal incentive scheme would have a stick and a carrot since the threat of a loss (of reputation or credibility, say) sometimes is more compelling than the promise of a gain (such as fees or grants).

Finally, state agencies have to monitor the performance of their partners to make them accountable for their behavior or decisions. Monitoring schemes should help resolve conflicts over failures to perform or individual accountability given unforeseen events.

2.1 Mission: Comparative Advantages of Private Sector Partners

Partnerships with the private sector are sought for their advantages, developed or acquired, in pursuit of their own organizational goals. Depending
on its main objective, a private entity can be classified as profit- or mission-oriented. For-profit firms sell products or services primarily to earn profits for their owners. Their main comparative advantage is superior technical or managerial expertise, better access to financial resources or greater flexibility in responding to changing market conditions. These comparative advantages follow from the firm’s owner or entrepreneur being the residual claimant (that is, the party entitled to the firm’s net income or residual assets). For the same reason, for-profit firms are less keen to voluntarily pursue social objectives, such as catering to the poor or reducing harmful externalities.5

These firms are also sensitive to governance factors, especially regulatory policies and procedures, as these affect their costs of doing business and the rate of return on their investments. The quality of the business environment—as indicated by licensing procedures, property and contract law, independence of the judiciary and restrictions on foreign investments—is critical to economic growth in general and to firm performance in particular. In a typical PPP for infrastructure, the agreement will specify how the firm will recoup its investments and secure a profit margin. Many attempts at PPPs have failed due to weak governance institutions—ambiguous property laws, poor enforcement of contracts or slow arbitration procedures (ADB 2008; Economist Intelligence Unit [EIU] 2011).

Mission-oriented private entities such as civil society organizations and NGOs undertake activities or serve certain groups primarily to pursue their advocacies. Precisely because of these, their main advantage is their closer relationship with the poor and other marginalized groups and access to hard-to-reach areas.

Their main disadvantage, however, is sustainability, since mission-oriented private organizations rely heavily on donors and volunteers. Their limited resource base makes them vulnerable to economic stagnation and crises.6 But when resources are tight, NGOs can easily shift focus from service delivery to advocacy through social mobilization campaigns directed to the poor and other marginalized groups. NGOs also espouse crosscutting issues, such as climate change, reproductive health, environment and biodiversity, and human rights.

It is said that since NGOs are not paid or elected by their service clients, they are less fully accountable to their clients than for-profit firms or state agencies. Instead, NGOs are more accountable to their donors who may well be concerned more with the uses than the impact of their funds. To be sure, donors are now increasingly demanding hard evidence of welfare effects, and more NGOs willingly undergo impact evaluations of their projects. But until such practice becomes standard, the weak accountability of NGOs will be a disadvantage.
Admittedly, this classification of private sector partners is simple. Some business firms likewise provide voluntary, free services as part of their corporate social responsibility. And some NGOs charge fees for their services, and some enter into fee-based contracts with business firms or state agencies. However, classifying a private sector organization according to its main objective (profits or mission) seems to better explain its choice of activities or clients, and thus its comparative advantage.

2.2 Match: Type of Public Service

In general, public service provision involves the delivery of public goods, private goods or both to a target population. The characteristics of the public service determine the type of private sector partner that will be naturally drawn to co-provision with the state agency. Since for-profit firms need to charge a price to recover at least their costs, they supply goods that can be consumed only by those who pay and can be excluded from those who do not. Hence, for-profit firms are more likely to co-provide private goods that are intrinsically excludable. In the extreme, the provision of a private good can be privatized, and then possibly regulated to protect consumers. For equity reasons, the state is usually responsible for private goods such as basic health care or public education, which for-profit firms are unlikely to sell at prices below cost to the poor. To ensure access of the poor, the government then produces and provides such services directly, grants financial assistance, or both.

The subsidized provision of a public good is also required if for-profit firms are to efficiently provide it. Alternatively, firms may be given the legal right or allowed to adopt a technology to exclude nonpaying consumers. The size of the subsidy or the extent of the legal right depends on how much the state values the loss in consumer surplus relative to the gains (possibly, rents) that accrue to the private provider. In some PPPs for utilities, the private concessionaire is explicitly made to target “mission” areas; for example, providing water services in slums or electrification in remote villages. To recoup their investments or operating losses in these low-paying areas, firms may be allowed to cross-subsidize or charge different prices across customer groups.

In contrast, mission-oriented organizations attach a greater priority to the welfare of the underprivileged and are less concerned about revenues or profits than their income-oriented counterparts. Commonly, NGOs provide a mix of public and private goods for free (or below cost) to their target beneficiaries. While NGOs are ideal service delivery partners in these cases, they may not have the same technical or managerial expertise or access to financial capital as firms to scale up or sustain their
operations. In addition, state agencies and NGOs may not agree on the best approach to help the poor.

Private sector partners are ideal for local public goods that have limited service coverage (that is, those that have a small set of beneficiaries). But they are not ideal for delivering so-called pure public goods such as national defense, monetary policy or law enforcement that benefit large and widely dispersed populations. There are several reasons why private firms are not ideal for this purpose. One is strategic: if a contracted private firm is successful enough to enforce law all over the country, then it is also strong enough to hold up the state and the courts in case of conflict. Another reason is that charging user fees is not feasible for these goods and a firm in this position would have to collect taxes. But since taxes are generally inefficient, the firm would likely not internalize the resulting deadweight losses as well as a state agency. Hence, partnerships between state agencies and a private organization may be limited to the provision of market-augmenting public goods, while the state remains primarily responsible for market-supporting public goods.

2.3 Motivate: The Potency of Incentives

The potency of pecuniary and non-pecuniary incentives depends on the type of public service and private sector partner. For-profit firms will be drawn toward the delivery of private goods for which they can charge fees. Where profits or fees are less important, NGOs can be expected to step in. In general, the prescribed incentive scheme is to tie service payments to performance. In these so-called high-powered incentive schemes, firms are motivated to expend effort toward the desired outcome of the partnership. In extreme cases, a firm could be made a residual claimant (that is, the party entitled to the net revenues). But there is an important caveat to this prescribed rule. If social objectives like targeting the poor or the quality of the private good are more important than the quantity supplied to the target population, then making a private firm the residual claimant will not serve the purpose. This is because the private entrepreneur will likely skimp on costs at the expense of quality or concentrate more on paying clients and neglect nonpaying ones. While the terms of the contract should be structured so that the “residual claims should be given to the party whose investment is more important to the success of the project” (Grossman and Hart 1986), this has to be conditioned by how the state agency defines the success of the project (that is, relative weight between social objectives and mere quantity provisioning). If the public service provided is essentially a public good, then the party who values it more should be given the “ownership” of the project, irrespective of its investments (Besley and Ghatak 2001).
Thus, in typical PPPs for infrastructure, the private contractor is permitted to build, operate or lease the project over a period of time and collects fees during the term.11 PPPs can make allowances for social objectives as part of a private firm’s corporate social responsibility or by building it directly into the firm’s allowable rate of return on its investments. In small-scale infrastructure projects or when the social objectives are paramount, state agencies can work with NGOs. The latter will participate in public projects that are aligned with their missions. NGOs may not demand payments for their inputs or services or do so only to defray costs and not to earn profits.

Government–NGO partnerships could also work in the provision of public goods, especially local public goods, for which there is no residual claimant and which are therefore unattractive to for-profit firms. These goods are usually provided free or for a minimal charge. Whatever revenues are generated usually become part of the state agency’s general fund or they go to the treasury. Moreover, such revenues may or may not be earmarked for the delivery of the contracted service. Since local public goods have only limited service coverage or beneficiaries, they can be targeted to specific groups, such as the poor, who are anyway the NGO’s intended clients.

Aligning objectives is no guarantee of successful partnership. Potential conflicts in government–NGO collaborations can arise if different weights are attached to a project’s social objectives or in the preferred ways for undertaking it. For example, while a local government may be content to engage an NGO merely to build an irrigation facility for poor farmers in a remote village, the NGO may also want to build access and allocation rights into the project design once the irrigation facility is built. A more difficult situation arises when NGOs insist on comprehensive interventions involving tenancy reforms, asset redistribution or farmers’ education.

Typically a state agency has to account for its use of public funds. It may not be able to transfer funds to NGOs that are not officially registered or incorporated. So instead of formal contracts, governments and NGOs can simply collaborate on projects, whereby each party coordinates their activities or shares in the costs without any explicit penalties or payment of damages in case of breach. The main factor that binds the two sides in this case is their mutual acknowledgement of the synergistic or complementary nature of their activities. However, not all gainful partnerships can be characterized as ones in which cooperation is mutually self-enforcing.

The importance of mission-orientation in the delivery of public goods by either NGOs or bureaucrats and politicians should not be underestimated.
Monetary incentives in the public sector can advance greater productivity among government employees, but only up to a certain extent (as in the private sector). In certain situations, low-powered incentives—fixed wages, for example—or nonmonetary motivational factors are more useful. Extra effort can still be motivated through career concerns, promotions, social recognition or ethics training.

2.4 Monitor: Accounting for Performance

Ultimately, public–private service delivery arrangements are judged for their impact on public welfare. In such arrangements, each partner should and will be held accountable for performance, and the crucial questions are, accountable for what and to whom? (Demirag and Khadaroo 2009; Bovis 2010). Due to uncertainties and information asymmetries that inevitably make contracts less than “complete”, however, these questions are not easily answered.

The link between a party’s inputs and the resulting partnership outputs is not always verifiable for several reasons. First, the input itself may not be perfectly observed. The contractor’s effort, diligence, work ethic or dedication matters a lot to the success of a project, but each factor cannot be easily discerned. Second, the output itself may not be clearly defined or it could be multidimensional. In the delivery of social welfare services, for example, the objective could be the psychosocial well-being and physical security of battered women. In agricultural projects it could be the income and empowerment of farmer-beneficiaries. The situation is aggravated when there are many principals, each trying to sway a common agent to pursue different goals. The mothers and infants, working adults, and ethnic minorities living together in a community often demand disparate health services, which may be different still from those promoted by local officials or monitored by the central health ministry. Third, there could be intervening external factors that, in a complex way, weaken or strengthen the link between the parties’ inputs and the observed joint output. A typhoon or a labor strike, for example, may foil the best attempt of a government and its private contractor to agree on how to finance the extra construction costs resulting from the delay or damages.

The possibility of hold up arises in a partnership in which the parties make initial investments toward the production and provision of a public service, and in the face of uncertainties that could foil the desired outcome of a partnership. In a typical infrastructure project, for example, the construction firm will have to mobilize its own team to draw up a detailed engineering plan, deploy workers and rent heavy
equipment. But the firm is unlikely to make these initial investments without a down payment from the government or an assurance of being able to recoup these initial costs. On the other hand, without the firm’s commitment to use the initial government outlay as planned, the state agency is unlikely to make the down payment. The risks are compounded when contingencies arise that prevent the parties from fulfilling their contractual obligations or lead to a less-than-desired output. The resolution of the eventual conflict rests on how evidence that connects each party’s inputs to the resulting output can be verified by a third party (usually the courts).

The huge transaction costs involved in specifying ex ante the parties’ respective roles and responsibilities and their shares in the net output under each possible contingency will inevitably compel the parties to leave gaps in the contract or agreement. To avoid protracted bargaining when conflicts arise, it is necessary to specify at the outset the procedures for resolving disputes.

Notwithstanding these informational problems, specifying to whom the parties should be accountable raises its own problems. If the overriding concern is public welfare, then the pertinent performance indicators should include impacts on, say, health status, empowerment, and economic and social participation. However, these indicators are not easily measured, and teasing out the public–private service delivery arrangement’s contribution in them is confounded by various extraneous factors. Other proxies of welfare impact such as client satisfaction, net approval, utilization rates and feedback have also been used. Though these indicators are easier to generate, they are highly subjective and sensitive to survey errors. Instead of performance indicators that favor downward accountability (that is, accountability to service clients), indicators of the outputs or inputs of public–private service delivery arrangements tend to favor upward accountability; namely, accountability to the contracting state agency.

These latter set of indicators are even further removed from the real welfare impact and are more susceptible to regulatory capture. The possibility of using a combination of the two sets of indicators arises under decentralization when a local government engages the private sector. They can also be used in large PPP contracts in which a state agency involves an NGO in the monitoring of a private firm’s performance. Where an NGO itself is the service delivery partner, the same need for a monitoring and evaluation mechanism arises as it cannot be taken for granted that mission-oriented organizations will always be efficient or effective in the use of project resources.
3. CASE STUDIES OF PUBLIC–PRIVATE SERVICE DELIVERY ARRANGEMENTS IN ASIA

This section uses the five Ms—mobilize, mission, match, motivate and monitor—to illustrate the critical features of public–private service delivery arrangements using case studies in health, microfinance, and water and sanitation services in developing Asian countries. These studies focus mainly on partnerships with NGOs, and they were chosen because they identify factors behind the successes or failures of public–private service delivery arrangements.

The first two case studies of partnerships with NGOs in Nepal and Myanmar highlight the challenges of mobilizing public–private sector delivery arrangements in conflict areas. The next cases of NGOs in India and Cambodia illustrate contractual features to match, motivate and monitor mission-oriented organizations. The last case study, from the Philippines, shows that a tripartite arrangement involving a government agency, for-profit service providers and NGOs can work when their assigned roles and incentives are aligned with the partner’s objectives.

3.1 Mobilizing NGOs in Politically Unstable Areas: Nepal and Myanmar

The case studies presented here—NGOs providing microfinance in Nepal and health and other humanitarian relief services in Myanmar—underscore the importance of mobilization, and in particular, setting up an enabling environment and government’s openness to work with NGOs.

3.1.1 Nepal

Nepal’s government has long recognized the need of rural households for access to credit. To help provide this, in 1992 it established two banks patterned after the Grameen model. To widen private sector participation in providing microfinance services, the central bank issued a directive requiring commercial banks to set aside 3 percent of their total loans to be made available to borrowers from the poor and other marginalized groups. Since 1998, the government has issued permits to 43 NGOs to provide microfinance services. Despite these policy directives, the country has had only limited success in widening the access of the poor to microcredit facilities and in promoting small-scale business enterprises.

Compared to government banks, NGOs had several advantages in extending microfinance services. Because NGOs employed volunteer workers while government banks relied on salaried employees, government banks, to reduce costs per worker, needed to operate at sufficient
scale, which was difficult to achieve in low-density rural areas. A Maoist-inspired insurgency at that time made it difficult for state-owned regional banks, private microfinance institutions, and private banks to penetrate conflict areas. However, the government failed to tap NGOs, who were generally not rebel targets and were already operating in rural areas, as alternative conduits of microfinance.

3.1.2 Myanmar
Health Unlimited in Myanmar is another case in which an NGO was effective in penetrating conflict areas, but, in this case, the NGO found it difficult to sustain its work because of political instability. Since the mid-1990s, Health Unlimited has been providing humanitarian relief for refugees in collaboration with the Kachin Independence Organization, an insurgent group operating in Kachin state. In 2006, Health Unlimited initiated a four-year integrated health program with several components, including maternal and child health, an expanded immunization program, tuberculosis and malaria control, community health education, and the construction of health facilities. By 2007, the program was providing monthly immunization services to some 160 villages and had immunized 2063 infants, an 83 percent coverage rate.

Through its work, Health Unlimited earned the trust of local communities that proved essential in monitoring its immunization program and in solving other problems. By facilitating a dialogue between the Kachin Independence Organization and the government, Health Unlimited was able to secure their cooperation and support for child immunization. As an offshoot of these discussions, the government agreed to provide vaccines and cold-chain equipment and to train health workers who were members of the rebel movement. Unfortunately, this initial cooperation was undermined by political uncertainty in the run-up to the 2010 election. Furthermore, restrictions imposed by the military on rebel health workers were cited among the factors that threatened the project’s continuation.

The experiences of Nepal and Myanmar underscore the value of engaging NGOs, especially in conflict areas. Unfortunately, this NGO advantage in both instances was weakened by strict certification requirements in Nepal and political instability in Myanmar.

3.2 Contracting NGOs for Health Services in India and Cambodia

The following case studies from India and Cambodia illustrate some features of government contracts with mission-oriented private organizations to provide local health services.
3.2.1 India
Established as a public charitable trust in 1986 by a public-spirited doctor, the Karuna Trust initially concentrated on controlling leprosy in poor areas of Chamarajanagar district in Karnataka state. The project’s successful reach in these areas convinced the trust that it was worth expanding beyond leprosy control to other health services including tuberculosis control and to support local government-run primary health centers. To take advantage of its staff on the ground and its close relationship with its clients, Karuna Trust proposed to run primary health centers on an experimental basis under the World Bank’s India Population Project-IX. In 1996, Karnataka’s health authority approved the trust’s proposal to manage primary health centers in Thithimathi village and later in Gumballi village.

The partnership with Karuna Trust enabled the government to address the problem of managing and assigning health staff to remote primary health care centers. The staffing difficulty was partly due to restrictions in government recruitment; Karuna Trust, however, had greater flexibility in hiring doctors. The trust recognized that it made no sense to run parallel services with the public sector, especially when it became increasingly difficult to raise funds from private individuals and donors. Despite budget constraints, it opted for cost-sharing with the government to maintain its independence. Besides matching the mission-oriented trust with the delivery of a local public service within its area of competence, the contractual incentives of the service contract further secured the motivations of the trust.

Under the terms of the contract, Karuna Trust, for an initial period of five years, was entrusted with the care, operation and management of the center in Gumballi and its subcenters. The contract further stipulated that the trust perform tasks consistent with national and state program mandates. The trust was also responsible for appointing its own staff subject to the approval of the state health authority. For its part, the state government committed to provide 50 percent of the management costs. In addition, the district-level local government provided a grant-in-aid to cover 90 percent of the operating budget, with the trust shouldering the balance. The grant was reduced proportional to the amount of the drugs supplied to the primary health centers by the local governments.

Since the initial partnership was deemed successful, Karuna Trust was entrusted to manage more primary health centers and by 2007 it was administering 23 centers across Karnataka. The success of this arrangement was reportedly the foundation of a new type of public–NGO partnership in the state. Clearly, in this case, there was codependence in the objectives of both partners and a mutual agreement on the means to achieve them. Since the partnership’s objectives were aligned with Karuna
Trust’s own advocacy, it was willing to bring in additional resources to improve both the physical set up of the primary health centers and services in remote areas. Its willingness to do this likely increased its credibility with the government. And this, together with the fact that local officials could easily observe the trust’s activities, made monitoring less needed.

3.2.2 Cambodia
The Cambodia case study concerns government collaboration with NGOs to deliver facility-based basic health services. Like the Karuna Trust, NGOs in Cambodia espoused pro-poor advocacies. But unlike that program, the public–private service delivery arrangement in the Cambodia study used sophisticated incentive schemes. This was because the government essentially determined the ends and means of its partnerships, with the NGOs performing largely an agency role. Under this arrangement, monitoring the performance of the agent (NGOs), which may not have shared the objectives or methods of the principal (government), became critical to the success of the joint enterprise.

When the government in 1999 first tried on an experimental basis to contract out the management of government health services to NGOs, the country was facing a severe service delivery capacity shortage. To get around this, Cambodia’s health authority tendered a bid to provide a minimum package of health services that included preventive, promotional and simple curative health care services in selected districts. To see whether such an arrangement would work and under what conditions, the government specified that performance measures and incentives be used. These included service delivery coverage indicators, such as antenatal care, facility delivery, child immunization and contraceptive prevalence rates, as well as indicators for outcome and health facility management, such as 24-hour services at health centers, staffing, maternal delivery services, and the collection and transparency of user fees.

Since the government unilaterally specified these performance and outcome indicators, there was no assurance of buy-in from winning bidders. To motivate its NGO partners, the government tendered two types of management contracts. Under the first, the NGO partner was engaged only to provide administrative assistance to the government health staff at the concerned facilities. In exchange, the government provided the operating budgets of the NGOs, as they would for ordinary districts. NGO contractors were granted an additional budget supplement amounting to $0.25 per patient. Under this setup, NGO contractors had full management control over the allocations and disbursement of their budgets, which were subject only to government procurement rules. Under the second type of contract, NGO partners performed the same tasks and
responsibilities as those stipulated under the first type of contract. In addition, however, these NGOs had the prerogative to directly employ their own staff.15

To tease out the effects of the two types of contracts on the predetermined set of health performance and outcome indicators, the contracts were randomly introduced in eight of the twelve selected districts, with the remaining four districts as controls (that is, where the government continued to administer local health services). Of the eight districts originally targeted for treatment, only five were successfully contracted out: three contracting-in districts (the first type of contract) and two contracting-out districts (the second type of contract). These management contracts were awarded in 1998 before the start of Cambodia’s Contracting of Health Service Pilot Project undertaken during 1999–2003, which covered 1.26 million people, 11 percent of the population.

Notwithstanding the small number of districts involved in the pilot project, the targeted service outcomes in the treatment districts were evaluated to be better than those in the control areas, indicating that NGOs had indeed some comparative advantage over the government in the delivery of basic health services to some population groups. In addition, the NGOs that had greater managerial autonomy achieved greater improvement in health center management than those in the contracting-in districts. This suggests that a mission-oriented private sector partner—if given the leeway—will find an even better way to deliver the same results. The Cambodia case study shows that there is room for experimenting with various incentive schemes even if private sector partners are already matched with appropriate public services.

Compared to Karuna Trust, the experience of the NGO partners in Cambodia indicates the need for greater financial incentives when the NGO partner is contracted to strictly follow protocols and deliver specific results. Given these restrictions, especially in hiring their own health staff, the NGO partners in Cambodia incurred higher costs, which accounts for their generous budget support.

3.3 NGO Partnerships in Water Services and Immunization in the Philippines16

These case studies show how sustainability is built, using public–private NGO partnerships in the delivery of water and child immunization services in the Philippines as examples. Interestingly, they also demonstrate that financial sustainability can be achieved without sacrificing equity, and that public–private service delivery arrangements can be tripartite arrangements.17
3.3.1 Water services
In 1997, the government privatized the Metropolitan Waterworks and Sewerage System to meet the increasing demand for water and sewerage services of a rapidly expanding population in Metropolitan Manila, the province of Rizal, and parts of Cavite province, dividing the service area into east and west zones. Two firms won in separate competitive bids and each was awarded a 25-year concession agreement, with the Manila Water Company getting the east zone and Maynilad Water Services, Inc. the west zone. Each company was a consortium of local and foreign for-profit firms. The Metropolitan Waterworks and Sewerage System oversaw the implementation of the contracts and regulated the operations of the two concessionaires.

To recover their investment and operating costs and earn profits, the concessionaires were permitted to collect user fees, which could be adjusted based on inflation, extraordinary circumstances and rebasing. They were also granted a six-year tax holiday, preferential tariffs of 3 percent on imported capital equipment, and tax credits on locally produced capital equipment until the end of 1997. They were also exempted from paying local government and franchise taxes and the value-added tax on the supply and distribution of water. In turn, the concessionaires were mandated to supply 24-hour water to all connections by not later than June 2000 and to maintain satisfactory water quality for drinking.

After the privatization, Metropolitan Manila reportedly achieved the lowest water rates in the Association of Southeast Asian Nations region. Despite initial financial difficulties, the concessionaires appeared poised to recover their initial losses. Both were able to reduce non-revenue water from leaks, illegal taps, metering errors and nonpayment of service connections. Most non-revenue water losses were apparently from slum areas in Manila.

To address this problem and at the same time continue to cater to the needs of depressed communities, Maynilad shifted from its initial strategy of providing a standpipe to serve groups of households to providing individual household connections. From Maynilad’s perspective, the so-called Water for Community program made sense because it facilitated payment for water consumption. To encourage more households to get their own water connections, Maynilad waived its land title requirement that many urban dwellers failed to satisfy. To make the cost of connection affordable, Maynilad allowed households to pay for their water connections over 6–12 months and the partial payments to be added to their regular monthly bills.

For the Water for Community program, Maynilad saw the need to
engage NGOs to serve as intermediaries with local communities. Local NGOs first carried out information campaigns on the program and an international NGO, Doctors Without Borders, was tapped to help improve sanitary conditions in slum areas by encouraging community participation. In Malabon, a city in Metropolitan Manila, a local NGO, Lingkuran sa Ikauunlad na Ganap ng Pamula Foundation, was also engaged to assist in the sanitation and health education drives in the urban poor communities. All parties contributed resources to the program in Malabon. The local NGO provided transport and materials, while the community, through homeowners’ associations, provided free labor as well as storage and security for the materials, tools and equipment used. Maynilad provided the individual water connections, while Malabon’s city government contributed around $13400 to procure materials for the drainage system and logistics support.

The partnership with NGOs for Maynilad’s Water for Community program was successful. Feedback from focus group discussions showed that many households felt they had become a “legitimate part of society” (Franceys and Weitz 2003) by getting a water connection, thus the program had empowering benefits. For Maynilad, the program made business sense as revenues increased with higher water consumption, and it was considered good corporate social responsibility.

3.3.2 Health services

Another example in the Philippines in which user fees are used to ensure sustainability is the Well Baby Bakuna Program of the Philippine NGO Council on Population, Health and Welfare (PNGOC). In support of the Philippine Department of Health’s Expanded Program for Immunization, the PNGOC developed its Well Baby Bakuna Program in July 2007. A novel feature was that it targeted families in the C and D income classes (the middle classes in a classification system used in the Philippines in which A and B families are the richest and E families the poorest) who expressed a preference for quality health care, but were not always able to afford the charges of private health clinics. According to reports, families in these income classes preferred private practitioners because of the type of vaccines available (monovalent versus multivalent vaccines) and the better quality of health facilities. The key challenge was to lower the price barrier to accessing these services.

PNGOC overcame this with a two-pronged strategy. Working on the supply side of the market, it entered into a partnership with the Philippine Pediatric Society to identify and engage society members and society-recognized hospitals to provide quality vaccines affordable to these families. In particular, it advocated a tiered pricing scheme to encourage
Harnessing public–private service delivery arrangements

target families to use vaccine services and, at the same time, ensure reasonable profits to private providers.

Working on the demand side, PNGOC conducted patient screening through community mapping and surveys, house visits, hospital coordination and community-level meetings, especially with mothers. One aim of this strategy was to “market” the program to target families by increasing their understanding about the value of full immunization of their children. Another was to use the information collected in the community-level advocacy to segment the market by directing the class E families (poorest) to public health facilities for free services and the class A and B families (richest) to other, nonparticipating private pediatricians charging full price. This two-pronged strategy was deemed successful. By the end of 2007, some 19 private hospitals and clinics located in areas with low immunization rates and underserved population were participating in the Well Baby Bakuna Program.

One lesson that can be drawn from the case studies in the Philippines is that the government need not partner exclusively with a for-profit firm or an NGO. Some public services are large and complex enough to accommodate the respective missions and motivations of both types of private sector entities. By targeting slum dwellers, Maynilad found willing NGO partners specializing in this area. By helping segment the market, the PNGOC found willing private health providers to cater to middle class families. In both cases, the sustainability of the projects was ensured since fees were charged for the public service (essentially a private good), but without sacrificing equity, which was achieved through cross-subsidization or market segmentation.

4. CONCLUSIONS AND POLICY IMPLICATIONS

Although not exhaustive, the five case studies presented in this chapter suggest that public–private service delivery arrangements can help overcome the limitations of pure state or pure private provision of public services. For one thing, state agencies can still steer the objectives of partnerships toward the provision of market-augmenting public goods that private markets would normally underprovide, especially for the poor. By engaging private sector partners, state agencies can also tap the private sector’s financial, organizational, managerial or technical resources, which it normally does not possess. Where the state fails to secure the welfare of marginalized groups or cater to the needs of people in conflict or in isolated areas, there is often an NGO present that the government can engage. In extreme circumstances, in which government has lost the confidence of the
people in such areas, it can tap NGOs to help provide public services and
win back trust. The realization of the potential gains from such partners-
ships, however, depends on the state’s readiness and ability to mobilize and
match the private sector partner’s mission with the right public service,
and to motivate and monitor the partnership to achieve the desired service
delivery outcome. The public–private service delivery arrangements exam-
ined in this chapter yield lessons to improve service delivery at least on
the margin. And in the context of these lessons, four policy messages are
offered.

First, public–private service delivery arrangements are viable as long
as there are market and government failures. The idea of these service
delivery arrangements, however, is not to supplant pure public or private
 provision when they work. But since neither is likely to do so all the time
and in all places, hybrid service delivery mechanisms should be tried to
serve the public interest, especially in promoting the welfare of the poor
and other marginalized groups.

Second, establish enabling legal and institutional frameworks for engag-
ing private sector organizations including NGOs as public service provid-
ers. In many countries, the laws, guidelines and procedures for PPPs with
for-profit firms have already been established. However, the state’s insti-
tutional and organizational capacity to conduct and evaluate bids, handle
complicated contracts, and monitor compliance has to develop as well
(ADB 2008; Fiszbein and Lowden 1999; EIU 2011). A similar environ-
ment is needed to widen the opportunities for engaging NGOs, especially
concerning their use of and accountability for government funds and other
resources.

Third, while incentives are important and nonmonetary incentives are
no less effective than financial compensation or rewards, another key
aspect is to match the right incentive to the right partner and the right
task. It is important to have a clear understanding and acceptance of the
mission of the private sector entity and its comparative advantages. Much
like elected officials and bureaucrats in state agencies, entrepreneurs in
for-profit firms or managers in nonprofit organizations have their own
objectives—and these will determine their preferred activities and com-
petencies. For most NGOs, their advocacy is more important than the
funds or support that they receive from government, and this should be
respected.

However, it is not always the case that people working in NGOs are
mission-oriented. As Besley and Ghatak (2006, 2007) argue, NGOs may
unwittingly attract incompetent or crooked workers in countries where
formal sector work is scarce. Hence, it is prudent for NGOs and the gov-
ernment to weed out these workers by making NGOs more accountable.
While government accreditation can help, this should not be taken too far as it can be misconstrued or misused as a ploy to control NGOs critical of the government.\(^{21}\)

For its part, the state agency should also be transparent and committed to partnering with non-state actors. The state agency should be clear about its objectives and relate to the prospective partners what it can and cannot do given the existing laws, procedures and institutions in government. For large and complex undertakings, the government may engage business firms and civil society organizations. In the construction of super-highways, dams or irrigation systems, for example, private firms can be engaged for the financing, engineering and operation aspects, while NGOs can be tapped to better communicate the social benefits of such projects to affected communities and relay concerns back to the project proponents.

And fourth, mutually acceptable monitoring and accountability mechanisms need to be set up. This requires pre-specifying, when feasible, the performance indicators and the “carrots and sticks” to enforce compliance. Where gaps in contracts or agreements are inevitable, it is important that the procedures for resolving conflicts are specified. If the expected outputs are clear to all, especially to the service users or beneficiaries, an unhealthy situation in which the state agency and its private sector partner collude to cover up a subpar performance can be avoided.

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NOTES

2. The World Association of Non-Governmental Organizations defines an NGO as a non-state, nonprofit voluntary organization that is independent of government influence.
3. Alternative government–nonprofit partnerships have been suggested depending on whether the two parties share the same goals or preferred means of achieving those goals, and whether the nonprofit organizations are free to enter into partnership with the state (Brinkerhoff and Brinkerhoff 2002, 2011; Batley 2011).

5. Some firms do so, but on a short-term or temporary basis as part of their corporate social responsibility.

6. Some NGOs may still thrive though since volunteer labor is more abundant in times of economic crisis, when the labor market is tight. However, the high turnover of volunteer labor in the NGO sector may lead to disruptions in their services.

7. Typically, products are regulated if they are produced by a monopoly (arising from, say, increasing returns to scale) or if, like drugs, their true quality is revealed only after they have been consumed.

8. The legal right to exclusive ownership such as a patent is normally awarded to promote inventions, which are privately costly but socially beneficial. These products of research and development are essentially public goods.

9. However, some big NGOs have been able to deliver public services that exhibit economies of scale, albeit excludable. For example, the Bangladesh Rural Advancement Committee, the biggest NGO in Bangladesh, runs a number of schools.

10. Examples of market-supporting public goods include systems of property rights, contracts, dispute resolution and law enforcement that secure ownership rights and facilitate successful private transactions. Examples of market-augmenting public goods include preventive health care, basic education, and roads and bridges that markets usually under-provide due to free riding or deny to underprivileged groups unable to pay for their use or access (Besley and Ghatak 2006).

11. Presumably the state agency weighs these financial costs against the possible social costs of temporarily “privatizing” the ownership or operation of the infrastructure project.

12. The primary sources are Antuono et al. (2006) and Development Finance International (2009).

13. The primary sources are Nair (2008), Bloom et al. (2006) and Bhushan et al. (2002).

14. The new scheme permits NGOs and other charitable institutions as well as private medical colleges to fully administer or co-administer primary health centers. The new contract stipulated a 75%-25% cost-sharing between the state and the private sector partner. Apparently, the high cost-share of the NGO was adopted to discourage politicians from establishing their own NGOs and then “winning” lucrative contracts to manage primary health centers.

15. Government health staff at that time could either join the contractor’s organization with the latter’s concurrence and take a leave of absence from government services or be transferred to another government facility in another district.

16. The primary sources are Inocencio and David (2001), Marin (2009), Franceys and Weitz (2003), and Development Finance International (2009).

17. These case studies are used purely to illustrate how a tripartite arrangement could work, at least for some specific objectives, and notwithstanding the possible failures of the private sector firm in other service delivery aspects.

18. While the operation of the water utility was privatized, the franchise belonged to the government. Beyond the concession period, the water utility company will cease its service provision unless the government awards it a contract again. Effectively, the privatization of Manila’s water services was like a build–finance–operate scheme.

19. Maynilad, partly due to its failure to fulfill some of the terms of its contract with the government, later had to sell its concession contract to another firm.

20. In this undertaking, PNGOC and the Philippine Pediatric Society were supported by GlaxoSmithKline.

21. In the Philippines, the requirement that local governments accredit NGOs invited to become members of local consultative bodies has disenfranchised some legitimate NGOs and entrenched NGOs established or supported by politicians.
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8. Improving service delivery through decentralization

Giorgio Brosio

1. INTRODUCTION

Asian countries present practically every conceivable model of decentralized governance. They range from de jure federal systems, such as India and Pakistan, to de facto quasi-federal systems, such as the People’s Republic of China (PRC).1 They cover regional systems—Japan, Indonesia and the Philippines—unitary systems, as in the Republic of Korea, and partly or mostly deconcentrated systems: Thailand in the former and Cambodia and Viet Nam in the latter case.2

Countries also vary considerably in the usual indicators of fiscal decentralization, such as the share of general government expenditure made at the subnational level, as can be observed in Table 8.1. By this measure, the PRC would appear the most decentralized country in the world, with more than 70 percent made at that level; in Nepal, subnational expenditure is barely 9 percent of total government spending. India and the PRC, alone, each present a very complex system of intergovernmental relations that is impossible to evaluate in a single chapter. Each Indian state and each province in the PRC has thousands of lower-level government units, and each Indian state and each province in the PRC has developed a distinct system (formally in India under the panchayati raj system of local government reform and less formally in the PRC).

Decentralization attempts and intents pervade almost every Asian country. Some are proceeding very slowly, such as in Cambodia, Thailand and Viet Nam, where the intent of reform is to replace deconcentration with political decentralization. Only a few processes that started in the last two decades have been completed, such as in Indonesia and Japan. Decentralization also operates like a pendulum, with governments frequently reconsidering the merits of the devolution of power and reassigning some responsibilities back to the center. The PRC’s partial recentralization of education and Pakistan’s suppression of elected local councils since 2008 are examples of this.
Table 8.1  Basic structure of decentralized government in Asian countries

<table>
<thead>
<tr>
<th>Countries and population (millions)</th>
<th>States/provinces/prefectures</th>
<th>Local/municipalities</th>
<th>Share of state/province/region government expenditure in total public expenditure (%)</th>
<th>Share of local in total public expenditure (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan (128)</td>
<td>47</td>
<td>1800</td>
<td>20</td>
<td>40</td>
</tr>
<tr>
<td>Republic of Korea (44)</td>
<td>16</td>
<td>232</td>
<td>20</td>
<td>40</td>
</tr>
<tr>
<td>People’s Republic of China (1354)</td>
<td>33</td>
<td>333 prefectures, 2010 counties, a larger number of townships</td>
<td>20</td>
<td>50</td>
</tr>
<tr>
<td>India (1200)</td>
<td>29 states + 7 union territories</td>
<td>Many thousands</td>
<td>33</td>
<td>33</td>
</tr>
<tr>
<td>Pakistan (180)</td>
<td>7</td>
<td>Presently, local governments do not operate as autonomous local governments, because they are not elected bodies.</td>
<td>28</td>
<td>5</td>
</tr>
<tr>
<td>Cambodia (15)</td>
<td></td>
<td></td>
<td>19</td>
<td>2</td>
</tr>
<tr>
<td>Philippines (99)</td>
<td>2 autonomous regions, 80 provinces</td>
<td>1494 municipalities, 140 cities</td>
<td>11</td>
<td>14</td>
</tr>
<tr>
<td>Indonesia (237)</td>
<td>34 provinces, of which 5 with special status</td>
<td>399 regencies and 93 municipalities</td>
<td>7</td>
<td>28</td>
</tr>
<tr>
<td>Thailand (67)</td>
<td>76 provinces</td>
<td>938 districts plus municipalities</td>
<td>26 (includes local governments)</td>
<td></td>
</tr>
</tbody>
</table>

Source: National statistics agencies of various countries and Lewis and Searle (2010).
While theory and good practice suggest how to extract the best from decentralized governance, they cannot ensure its superiority over other governance modes. A lack of capacity at the local level may sometimes hinder the ability to reap the full benefits of decentralization, with governments often neglecting the building of capacity. And local officials may not fully exploit opportunities to provide better service.

Decentralized governance in Asia is facing many challenges. Some, such as frequent natural disasters or the expanded availability of natural resources, are common to other regions of the world. Other challenges are particularly intense in Asia, such as the need to create subnational tax autonomy in regions that have traditionally relied on relatively low tax burdens.

These considerations shape the structure of this chapter, which starts with a methodological section focused on definition and approach. It presents the salient characteristics of decentralized government in Asia, analyzes critical issues, identifies some of the emerging challenges and provides a basic empirical analysis of decentralization in the education sector.

2. PROBLEMS OF DEFINITION AND APPROACH

Decentralization is defined here as the transfer of decision-making authority to government below the national level. The focus is on decision-making power. Thus, the devolution of the responsibility of paying teachers’ salaries—seen in the literature as an example of fiscal decentralization because it shifts expenditure from a higher to a lower level of government—cannot be considered education decentralization, regardless of the amounts involved, if teachers’ careers and salaries are managed centrally. In a similar vein, the transfer of a very productive tax to subnational governments does not make a system more decentralized if the beneficiary governments have no power to determine the revenue.

There are two main approaches for evaluating decentralized governance. The first is empirical and looks at effective outcomes. The second looks at the institutions in place and at their potential to reach the goals assigned to decentralization. The evaluation of outcomes can be performed in multiple ways depending on the goals assigned to decentralization. For example, for the leaders of ethnic minorities, autonomous decision-making power is the only or ultimate goal of decentralization. On the other hand, individual members of these minorities are likely to be more concerned about their well-being. In general, citizens’ expectations are for better and cheaper access to services and for adaptation to their preferences.
A general, convenient approach is to use a basic instrument of applied economics: the total surplus—which is the sum of the consumer and producer surplus—and its variations. The concept of surplus can be applied to any policy and it provides an adequate measure of the impact of policies on individuals. In this approach, decentralization is expected to lead to higher levels of service provision, with no increase in cost; or, alternatively, to lower costs of service provision (thereby lowering the need for revenue) with the same level of service provision. One can also expect some combination of the two, resulting in a larger total surplus. Because it is subjective, the evaluation of the surplus includes the adaptation of service provision to local and individual preferences, which is the major and traditional expected gain from decentralization. Changes in the producer surplus are unequally distributed, requiring the use of a social welfare function for evaluation.

Enhancing this surplus requires the proper incentives. Institutional, political and fiscal arrangements must give to all stakeholders the incentive to behave efficiently; that is, to focus on increasing the surplus. To verify the existence and functioning of these incentives, this chapter uses the concept of partial decentralization, which refers to a mismatch between devolution of functions and devolution of finance, to the disadvantage of the latter. The concept can be extended to reflect all situations in which the basic ingredients of an accountable system of subnational governance are missing, either because of improper structuring of institutional arrangements or because their working is compromised by a concomitant reform (Ahmad et al. 2006). Concomitant reform takes place when central or another level of government implements a policy that intersects with, or contradicts, the working of decentralized arrangements. Concomitant reform, frequently overlooked in the literature, reduces the accountability of local politicians.

The analytical and empirical literature on fiscal federalism tends to strictly correlate higher decentralization with better service delivery. Although one can expect decentralization to help improve service delivery, this does not mean there is a close and inevitable relationship between the two, that is to say, that the greater the decentralization the better the service delivery. The relationship between decentralization and service delivery, or other expected outcomes, is a local rather than a global one (Salmon 2013).

This consideration has far-reaching implications for decentralization strategies and policies. In countries with substantial homogeneity across regions, even a small transformation in overall intergovernmental relations, such as from a deconcentrated system to a unitary, low-level decentralized system, can be quite effective. This can potentially be the case in Asia for Cambodia and Viet Nam. Also, not all regions in a country need
Governance in developing Asia

to be involved to the same extent in decentralization, and this variable speed creates asymmetric arrangements, as explored later. Furthermore, in most countries, limited changes to intergovernmental relations can produce appreciable results. The institutional and sociopolitical context of other countries could require comprehensive and rapid reform to produce appreciable gains. This would appear to be the case for highly divided societies, such as Sri Lanka and possibly Nepal, where federalization may be the most effective option.

3. RECENT DECENTRALIZATION IN ASIA

Asian decentralization reforms are similar in some respects to the rest of the world, but are distinct in others. The transition from autocratic–dictatorial systems to democracy (Cambodia, Indonesia, the Philippines, Thailand and Viet Nam) is among the common traits. Still, the response has varied considerably, ranging from almost pure deconcentration to outright regionalization.

The creation of a regional system of governance is the salient characteristic of the most far-reaching decentralization reforms, as in Indonesia, Japan and the Philippines. And this is in line with most international experience. The quest for efficiency is another common factor driving decentralization, most notably in Japan and the Republic of Korea. This is also a driving force behind decentralizing reforms in the education sector, as most Asian countries have a clear understanding of the positive impact of better educational outcomes on growth.

The accommodation of regional demands for autonomy, based on cultural or other differences, is starting to drive decentralization. This is the case in Sri Lanka and Nepal and could apply to Myanmar.

Among Asia’s distinct characteristics is the context of rapid economic growth. Growth has many impacts. It creates larger tax bases, for example, facilitating the financing of subnational governments. But when associated with more income inequality, growth increases the potential for inequality associated with greater autonomy. The emergence of megacities is another important characteristic. Managing megacities, urban corridors and city regions requires specific innovative governance institutions, such as metropolitan governments or the merging of city governments with wide-area governments, and huge investment in infrastructure to provide basic services. Rising megacities also requires assigning cities adequate tax bases to increase their financial self-sufficiency and allowing intergovernmental transfers to play a stronger role in equalizing differences between wealthier and poorer regions.
A generally small tax burden is another distinctive characteristic in Asia. There are structural reasons for this, such as the comparatively small role of personal income taxation. The absence of value-added tax in Malaysia, Pakistan and Singapore is another factor. A low tax burden may be a liability in decentralization because a scarcity of fiscal resources is shifted onto newly decentralized local governments, bringing tighter competition among levels of government. But it may also be an asset because fiscal resources are still untapped, making more room for tax increases.

The tradition of strong, authoritarian central government in Asia explains many traits in the region, such as the slow pace of reform given the reluctance of central bureaucracies to relinquish power, the widespread attachment to deconcentration, continued guidance from the central government and the reliance on unfunded mandates.

4. FOCUS ON PARTIAL DECENTRALIZATION

As most of the literature on decentralization in Asia recognizes, the assignment of functions and expenditures between levels of government is broadly in line with the theory. However, the detection of detailed, problematic features requires a case-by-case analysis of the legal texts and careful interpretation that is beyond the scope of this chapter. But a few issues in expenditure assignments are immediately evident. The first refers to the frequent “fuzziness” of assignments of function that is mostly a legacy of the past dominance of central bureaucracies. In turn, this lack of clarity derives from the intersection of provisions of the general laws on decentralization, whose task is to list the functions assigned to each level, and the sector laws, such as education, health and public works. In the Republic of Korea, for example, which is far from unique in this area, the Local Autonomy Act defines local and central functions, but it also contains a general proviso by which “the functions can be changed, if individual laws define local functions in a different way” (Kim 2004, 2011).

The prevalence of “concurrency”—more levels of government are assigned distinct functions in the same area—of assignments rather than of separation is another problem. In primary education, for example, concurrency means that curricula and standards are centrally defined, teachers are managed at the regional level and schools are built and maintained at the local level. There is a rationale for concurrency: which is that each level of government contributes in the areas where it has a comparative advantage. But concurrency creates problems for accountability. Are outcomes unsatisfactory because curricula are inadequate or because teachers are
not well managed or because schools are poorly maintained? Increasing accountability demands, where possible, a separation of assignments.

Another issue is the persistence of the so-called agency delegated functions, whereby central governments assign functions to subnational governments without a legal framework regulating the transfer. This leads to the persistence of deconcentration and to weaker accountability, because of a lack of clarity on assignments. Central government may need to operate through subnational governments even in a fully-fledged decentralized system, but this can properly be solved with contracting between levels of governments, rather than through authoritarian delegation. Contracting allows reaching tailored solutions and provides correct incentives to the contracting parts.

A frequent feature—one could even say the inevitable consequence of agency-delegated functions—is the presence of unfunded mandates through which central government requires subnational units to provide a service, but does not fund them. The unfunded obligation hurts subnational finances and frequently, mandates send local governments into debt with the consent of the national government.

Subnational governments in Asia are assigned typical subnational tax setting and levying power, but the share of “own taxes” in their total revenue is generally low. Furthermore, central oversight of this has encouraged reluctance at the local level to make effective use of the available tax autonomy (happily with a few exceptions, see Box 8.1). On the other hand, subnational governments make extended use of a variety of fees and charges modulated in ways that create obstacles to the smooth functioning of the domestic market, distort incentives, have an erratic influence on the distribution of income and may create opportunities for corruption.

The PRC, Indonesia, Japan and the Philippines well illustrate the prevailing behavior in the assignment of tax setting and levying power.

Subnational governments in Japan have fairly equal access to all major tax bases consistent with most norms: personal and corporation income, consumption and real property. For most of these taxes, subnational governments have some discretionary power to determine their rates. The central government defines the tax bases and standard tax rates for 11 of 16 local taxes, but local governments and councils can adjust their rates by up to 50 percent above or below the standard rate. In reality, subnational governments do not make much use of their power to change tax rates. At the provincial level, only four of 16 jurisdictions changed tax rates from standard rates as of 2004, and only 10 of 250 lower-level governments did this (Mochida 2008). In contrast to the limited use of flexible tax rates, granting tax reductions and exemptions is widespread, amounting to around 10 percent of local tax revenue.
The adequacy and quality of public services in India’s cities leave a lot to be desired. The collection of local taxes falls far short of what is needed to cover the costs of service delivery. As in many countries, property taxes are a major fiscal instrument for local governments, but they use it sparingly. Administrative, regulatory and technical shortfalls, weak administration and strong political interests limit expansion of the tax base and enforcement of taxes.

Following the Constitutional Amendment of 1992, additional administrative and fiscal functions were devolved to local authorities. Cities are now responsible for designing strategies to maintain and improve public services and find instruments to finance these activities in a sustainable way. In response to growing revenue needs for financing infrastructure, public services and other local amenities, many local governments initiated reforms to improve the performance of their local fiscal tax handles, particularly property tax (Lall and Deichmann 2006).

Bangalore’s property tax reform offers one of the most encouraging examples of these reforms (Ahluwalia 2011). In 2000, the Bangalore Municipal Council introduced a self-declaration scheme and guidelines for assessment using a simple and transparent formula, which included the location of the property, its built-up area, type of construction, usage (residential or commercial), occupancy (with a rebate for own use) and age (for depreciation). The tax rate was 20 percent for residential property and 25 percent for nonresidential. Owner-occupied property received a 50 percent rebate. The tax assessed under the scheme was applied for the following five years, thereby creating an environment of certainty for taxpayers. Fifty payment clinics were opened to assist taxpayers filing returns. A promotional campaign was carried out for 45 days in newspapers to build taxpayer confidence.

The results were astonishingly good at the beginning. Property tax collection surged 33 percent in fiscal year (FY) 2000–2001. The collection rate, the number of properties on the tax roll and tax collected per property increased. But growth in collections dropped sharply to 3.8 percent and 2.5 percent in the following two years. The system needed to be supplemented by strong enforcement, random checks and stringent recovery provisions. Such efforts in FY2004 and FY2006 yielded revenue growth of 15–16 percent a year. But it was clear that buoyancy in revenue collection from property tax could only be ensured if property valuations were revised at regular intervals.

An area-based system for assessment of properties—known as the unit area value system according to which Bangalore is divided into different zones with homogenous property values—was adopted in 2007 with effect from FY2009. This reform was carried out with the active support of civil society and media.

The new legislation also stipulates a random check of 15 percent of returns filed each year and provides penalties for false declaration. The tax paid by all taxpayers is uploaded on the city website. Taxpayers can see what they have paid compared with their neighbors, which has a positive reinforcing effect on payments. Collection registers are being computerized.

The results have been more than satisfactory. The number of properties covered has greatly increased and the amount of tax collected increased by 2.5 times between FY2008 and FY2011.

Source: Ahluwalia (2011).
Subnational Japanese governments have the authority to introduce new taxes, but their structure must comply with certain basic conditions (commerce clause, national interest and reasonable burden). New taxes on industrial waste, hotel accommodation and fishing permits are popular, but have generally low revenue potential and high collection costs.

Tax assignments in the PRC are broadly consistent with norms. All broad-based taxes are shared between levels of government. All essential elements are defined centrally, including tax rates applying to provincial taxes, while the revenue is shared, implying centralization of revenue. Provincial governments can maneuver the amount of tax revenues raised within their jurisdictions as long as they are in charge of administration and collection. Provincial governments also have considerable discretion in granting tax relief to stimulate the activity of enterprises and to attract additional foreign investment. In fact, subnational governments in the PRC make extensive and excessive use of charges and fees, such as road tolls that discriminate against vehicles from other jurisdictions, creating an uneven playing field, but generating considerable revenue.

In the Philippines, assignments are generally consistent with efficiency, equity and administrative feasibility. However, the majority of productive tax bases are assigned to the national government and, among local tax bases, only real property and business tax have substantial revenue potential. Floors and ceilings on tax rates and, in some cases, fixed rates for local taxes, limit local tax rate setting. Another limiting factor is that local governments are permitted to adjust tax rates only once every five years and by no more than 10 percent.

Cities in the Philippines are generally allowed to set higher tax rates than provinces and municipalities. The broader range of taxes and higher rates available to cities, coupled with the requirement for provinces and municipalities to share real property tax collections between them, results in wide disparities in local revenue between cities, on the one hand, and municipalities and provinces, on the other. This is not necessarily a bad thing, considering the concentration of expenditure needed in the country’s large cities. However, it exacerbates the vertical fiscal imbalance with reference to provinces, given their lack of access to business taxes, which only cities and municipalities can collect. This calls for effectively equalizing grants until adequate tax bases for provinces are secured.

In Indonesia, the proliferation of charges, fees and taxes levied on shaky legal grounds has been a characteristic of subnational revenue. Provincial taxes consist of vehicle tax, a vehicle transfer fee, vehicle fuel tax, surface water tax and cigarette tax. Municipal taxes include rural and urban property taxes, and land and building title acquisition fees. Creating own-source revenues for subnational governments is crucial for Indonesia
Improving service delivery through decentralization

To move away from partial decentralization. Own-source revenues at the margin are critical for establishing incentives for subnational governments to provide services and manage spending efficiently (Ambrosanio and Bordignon 2006), and are critical in establishing a hard-budget constraint. However, ensuring that regions and local governments have the incentives depends on the design of transfer systems. If they meet deficits and gaps, there is no incentive to use own-source revenue and manage spending efficiently.

Because they complement own-revenues and shared taxes and borrowing, transfers are quite large in Asian countries, representing about two-thirds of total revenue on average. This is not in itself a problem because where there are huge regional disparities in revenue capacity, transfers become necessary to ensure uniformity of service provision across various areas. Rather, what is at stake is their quality; that is, the capacity of transfers to promote equity and efficiency. Both quests require moderate use of specific and conditional transfers, and their large use in Asia is a good indicator of partial decentralization. Specific transfers are recommended only when urgent national priorities are at stake.

Equity and efficiency require the allocation of equalization transfers according to objective expenditure needs and fiscal capacity. Objective needs are not manageable by beneficiary local governments. The number of local employees, or the amount of their salaries, does not comply with the objectivity requirement. Fiscal capacity, meaning standardized revenue—the revenue that each distinct local government can raise by applying standard tax rates to its tax bases—ensures efficiency and equity in the allocation of transfers. On these counts—size of specific transfers, equalization and stimulation of tax effort—Asian countries do not fare particularly well.

Indonesia and Japan recently reformed their system of allocation of intergovernmental transfers to increase accountability. The allocation of the Indonesian general grant to subnational governments (Brodjonegoro 2005) is based on the difference between expenditure needs and fiscal capacity. However, the biggest problem for efficient use of resources is that only 50 percent of the total amount of the transfer is still allocated on the basis of the fiscal gap, with the remainder allocated on the basis of salaries paid to local personnel (basic component). This is done to help local governments balance their budgets, but it also introduces a strong perverse incentive against accountability, being the number of personnel under their control. Encouragingly, this share was 80 percent in 2001 and has steadily declined since, though it ultimately needs to be eliminated. The elimination of the basic component is also required for equity, since it rewards the richest local jurisdictions that can hire a larger number of personnel and are helped by the grant to pay for this.
Japan’s general transfer, the local allocation tax, comes very close to a fully-fledged, expenditure-needs and fiscal-capacity based transfer system (Ishida 2011). The central government calculates the standard expenditure needs and the standard revenue of each local government and pays the difference between the two (when positive). The standard expenditure need is the sum of the standard cost of each function, such as elementary schools, roads, bridges and care of the elderly. This also includes the tax collection costs, with a mechanism that rewards those local governments that, over the years, have increased their collections above the national average. The standard revenue is calculated by applying to the tax base of each own-tax the standard tax rate (that is, the national average tax rate) and a standard tax collection rate, which is a measure of the tax effort made by each local government.

In principle, the structure of Japan’s local allocation tax should increase the efficiency of spending and fiscal accountability. However, two features can weaken the attainment of these aims. First, the number of teachers and of other inputs is determined locally and is under the control of local government and therefore does not represent objective expenditure needs. However, the government tries to induce efficient behavior by rewarding those local governments that have controlled the increase of inputs. The second feature is the use of a standard tax collection rate. This is aimed at fostering higher local own-tax revenues, but ends up favoring local governments with more dynamic local economies, usually the richest ones, undermining the equity impact of the allocation of the local allocation tax.

With a few exceptions (Japan being one of them), the equalization impact of general transfers in Asia is small (Figure 8.1). The difference between maximum and minimum per capita revenues at the intermediate level of government remains quite high after the allocation of the transfers, as does the coefficient of variation.

Recognizing hard budget constraints may well be crucial for ensuring the long-term success of decentralization. If subnational governments can pass all or part of their burden to other governments, their accountability is jeopardized and the costs of decentralization could skyrocket.

Borrowing is used extensively at the subnational level in Asia, even for financing deficits, as in India. And it is legally permitted in most cases. In the PRC, local borrowing is not allowed but is nevertheless practiced through the cover of locally owned trusts, investment companies and local utilities. Special purpose vehicles in the PRC create off-budget liabilities. These are far from transparent, very difficult to monitor and require the full consolidation of local government accounts with those of the myriad entities financially linked to them (Lall and Hofman 1995).
Borrowing needs discipline along with other instruments, including better information systems, bankruptcy laws, wider access to tax bases and separate fiscal and financial systems. The introduction of an adequate regulatory framework starts with transparency. A first step for ensuring this is the building of better information systems, including standardized accounting procedures that compel subnational governments to publicize information on their liabilities and repayment capacity.

The most effective instrument to avoid the accumulation of debt and possible default is the building of a large local tax base. Taxes provide alternatives to borrowing, in part because their revenue can be pledged as collateral and also because they reduce the belief that local borrowing is implicitly backed by the central government. The design and the implementation of fiscal rules for subnational government—such as a ceiling on the stock of debt or on the share of current revenue that can be used for servicing the debt or the use of straight rules on the growth of expenditure—can also help enforce fiscal discipline if the rules are well designed and enforced.

**Figure 8.1 Disparities in provincial revenues before and after grants in selected Asian countries**

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**Note:** PRC = People’s Republic of China.

**Source:** Hofman and Cordeiro Guerra (2005), Table 4.1.
5. EMERGING CHALLENGES

5.1 Concomitant Reform: The Case of Conditional Cash Transfers

The basic premise of conditional cash transfers is that properly identified poor households receive a grant, as long as they meet certain conditions. The central government pays the grant, while the conditions usually refer to activities performed by local governments. Conditional cash transfers lying at the intersection between central and local policies are a relevant example of concomitant reform: a central government policy or program is implemented concomitant with a decentralization process. This can impact (positively or negatively) on the action of local governments. Observed outcomes at the local level therefore cannot be ascribed directly to local officials, putting in doubt the assessment of the merits of decentralization.

An inefficient electoral impact was observed in the Philippines during the implementation of the government’s Pantawid Pamilyang Pilipino conditional cash transfer program, which aims to reduce poverty by providing grants to poor households (Labonne 2012). The program provides a health and nutrition grant to households with children aged up to 14 and pregnant women on the condition that beneficiaries follow certain health protocols. The education grant is given to households on the condition that their children attend school classes on a regular basis. The transfers are not negligible, especially for large families (more than three children). The first phase of the program’s implementation, in 2008, covered the poorest provinces and municipalities. Coverage reached one million households by the end of 2010 and 2.3 million by the end of 2011.

The program was conducted in a fairly centralized way. Local mayors had no control over whether the program was implemented in their municipality and over the selection of beneficiaries. Importantly, the funds were transferred directly from a central government agency to the bank accounts of beneficiaries. Despite these attempts to separate the action of the central government from local governments, the program nevertheless had a substantial impact on local politics by increasing the probability of reelection of incumbent mayors. Aware that this could improve their chances for reelection, incumbent mayors decreased efforts in other areas of administration under their responsibility, thereby reducing overall performance.

So rather paradoxically, a central program supposed to improve the action of subnational governments ends up with the opposite result, introducing perverse incentives on local officials to lower effort. The remedy therefore is not discontinuing these programs but establishing a much sharper separation between levels of government; for example, in the full decentralization of the programs.
5.2 Decentralization and Natural Disasters

Many Asian countries are prone to frequent, large-scale natural disasters. These present at least two key challenges to subnational governments. The first is reconstruction. An adequate response includes the repair and rebuilding of damaged or destroyed public infrastructure, such as schools, health clinics and water and sanitation facilities. The bulk of these, of course, come under the purview of local governments. In developing Asia, disaster response at the local level is often inadequate, necessitating at least a partial reassignment of disaster response tasks to central government. This calls for special-purpose agencies operating at a fairly high level and under the aegis of the central government, to which crucial local responsibilities are assigned; in principle, on a temporary basis.\(^5\)

The second challenge refers to prevention, in which the appropriate structuring of incentives is essential. In most countries, assignments to local governments include functions crucial for disaster prevention, such as establishing and enforcing land-use and building-code regulations and disaster proofing essential public infrastructure. Here, decentralized governments are in a better position than the central government to handle these tasks. On the other hand, the national government is better positioned to provide disaster insurance across subnational regions since it can pool risks. Thus, providing insurance, usually by means of post-disaster transfers, is a clear national assignment.

This distribution of responsibilities between central and subnational governments appears rational, but creates a number of critical problems, as recent events worldwide have shown. One problem derives from the “weakest link” character of most investment in infrastructure to prevent natural disasters. The weakest link means that the smallest contribution determines the quantity of a public good for a group. For example, when different local communities are building a dike, the success in holding water back will depend on the minimum strength or height of its different parts. Responsibility has to be assigned to the level of government whose area is large enough to produce the internalization of spillovers.

Another issue is the interaction between national and subnational governments in the planning and investment in infrastructure, and financial assistance after a disaster occurs. As noted earlier, subnational governments are in charge of preparing for disasters by implementing, overseeing and partly funding protective infrastructure investments. These investments will affect the probability of income losses from disasters, and can also reduce the impact on neighboring regions. But local governments making the investment do not generally take these externalities into account. At the same time, local governments also cannot face the cost of...
reconstruction. By allocating a post-disaster grant, central governments can facilitate the transfer of resources to the most disaster-affected regions.

While such a policy relieves the financial impact on the affected region, it also reduces the incentives for subnational governments to invest in costly but effective disaster avoidance infrastructure. With full national insurance against losses, protective regional investment may be too low. To stimulate this, central governments can reduce transfers, although this implies less than full national insurance against disaster losses. There is thus a trade-off between the degree of insurance against disasters that is centrally provided and optimal regional investment in protective infrastructure. Another possible solution to this moral hazard would be for central governments to assume full responsibility for disaster avoidance activities, thereby assuming control of economic development and land-use policies. However, recentralization of responsibilities for these policies would likely reduce the efficiency gains from decentralized, local policymaking.

Another solution comes from private insurance. Private insurance contracts use deductibles and coinsurance to enhance incentives for efficient risk avoidance by insurees. According to Wildasin (2008), similar arrangements are possible in a decentralized context. The use of deductibles means that central governments commit to pay only partial compensation to local governments in case of a disaster. But this commitment looks quite hard to implement, particularly when a poor area is affected.

Mandatory coinsurance would mean that central government requires the establishment of disaster contingency reserves (such as “rainy day” funds) by local governments. Under this option, individual local governments would be required to contribute to such a fund from which they would receive relief in the event of a disaster. This scheme—though, again, hard to implement in poor areas—would help finance central government reconstruction transfers and improve the distribution of its burden among local governments by asking for contributions from all. This could reduce, but not totally eliminate, moral hazard, since local governments in regions more prone to disaster would still have a partial incentive to undertake investments to reduce the risks.

5.3 Sharing Natural Resource Revenue Among Levels of Government

A number of Asian countries, particularly Indonesia and Mongolia, are rich in renewable and nonrenewable natural resources. Revenues from these represent a substantial and recently growing share of public sector revenue in the region, particularly in big producer countries such as Indonesia and Mongolia. As in most parts of the world, local governments in producing areas in Asia are entitled to a share of natural resource revenues (Table 8.2).
<table>
<thead>
<tr>
<th>Country and system</th>
<th>Ownership of natural resource revenues according to the constitution</th>
<th>Legal regime for exploration and production</th>
<th>Taxes</th>
<th>Sharing system with subnational governments</th>
<th>Constraints on use of natural resource revenues by subnational governments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia (Unitary with regions)</td>
<td>State</td>
<td>Corporation income tax, royalties</td>
<td>National and subnational</td>
<td>Forestry and mining: 20% to central government; 16% to provinces; 32% to districts. For oil: 84% to central government; 3.1% to provinces; 6.2% to districts. For gas: 69.5% to central government; 6.1% to provinces; 12.2% to districts. For fishery: 20% to central government. For royalties: 10% to districts, 20% to municipalities and 70% to central government</td>
<td>None</td>
</tr>
<tr>
<td>Mongolia (Unitary)</td>
<td>State</td>
<td>Concession regime</td>
<td>Corporation income tax, windfall gain tax, royalties</td>
<td>For forestry and mining: 32% to districts. For oil: 6.2% to districts. For gas: 12.2% to districts. For fishery: 80% to districts</td>
<td>None</td>
</tr>
</tbody>
</table>
### Table 8.2  (continued)

<table>
<thead>
<tr>
<th>Country and system</th>
<th>Ownership of natural resource revenues according to the constitution</th>
<th>Legal regime for exploration and production</th>
<th>Taxes</th>
<th>Sharing system with subnational governments</th>
<th>Constraints on use of natural resource revenues by subnational governments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pakistan (Federal)</td>
<td>Not specified</td>
<td>Concession on onshore and contractual on offshore</td>
<td>Excise tax, royalty, gas development surcharge Royalties, corporation income tax, minimum tax/ business tax</td>
<td>Royalty and part of the gas development surcharge</td>
<td>Included in general transfers</td>
</tr>
<tr>
<td>Philippines</td>
<td>State</td>
<td>Contractual</td>
<td>Royalty and part of the gas development surcharge</td>
<td>40% of all natural resource revenues are allocated to subnational governments (20% to the province, 45% to local governments, 35% to barangays)</td>
<td>Included in general transfers</td>
</tr>
</tbody>
</table>

**Note:** A barangay is the smallest administrative unit in the Philippines.

**Source:** Compilation by the author based on constitutions and other legal texts.
Strong asymmetric arrangements apply to the Indonesian provinces of Aceh, Papua, and West Papua as special autonomy regions, whereby they receive 70 percent of oil and gas revenue produced in their jurisdictions instead of the general arrangement.

Volatility, for one thing, is a strong argument against sharing natural resource revenue with local governments. Price fluctuations may make nonrenewable natural resource revenues an unreliable source of revenue: funding reliable expenditure, such as salaries and other current expenditures, with volatile revenues carries higher risk for subnational governments. Economic theory also stresses the possibility of substantial efficiency losses from insufficient absorption capacity at the local level and from corruption.

At the same time, the social and environmental impact of exploiting natural resources can be more disappointing than satisfying for local people, as shown by the growing number of conflicts in which local communities oppose the exploration and exploitation of natural resources, despite the lure of huge benefits often promised by firms and governments. Conflicts could surely be avoided by providing governments in producing areas full compensation for damage and full reimbursement of all costs of the provision of services and infrastructure necessitated by exploration and production activities.

The assignment of natural resource revenues to nonproducing areas, as in Indonesia, has small economic rationale. However, it does allow more equalization of revenue and is a manifestation of the principle that national resources are the property of the nation. When a share of natural resource revenues is given to subnational governments, regardless of whether they are in producing areas, efficiency and equity considerations require the full insertion of these revenues into the framework of intergovernmental equalization grants (as is correctly but incompletely done in Indonesia). In other words, natural resource revenues are to be considered, for the purposes of equalization, as tax revenues.

6. SOLUTIONS TO THE STRUCTURAL PROBLEMS OF INTERGOVERNMENTAL RELATIONS

6.1 Asymmetric Federalism

With asymmetry, government units at the same level have different allocation, regulatory and taxation powers. This implies that the level of decentralization varies across a country, amounting to “variable speed decentralization”. This is a common and somewhat neglected feature of
federal and decentralized systems, of which history provides countless examples. Asymmetry allows avoidance of excessive decentralization, while granting deeper autonomy to a few selected regions.

Asymmetrical devolution might be helpful in (highly) divided societies with different demands for autonomy. This is the case in Sri Lanka and possibly Nepal. Some regions with minorities at the national level may feel that they are or could be excluded from the majority that governs the state and could consequently suffer a net loss. The PRC’s autonomous regions are an example of asymmetry, enjoying, at least in principle, more autonomy than the rest of the country in finance, economic planning, arts, science and culture, organization of local police and local languages.

Other institutions, such as qualified majorities, can also reduce the risk of conflict deriving from exclusion of regions from the national majority. Asymmetric assignments may be a better alternative: while “asymmetric” regions enjoy the benefits of higher autonomy in some areas of their activity, other regions enjoy the benefits of centralized arrangements in the same areas, such as economies of scale and better coordination.

Asymmetric arrangements may also be a solution to conflicts in natural resource rich areas when the governments of these areas claim a particularly large share of the rent. If the assignment of a larger share of natural resources revenue is matched with more expenditure responsibilities, the claims of the producing areas can be accommodated with the claims or entitlements of the rest of the country.

6.2 Contracting Solutions

The substitution of rules and hierarchical commands with contracts encourages innovation in intergovernmental relations. Contractual agreements can be designed to reduce the risks and costs associated with asymmetries of information, the difficulty or impossibility of verifying the behavior of parties, missing skills and lack of credible commitments. Since contracting is, by definition, consensual, it can take place within the public sector only among autonomous bodies with no hierarchical links. The use of contracts therefore reflects the growing autonomy of decentralized governments, although it is also an established practice in older federal states. Contracts may also solve many of the problems of intergovernmental relations. First of all, they are a solution where there is a void in the assignments, which is a frequent occurrence with new and innovative policies.

In unitary regimes, contracting serves to empower progressively sub-national levels of government, such as in France and Italy. When decentralization has been in place a long time, such as in Canada, or has already been achieved, as in Spain, contracting is useful to manage cooperation.
This is especially so in cases in which policies have to deal with interdependencies and a complete legal framework is missing.

Contracts not only require autonomous government, but also a third party to facilitate their execution. Contracts require a specific legal framework, with easy recourse to the courts and, if necessary, sanctions. Some countries have introduced specific legislation of contracts between public entities. Others make renewed use of existing legislation for such contracts. But it is a common rule that public entities and civil servants are obliged to perform not only the duties assigned to them, but also those derived from engagements taken voluntarily in the public interest. Hence, governments can be taken to court for missing performance. Contracting can also take place between entities in different countries, facilitating projects spanning borders. It is a common practice in the European Union to establish contractual relations with subnational entities of member countries and to have contracts between regional governments of different member countries (Organisation for Economic Co-operation and Development [OECD] 2007).

6.3 Coordination Between Governments

The need for coordination among levels of government is a correlate of decentralization and originates from the overlapping of the activities of each level of government. Coordination is particularly difficult when resource sharing is at stake. Assignment of taxes, sharing revenues and the design of intergovernmental transfers are fraught with technical and political difficulties. To solve this, many countries, including in Asia, have created independent authorities for these tasks. These bodies are popular, particularly in divided societies and in federal systems, because they can help ensure greater transparency. Their effectiveness, however, depends on their composition and the range of assigned tasks.

India and Australia represent the polar extremes. The Finance Commission of India has a good reputation, convenes every five years and makes recommendations to the president and Congress. While these are usually accepted, the commission shares responsibility with other institutions within the same domain. The Australian Grants Commission has a clearly defined mission of defining and implementing the formulas for allocating grants to the states. It is highly regarded for its technical work and the federal government rarely questions its decisions, although individual states may complain.

A limitation on the effectiveness of these bodies may be the reluctance of parliaments to endorse decisions taken outside their control. However, if these commissions are authoritative, parliaments can hardly oppose
Governance in developing Asia

Parliamentary resistance tends to increase with the number of areas on which the commissions are mandated to make recommendations. This suggests the desirability of assigning only a specific mandate focused on a few areas to these independent bodies.

When authoritative, these entities have a very important role to play by facilitating agreements between levels and inside levels of government that, when sharing issues are at stake, are particularly difficult to reach. A recent decision taken by the National Finance Commission of Pakistan exemplifies their usefulness (Box 8.2).

7. DECENTRALIZATION OF EDUCATION

7.1 Processes and Expected Results

Most Asian countries have now undergone decentralization in the provision of public education, although with different intensities and ambitions.
Education is a challenging sector to decentralize because it is very expensive—usually the second largest sector of public expenditure after social security—and crucial for national growth strategies and improving opportunities for the poor. The education sector, because of the central role it plays in service delivery, allows accurate checking of the ambitions and successes of decentralization.

Decentralization can be pursued under at least two different, non-alternative strategies. The first is to rely on subnational governments, devolving to them increased responsibilities, particularly more autonomous decision-making power in some areas. The second is a school-management-based strategy that expands the decision-making power of schools. This strategy is also consistent with deconcentration and is quite popular in Asia.

Decentralization of education sometimes has conflicting aims and presents challenges, among them: (i) the increased effectiveness of expenditure, (ii) a reduction in the role of teachers’ unions, (iii) fostering experimentation and quality, (iv) a more targeted contribution of education to local development strategies, (v) better adaptation of education to local preferences (also with inclusion of local languages in curricula) and (vi) control of the growth of public expenditure by engaging subnational governments and families in the financing.

7.2 Empirical Analysis

Empirical analysis of the impact of decentralization is constrained by both analytical and informational difficulties. Particularly in the case of international comparisons, the assessment of impact requires singling out a few goals of decentralization. But these could also be non-coincident with the choices of governments. In general, one could posit that the general aim of decentralization should be the promotion of effective schooling, as proposed by Behrman et al. (2002). But this goal has to be specified and take into account the existence of a trade-off between efficiency and equity.

The most obvious and widely used indicator of efficiency in education is student test scores, which are clearly an indicator of quality. Equity, which is particularly relevant for developing countries, can be represented by school enrollment, completion of grades or dropout rates. When devolution of responsibilities is not matched by adequate devolution of financing sources, subnational governments, particularly those in the poor areas, could be forced to increase contributions from families for education and reduce the level of service provision, which would hit the poor and vulnerable groups hardest.

The basic problem with empirical assessment is that it requires taking into consideration all the factors that, in addition to decentralization,
impact on effective schooling. Consider the results of student tests. They depend on individual factors, such as motivation, and health. They also reflect the quality of schools, which decentralization has to impact. Test results also depend on the general context of the family environment and are influenced by school location and other policies impacting individual factors. Scholarships, however, may increase the motivation of families to support the education effort of their children. Conditional cash transfers may also have impact, although not necessarily a positive one.

As in the case of any other policy, correctly assessing the impact of decentralizing education requires the construction of two distinct samples. The first includes cases in which a policy has been implemented. These are compared with those of a second sample in which the policy has not been implemented. There are two possibilities. The first is to refer to a single country, as Barankay and Lockwood (2007) have done for Switzerland, and compare local government units where a policy has been differentially implemented with the remaining units where it has not. Individual country analysis brings fewer problems in data collection, also because schools operate more uniformly than countries.

The second alternative is cross-country analysis. This includes comparing countries with different levels of decentralization and comparison of results before and after a process of decentralization. In both cases, the main difficulty is the availability of comparable information for a sufficient number of countries. To illustrate these difficulties and methods, a basic comparison between the Republic of Korea and Japan is presented.

In principle, the two countries provide a good opportunity for a pair-wise comparison based on overall indicators. They are economically and socially rather similar. Education in the Republic of Korea is completely centralized, while in Japan subnational governments are responsible for managing and paying teachers and for implementing education standards and guidelines mandated by the central government. Standards of educational achievement in both countries are the highest in the world. Both countries, but particularly the Republic of Korea, ask families to contribute heavily to the education of their children, financially and with personal support. According to the OECD (2014) families in the Republic of Korea contribute close to 20 percent of their total expenditure to primary and secondary education institutions, while in Japan the corresponding share is less than 10 percent. Family contributions to tertiary education are the highest in the world, with the exception of Chile. Both countries also use the Programme for International Student Assessment (PISA) tests (Table 8.3), making for easy comparison, referring to the same years, not only of proficiency levels, but also of some aspects of equity of results. With reference to equity, Table 8.3, for brevity, shows only the percentage of under-scorers below level 2.7
OECD surveys go to considerable lengths to explain outcomes by linking them to the family and social context of students. However, Japan does not report this information, reducing the significance of the comparison. As can be seen, there are frequent changes of the ranking over the years. In 2012, Republic of Korea outperforms Japan in national student scores.

### Table 8.3 Proficiency levels of education performance in Japan and the Republic of Korea, 2000–2012

<table>
<thead>
<tr>
<th></th>
<th>Japan</th>
<th>Republic of Korea</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Proficiency in reading</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mean scores</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2000</td>
<td>522.2</td>
<td>524.8</td>
</tr>
<tr>
<td>2003</td>
<td>498.1</td>
<td>534.1</td>
</tr>
<tr>
<td>2006</td>
<td>498.0</td>
<td>556.0</td>
</tr>
<tr>
<td>2009</td>
<td>519.9</td>
<td>539.3</td>
</tr>
<tr>
<td>2012</td>
<td>538.1</td>
<td>535.8</td>
</tr>
<tr>
<td>% of students below level 2</td>
<td>10.1</td>
<td>5.8</td>
</tr>
<tr>
<td>2012</td>
<td>9.8</td>
<td>7.6</td>
</tr>
<tr>
<td>Change</td>
<td>−0.3</td>
<td>1.8</td>
</tr>
<tr>
<td><strong>Proficiency in math</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mean scores</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2003</td>
<td>534.1</td>
<td>542.2</td>
</tr>
<tr>
<td>2006</td>
<td>523.1</td>
<td>547.5</td>
</tr>
<tr>
<td>2009</td>
<td>529.0</td>
<td>546.2</td>
</tr>
<tr>
<td>2012</td>
<td>536.4</td>
<td>553.8</td>
</tr>
<tr>
<td>% of students below level 2</td>
<td>13.3</td>
<td>9.5</td>
</tr>
<tr>
<td>2012</td>
<td>11.1</td>
<td>9.1</td>
</tr>
<tr>
<td>Change</td>
<td>−2.3</td>
<td>−0.4</td>
</tr>
<tr>
<td><strong>Proficiency in science</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mean scores</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td>531.4</td>
<td>522.1</td>
</tr>
<tr>
<td>2009</td>
<td>539.4</td>
<td>538.0</td>
</tr>
<tr>
<td>2012</td>
<td>546.7</td>
<td>537.8</td>
</tr>
<tr>
<td>% of students below level 2</td>
<td>12.0</td>
<td>11.2</td>
</tr>
<tr>
<td>2012</td>
<td>8.5</td>
<td>6.6</td>
</tr>
<tr>
<td>Change</td>
<td>−3.6</td>
<td>−4.6</td>
</tr>
</tbody>
</table>

in mathematics, but Japan does better than the Republic of Korea in science and reading. In the previous years, the Republic of Korea was doing better than Japan. However, the relative differences are very small. On equity terms the Republic of Korea is doing better, but both countries signal improvement over the years. Better equity results in the Republic of Korea are in accordance with expectations: a centralized system should ensure more convergence of outcomes. But regional data are missing, which limits the evaluation.

The Republic of Korea exceeds Japan in educational expenditure, both public and private (Figure 8.2). Japan and the Republic of Korea allocate similar shares of public expenditure to schools of different levels. Public expenditure for education as a percentage of GDP in the Republic of Korea is close to the OECD average, while in Japan it is substantially lower. The difference in expenditure between the two countries is high, while the difference in scores is almost unappreciable. If the relationship between financial inputs—public and private expenditures—and outputs (scores) were linear, which they are probably not, the Republic of Korea would show more inefficiency than Japan, providing evidence that centralization of service provision is less cost-effective than decentralization. This result is supported by the much higher role played by private

Notes: GDP = gross domestic product, OECD = Organisation for Economic Co-operation and Development.

Source: OECD (2014), Table B2.3.

Figure 8.2 Expenditure on educational institutions by source of funds, 2011
expenditure—more than double—in the financing of primary, secondary and post-secondary educational institutions. Obviously, a number of other factors impact on scores, such as the use of private tutors, but the present analysis is unable to consider them.

If this data were also available for other Asian countries, and there were a reliable indicator of decision-making autonomy in education, performing a similar analysis for the entire sample would give a less tentative though still not conclusive indication of the impact of decentralization on education in the region.

8. CONCLUSIONS

Decentralization in Asia follows a variety of models, with different intensity and aims, as it does in other parts of the world. Outcomes of decentralization, including in service delivery, do not depend only on the intensity of decentralization, but rather also on how it is done.

There are no easy recipes to ensure service delivery. Most are not exclusive to subnational governments, but apply also to other levels of government. A basic ingredient for subnational levels is accountability. When it is missing, decentralization is partial, meaning higher costs, possible accumulation of budget imbalances and decreasing levels of service delivery. Even small steps taken in the right direction can lead to substantial improvements of service delivery, while small deviations from accountability may create severe consequences. Clearly, Asian countries, particularly the developing ones, are also facing a number of challenges, among them skills and capacity constraints, particularly for small and remote local governments. Addressing these may require new approaches, such as contracting and asymmetric arrangements. Other challenges require responding to increased demand for public services in the context of low tax revenues, the need for better disaster response and preparedness, and avoiding conflicts over the sharing of natural resources. Nonetheless, institutions and mechanisms, such as contracting, asymmetric arrangements and coordination, can make decentralization more effective for service provision.

In education, a number of countries are decentralizing the provision of these services, although with different strategies. In principle, education provides a convenient ground for the empirical assessment of the impact of decentralization on service delivery. Countries are very sensitive to international comparisons of their educational performances, but are not yet producing enough accurate and comparable information to allow really meaningful comparisons.
Even in the comparison of the Republic of Korea and Japan, the reaching of reliable and conclusive results is still hindered by information problems, although the two countries have greatly expanded the quantity of data made available.

NOTES

1. There are objections to this classification of the PRC.
2. Decentralization entails the transfer of political, administrative and fiscal responsibilities to elected governments, while deconcentration consists in giving some discretionary decision-making power to the regional and local agencies of the central government.
3. Examples of unfunded mandates in the Philippines include the salary standardization law and the Magna Carta of Public Health Workers. Both legal texts impose on local governments the obligation to pay additional remuneration to their employees, without compensation. Unfunded mandates also include the requirement for local government units to pay for the health insurance premiums of indigent residents.
4. Vertical imbalance means that own-revenues cover only a part of the expenditure of provinces and that they have to rely on central government transfers.
5. For literature on these issues in Asian countries, see the United Nations Development Programme (2006).
6. This happens with the allocation formula for general-purpose grants. The Finance Commission is responsible for the formula for revenue sharing grants while the Commission for Planning is responsible for the allocation formula of the Development Budget Grants.

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* The Asian Development Bank recognizes China by the name People’s Republic of China and Korea by the name Republic of Korea.


9. Improving education services: district governance and student learning in Indonesia

Menno Pradhan and Joppe de Ree

1. INTRODUCTION

Increasing evidence suggests that low education outcomes in developing countries partly result from the low efficiency of public education spending. Recorded teacher absenteeism rates in developing countries in the range of 16–27 percent starkly illustrate that education spending does not always lead to better education services (Chaudhury et al. 2006). The World Bank’s 2004 World Development Report, likewise, notes a lack of correlation between changes in education spending and outcomes at the country level; it argues that improving accountability for public spending is crucial to improving education outcomes (World Bank 2004).

Comparing countries, empirical evidence suggests that bad governance hampers the efficiency of public spending in education. The two studies most relevant for this chapter use corruption perception as an indicator of governance. Comparing public education spending in 57 countries, Rajkumar and Swaroop (2008) find that whereas public spending on education as a share of gross domestic product does not have a significant relationship to levels of educational attainment, the interaction between public spending and governance does. Countries with lower corruption are better able to ensure that public education spending translates into higher educational attainment for their citizens.

In Indonesia, Suryadarma (2012), comparing across districts, finds a relationship between enrollment levels and corruption, although the relationship vanishes when national test score results are used as the outcome variable. It is difficult to pinpoint the mechanisms behind such observed patterns, although one obvious one is that public funds are used for private gains in corrupt states and, thus, dilute the funds available for education services, resulting in lower education outcomes. Yet, corruption perceptions could also indicate other failures in education systems.
Rajkumar and Swaroop (2008) find very similar results when a perception of bureaucracy is used instead of corruption. Perceptions could also be influenced by more general indications that the system is failing, as exemplified by poor education services or high dropout rates. For this reason, policy conclusions have to remain very general about the importance of good governance.

This chapter focuses on Indonesia, which presents a case study of the effects of governance on education outcomes. Indonesia decentralized most government functions, including basic education, to the district level in 2001 (Kaiser et al. 2006). Districts now receive most of their revenues as block grants from the central government and have considerable leverage in how to spend them. District-level elections for parliaments and direct elections for district heads are now the main mechanisms to ensure local accountability, and the availability of cross-district data allows the study of governance using comparable data for districts that inherited a common institutional setting.

The Governance and Decentralization Surveys, a collaboration between the World Bank and the Centre of Public and Policy Studies at Gajah Mada University, are the most systematic attempt so far to measure governance at the district level in Indonesia. The surveys, done in 2002 and 2006 in a large sample of districts, collected information on governance focusing on thematic areas such as participation, effectiveness and efficiency; transparency; social equity; rule of law; responsiveness; accountability and conflict management (Widyanti and Suryahadi 2008).

Two studies have used data from these surveys to assess the relationship between governance and education service delivery. Lewis and Pattinasarany (2009) use the second round of the survey in 2006 to analyze the relationship between satisfaction with education services, objective measures of service delivery and governance. They find generally high levels of satisfaction and a positive relationship with objective measures of service delivery and governance perceptions. As expected, satisfaction increases with better classrooms, more accessible schools, lower student–teacher ratios and, perhaps surprisingly, with a higher share of teachers who are civil servants.

Alatas and Filmer (2004), in an unpublished paper, relate the results of the first round of the Governance and Decentralization Survey of 2002 to educational outcomes. They conducted their analysis at the district level, comparing averages across about 140 districts, and took data from various sources. They took test scores—the dependent variable—from junior secondary school examination results, school quality from central government registers, district spending data from the Ministry of Finance, household background data from the National Socioeconomic Household
Survey and governance data from the Governance and Decentralization Survey. The results are mixed. Focusing on the governance variables, the authors find that higher test scores for both junior and senior secondary schools are associated with more interaction between local nongovernment organizations and government, an increased role for principals to set goals and missions and the greater involvement of teachers in recruitment. Most of the time, however, the effects are insignificant or even contradict a positive contribution of governance.

This chapter aims to contribute to the empirical evidence on the relationship between education governance and outcomes. It casts the analysis in a school-level production function, rather than a district-level production function of education, thereby focusing on what happens at school. Our study includes a measure of school financial and human assets, and governance. By focusing on changes in test scores rather than levels, the empirical strategy effectively controls for unobserved time invariant characteristics, which inevitably vary with learning outcomes in levels.

As explanatory variables, the study includes indicators of the physical and human capital of schools and indicators of district teacher management. It also controls for learning levels at the beginning of the school year. Learning outcomes are the product of inputs received throughout life, even before entering school and, here, parents obviously play a key role (one of the main reasons children from wealthier, better-educated parents do better in school). But the problem is that these parents tend to live in areas with better service delivery altogether, which generates a correlation between learning achievements and district governance. To value the importance of governance systems, one needs to control for this.

District governments not only provide resources, but can also play an important role in teacher management. Differences in governance across districts should therefore translate into differences in learning across districts. This study provides evidence in support of this claim. It documents substantial variability in student-learning trajectories across districts, with district effects accounting for about 15 percent of the variation in test score gains between schools where gains are measured over a two-year period.

Our study explains this finding. It includes variables in the regression model that are, to a greater or lesser extent, related to or influenced by district leadership. Two of the key dimensions considered in the study relate to efforts in teacher management: the average number of teacher evaluations and the participation rate in teacher working groups. The first refers to the more traditional style of teacher management, in which a superior evaluates the performance of a subordinate. In this study we focus on whether evaluations have been conducted in addition to the legally required minimum. The second dimension focuses on improving
Improving education services: Indonesia

2. CONTEXT OF THE STUDY

For Indonesia, the challenge lies in turning increased public spending on basic education into better quality education. Public spending has historically been low, but has been rapidly increasing since 2001’s decentralization of several government functions, including basic education. By 2010, 21 percent of public spending was on education, up from 11 percent in 2001 (World Bank 2013a). A constitutional amendment in 2002, requiring both local and central governments to spend at least 20 percent of their
budgets on education, is driving this trend. In many other countries that
decentralized, public spending on social sectors subsequently increased (del
Granado et al. 2005).

Indonesia’s enrollment levels in basic education are high, with gross
enrollment in primary school at 118 percent, junior secondary at
92 percent and senior secondary at 39 percent, with only small differ-
ences between boys and girls (United Nations Educational, Scientific and
Cultural Organization 2012). That said, learning achievements have been
disappointing.

The country scored 386 on a scale benchmarked at 500 in the 2011
Trends in International Mathematics and Science Study (TIMSS) assess-
ment of the mathematical skills of children in grade 8 aged at least 13
(Mullis et al. 2011). This score represents the median student in Indonesia.
In the US, the 5th percentile in the test distribution scores stood at 410.
The median student in Indonesia thus scores below the 5th percentile
student in the US. The 75th percentile in Indonesia roughly corresponds
to the level of the 10th percentile in the US. And the trend is negative.
In comparison with the 2007 TIMSS results, Indonesia scores 11 points
lower. Comparing Indonesia with Malaysia presents a more positive
picture. Malaysia scores roughly in the middle between the US and
Indonesia with a median student scoring 440.

Indonesia does not lack teachers. The average student–teacher ratio
is 17 for primary and 12 for junior secondary education, which is very
low compared with the global average of 31 students per teacher. But
absenteeism of full-time teachers is considerable. This was at 20.1 percent
in 2002, although it dropped to 14.8 percent in 2007, based on estimates
from the findings of unannounced visits in a random set of public primary
schools during school hours (Toyamah et al. 2010). Teacher absenteeism
is higher in remote areas, at 23 percent in 2007 for schools that received a
“remote area allowance” and 33 percent in Papua, according to a recent
United Nations Children’s Fund survey (Universitas Cenderawasih et al.
2012).

Even when teachers are at their best, there is scope for improv-
ing teaching methods. A video study (World Bank 2010a) investigated
the teaching methods of mathematics teachers included in the TIMSS
assessment. Compared to mathematics teachers in developed economies
(Australia; Hong Kong, China; the Czech Republic; the Netherlands;
Switzerland; and the US) the most striking difference was that Indonesian
teachers spoke much less in class and their students even less. Indonesian
teachers spoke for less than half the time of teachers in the compara-
tor countries and for every 28 words the teacher spoke, their students
spoke just one. In these economies, this ratio ranged from 8:1 to 16:1.
Correlations with the TIMSS scores indicate that classes with a higher degree of student–teacher engagement also had higher scores.

A more effective teacher appraisal process could therefore improve learning. Currently, teacher appraisal is the same as that for other civil servants; that is, teachers are evaluated yearly using an evaluation list of tasks performed. This assesses allegiance, performance, responsibility, compliance, honesty, cooperation, initiative and leadership. But because these are the same performance criteria for all civil servants, the evaluation method takes no account of teaching performance, making it an inappropriate instrument for the task. Principals conduct the evaluation and the results feed into salary increases, promotions and transfers (Turner et al. 2009). The appraisal system still bears the characteristics of structures in place before decentralization. Back then, loyalty to nationally designed policies was considered all-important, even to the extent that it hindered centrally promoted local decision making in schools (Bjork 2004).

Other hindrances are a cultural trait in Indonesia that considers exposing other people’s weaknesses inappropriate, and a mismatch between formal in-service training opportunities and the needs of teachers for professional upgrading. Teachers often attend training simply to gain credit points for promotion and learn little (Listiawati 2003).

However, district offices and head teachers can organize their own evaluations in addition to the nationally mandated evaluation list. The empirical analysis of this study focuses on these additional teacher evaluations.

The national law on teachers and lecturers, Law No. 14 passed in 2005, introduced new elements into the appraisal process. It defined teacher competencies in pedagogic, personal, social and professional settings, and incorporated these into national teacher standards. Teacher certification was introduced, entitling certified teachers to an additional allowance one times their base salary. The main requirement for certification is a four-year bachelor’s degree and a workload of at least 24 teaching hours per week. Until recently, the evaluation was done on the basis of a portfolio that demonstrated experience and qualifications, but with no formal test. The evaluation is now done before teachers enter the certification process. However, much of the effectiveness of the certification program depends on the effectiveness of the testing tools in providing the right incentives to teachers to improve their skills. The certification program also introduced a strong incentive to meet the criteria of certification, resulting in big demand for additional qualifications, particularly the bachelor’s degree, as this is a requirement for entry into the certification process (World Bank 2010b).

Teacher working groups are perhaps the most accessible form of teacher upgrading. These have existed for over 20 years in Indonesia and allow
teachers to discuss problems and work with educators from other schools on common tasks, such as curriculum development, teaching aids and the design of tests, as well as more advanced activities, such as lesson study and classroom action research (World Bank 2013b). For primary schools, working groups are organized around classroom teachers, while for secondary schools subject teachers are grouped together (Musyawarah Guru Mata Pelajaran). Teachers see the benefits of these groups as improved knowledge, skills, competencies and professionalism. Two studies on the topic, in 2007 and 2010, indicated a greater emphasis on training and development of lesson plans in these groups and less emphasis on developing tests or the dissemination of local government initiatives (World Bank 2013b).

District governments can support teacher working groups by providing travel funds and training activities. In a review of the teacher appraisal processes in Indonesia, Listiawati (2003) argues that teacher study meetings provide the most promising instrument for teacher appraisal, as they already contain an element of intercollegial review of teaching aspects.

3. DATA USED IN THE STUDY

The study presented here uses two datasets that include test scores from a cohort of students, reports on teacher evaluations and participation in teacher working groups, teacher characteristics, school infrastructure and school budgets. Both datasets were collected for different research purposes, but lend themselves well to this analysis.

The school committee dataset was collected during 2007–2008 for testing various strategies to strengthen these bodies. See Pradhan et al. (2014) for more details of this study and the data. The study was conducted in 517 public primary schools in six districts in Central Java and Yogyakarta. Schools were selected at random and excluded subdistricts with very few schools, schools with parallel classes and schools with extremely good or bad average 6th grade examination scores in mathematics or Indonesian. The study followed a cohort of children in grade 4 at the baseline and in grade 6 at the end line. It also interviewed the teachers of this cohort and collected school-level data from principals in both rounds.

The teacher certification dataset was collected during November 2009–April 2012 in 360 public primary and junior secondary schools in 20 districts to evaluate the effect of the teacher certification program. See World Bank (2013b) and de Ree et al. (2013) for more details on this study and the data. A stratification procedure was applied to ensure the sample had enough teachers eligible to be certified. This ensures a more
Table 9.1 Variation in education indicators across 26 districts

<table>
<thead>
<tr>
<th>Indicator</th>
<th>10th percentile</th>
<th>Median</th>
<th>90th percentile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Student–teacher ratio</td>
<td>8.13</td>
<td>21.86</td>
<td>30.49</td>
</tr>
<tr>
<td>School budget per year (million Rp)</td>
<td>37.00</td>
<td>240.00</td>
<td>399.00</td>
</tr>
<tr>
<td>Number of students</td>
<td>80.00</td>
<td>165.00</td>
<td>248.00</td>
</tr>
<tr>
<td>Share of female teachers</td>
<td>0.47</td>
<td>0.67</td>
<td>0.81</td>
</tr>
<tr>
<td>Share of teachers with a bachelor’s degree</td>
<td>0.15</td>
<td>0.41</td>
<td>0.73</td>
</tr>
<tr>
<td>Share of teachers with a civil service status</td>
<td>0.71</td>
<td>0.83</td>
<td>0.92</td>
</tr>
<tr>
<td>Working group meetings*</td>
<td>2.58</td>
<td>4.05</td>
<td>9.62</td>
</tr>
<tr>
<td>Frequency of evaluation*</td>
<td>1.61</td>
<td>2.97</td>
<td>6.84</td>
</tr>
</tbody>
</table>

Notes:
Rp = rupiah.
* See further details in Table 9.2.

Source: Authors’ calculations based on school committee and teacher certification datasets.

homogenous teacher population across districts, which is also beneficial for this analysis. Within these strata, schools were sampled at random.

This study used a sample of 234 primary schools in 20 districts. It interviewed all classroom teachers and collected school-level data from principals. To ensure comparability with the test score data from the school committee dataset, panel data for grade 4 children at baseline and grade 6 children at the end line were used (most of which were the same children tested two years later).

That both datasets were collected to test different research questions should not influence this analysis. In both cases, the interventions (to strengthen school committees or to provide preferred access to the certification program) were balanced across districts. This study mainly focused on cross-district variation and, by design, there was no cross-district variation in the interventions tested in the two studies. School-level averages were constructed for all variables used in the regression models. The study also constructed 26 district dummy variables, which are included in some of the specifications.

Table 9.1 shows the spread of the indicators across the 26 districts, with considerable variability evident among the indicators. At the bottom end, for example, only 15 percent of primary teachers have a bachelor’s degree, compared to 70 percent at the top end. School budgets also differ widely across observations. One important reason for these differences is most likely the Bantuan Operasional Sekolah program, which provides block
grants to schools on the basis of enrollment. The program has intensified, meaning that its impact on the budget should be more pronounced for the teacher certification data, as a study conducted recently shows.

The two teacher management variables—working group meetings and frequency of evaluation—are not perfectly comparable between the two data sources. Table 9.2 shows the means of the two indicators and highlights the differences between the sources of information. The teachers were asked how often their performance is evaluated outside of their yearly evaluations. The phrasing is slightly different between questionnaires. In the school committee dataset, the question was asked in terms of the interval in months between evaluations, while in the certification survey it was asked in terms of the number of evaluations per year. For this analysis, the school committee data are transformed in terms of the number of evaluations per year.\textsuperscript{11}

Comparing participation in teacher working groups in the two datasets is not straightforward, as participation is measured in hours per week in the school committee dataset and in frequency and number of visits per year in the teacher certification dataset. Here the variables cannot easily be placed on a uniform scale, which is a problem for the precise comparability of the regression parameters. To address the problem, this study adds 1 to the raw observations and takes logs before including the variables in its regressions. For the same reason, school budgets are included in logs to allow for different price levels in different time periods.

Table 9.2  Descriptive statistics on teacher management, mean of district averages

<table>
<thead>
<tr>
<th>Teacher certification data</th>
<th>School committee data</th>
</tr>
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<tbody>
<tr>
<td>Number of meetings with teacher working group per year</td>
<td>5.24</td>
</tr>
<tr>
<td>Hours devoted to teacher working group/ training meetings per month</td>
<td>. . .</td>
</tr>
<tr>
<td>Number of teacher evaluations per year</td>
<td>2.57</td>
</tr>
<tr>
<td>Usual frequency of evaluations (rescaled to number of evaluations per year)</td>
<td>. . .</td>
</tr>
<tr>
<td>Number of districts</td>
<td>20.00</td>
</tr>
</tbody>
</table>

*Note:* . . . = data not available. The surveys collected information on participation in teacher working groups and teacher evaluations in different ways.

*Source:* Authors’ calculations based on school committee and teacher certification datasets.
The median school has 165 students, which, with 6 grades in a primary school, implies a class size of about 27. Around 80 percent of teachers are civil servants and over half are female.

4. DISTRICT TEACHER MANAGEMENT POLICIES AND STUDENT LEARNING

This study estimates a school-level, value-added model. The regression equation takes the form of the lagged score value added specification often used by the literature.

\[ Y_{sk6} = \alpha + \beta' X_{sk} + \gamma Y_{sk4} + \varepsilon_{sk6} \]

Where \( Y_{sk6}(Y_{sk4}) \) is the average grade 6 (4) test score of school \( s \) in district \( k \). The test scores are standardized, so that the effect parameters \( \beta \) can be interpreted as standardized effects. \( X_{sk} \) are school-level characteristics, including teacher- or student-level indicators that are averaged at the school level. The model is estimated on the basis of a cohort of students (balanced panel) tested in grades 4 and 6.

Although in principle it would have been possible to estimate this model at the individual level by adding a subscript for the student, it was decided not to do this because our focus is on measuring and explaining the variation in learning outcomes across schools. We were also concerned about measurement error in the test scores. A large body of research recognizes the problem of measurement error in student test scores used on the right-hand side of a regression equation. This will normally bias the parameter \( \gamma \) downwards and also bias the effect parameter \( \beta \) in the process. Averaging scores within schools alleviates some of these concerns since much of the individual student specific measurement error in test scores is expected to average out when averaged within schools or classrooms.\(^{12}\)

The model measures student learning over the course of about two years and evaluates whether these learning trajectories are related to some of the school-level characteristics \( X_{sk} \). Such a specification is an improvement over models that use only the level of learning outcomes as the dependent variable, without controlling for the starting values. Learning outcomes are the result of cumulative inputs of parents and school into child development throughout life. It is well known, empirically, that children of wealthier, better-educated parents do better in school. But wealthier families are also more likely to live in areas that provide better services, such as better schools. Moreover, these particular (unobserved) parental inputs
may also drive district policies, because it is the same parents who vote for district governments. Correlations between student learning levels and district-specific characteristics can therefore be hard to interpret. But by controlling for lagged test scores in the regression model, thereby focusing on learning gains rather than levels, these heterogeneities are in some way accounted for.

Table 9.3 shows the results: columns 1–5 report the results based on the teacher certification data and columns 6–10 on the school committee data. Columns 1 and 6 show the results of the simplest value-added specification and only include the lagged grade 4 test score in the model. The results between the two data sources are different. Lagged scores explain about 49 percent of the variation in test scores two years later for the teacher certification data, yet only 13 percent in the school committee data.

Column 2 includes the district dummy variables in the regressions. The fit of the models increases a fair amount: the district dummies explain an additional 20 percent (teacher certification data) or 11 percent (school committee data) of the variation in the outcome scores. A lot of the variation in gain scores in Indonesian primary schools can therefore be explained at the district level. Although this is relevant information in itself, policymakers can be helped by understanding the reasons why some districts do better than others.

Table 9.3, in columns 3–5 and 7–10, includes a set of relevant covariates in the regression models. With the teacher certification data, we find positive results on participation in teacher working groups and on the proportion of teachers with a bachelor’s degree. With the school committee dataset, none of the included regressors is statistically significantly different from zero. The school resource variables are insignificant, although the signs of the effects are consistent across both data sources.

Whereas some of these factors appear significantly in the regression, they do not explain much of the variation in learning outcomes. Only 3 percent of additional variation in the outcome score can be explained by these factors in the teacher certification dataset, while none of the variation in the school committee data is explained. One likely explanation for the only moderate increase in the fit of the model (as indicated by the $R^2$) is measurement error: $R^2$s are lower when outcome scores have more measurement error. Especially for the school committee data, this could be a problem. But because the district dummies explain much more of the variation in learning outcomes, this is taken as empirical support for the idea that district governance matters for learning. Still, it is hard to establish the reasons for these differences empirically. School budget and human resource indicators do not explain the differences across districts, nor does the frequency of meetings of teacher working groups. This makes sense
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<tr>
<td></td>
<td>Teacher certification data</td>
<td>School committee data</td>
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<tr>
<td>Grade 4 student scores</td>
<td>0.697*** (0.000)</td>
<td>0.453*** (0.000)</td>
<td>0.661*** (0.000)</td>
<td>0.660*** (0.000)</td>
<td>0.359*** (0.000)</td>
<td>0.244*** (0.000)</td>
<td>0.324*** (0.000)</td>
<td>0.328*** (0.000)</td>
<td>0.323*** (0.000)</td>
<td></td>
</tr>
<tr>
<td>Student-teacher ratio</td>
<td>0.006 (0.517)</td>
<td>0.003 (0.728)</td>
<td>0.006 (0.528)</td>
<td>-0.010 (0.362)</td>
<td>-0.010 (0.350)</td>
<td>-0.010 (0.356)</td>
<td>0.011 (0.745)</td>
<td>0.013 (0.702)</td>
<td>0.011 (0.752)</td>
<td></td>
</tr>
<tr>
<td>School budget (in logs)</td>
<td>0.036 (0.331)</td>
<td>0.024 (0.496)</td>
<td>0.032 (0.394)</td>
<td>0.032 (0.745)</td>
<td>0.032 (0.702)</td>
<td>0.032 (0.752)</td>
<td>0.032 (0.745)</td>
<td>0.032 (0.702)</td>
<td>0.032 (0.752)</td>
<td></td>
</tr>
<tr>
<td>Number of students (in logs)</td>
<td>-0.146 (0.299)</td>
<td>-0.093 (0.522)</td>
<td>-0.140 (0.323)</td>
<td>-0.093 (0.560)</td>
<td>-0.108 (0.495)</td>
<td>-0.103 (0.513)</td>
<td>-0.108 (0.495)</td>
<td>-0.103 (0.513)</td>
<td>-0.103 (0.513)</td>
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<tr>
<td>Share of female teachers</td>
<td>-0.176 (0.434)</td>
<td>-0.094 (0.670)</td>
<td>-0.178 (0.427)</td>
<td>0.253 (0.239)</td>
<td>0.261 (0.223)</td>
<td>0.249 (0.245)</td>
<td>0.261 (0.223)</td>
<td>0.249 (0.245)</td>
<td>0.249 (0.245)</td>
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</tr>
<tr>
<td>Share of teachers with a bachelor's degree</td>
<td>0.494*** (0.005)</td>
<td>0.541*** (0.003)</td>
<td>0.493*** (0.006)</td>
<td>0.445 (0.134)</td>
<td>0.446 (0.128)</td>
<td>0.440 (0.135)</td>
<td>0.446 (0.128)</td>
<td>0.440 (0.135)</td>
<td>0.440 (0.135)</td>
<td></td>
</tr>
<tr>
<td>Share of teachers who are civil servants</td>
<td>-0.092 (0.642)</td>
<td>0.026 (0.896)</td>
<td>-0.078 (0.700)</td>
<td>0.221 (0.499)</td>
<td>0.206 (0.523)</td>
<td>0.225 (0.491)</td>
<td>0.206 (0.523)</td>
<td>0.225 (0.491)</td>
<td>0.225 (0.491)</td>
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### Table 9.3 (continued)

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<tr>
<td></td>
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<td>Teacher certification data</td>
<td></td>
<td>School committee data</td>
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<tr>
<td>Intensity of teacher</td>
<td></td>
<td>Intensity of teacher</td>
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<td>Intensity of teacher</td>
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<tr>
<td>working groups</td>
<td>0.274***</td>
<td>0.274***</td>
<td>0.057</td>
<td>0.059</td>
<td></td>
<td></td>
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<td>(0.005)</td>
<td>(0.010)</td>
<td>(0.213)</td>
<td>(0.195)</td>
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</tr>
<tr>
<td>Frequency of teacher evaluations</td>
<td>0.120</td>
<td>0.056</td>
<td>-0.051</td>
<td>-0.052</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>(0.195)</td>
<td>(0.555)</td>
<td>(0.185)</td>
<td>(0.173)</td>
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<tr>
<td>Constant</td>
<td>0.006</td>
<td>-0.607**</td>
<td>-0.580</td>
<td>-0.423</td>
<td>-0.000</td>
<td>-0.184*</td>
<td>-0.162</td>
<td>0.017</td>
<td>-0.032</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.892)</td>
<td>(0.045)</td>
<td>(0.511)</td>
<td>(0.617)</td>
<td>(1.000)</td>
<td>(0.093)</td>
<td>(0.844)</td>
<td>(0.984)</td>
<td>(0.969)</td>
<td></td>
</tr>
<tr>
<td>District dummies included</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
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<tr>
<td>N</td>
<td>234</td>
<td>234</td>
<td>234</td>
<td>234</td>
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<td>503</td>
<td>503</td>
<td>503</td>
<td>503</td>
<td>503</td>
</tr>
<tr>
<td>$R^2$</td>
<td>0.488</td>
<td>0.693</td>
<td>0.542</td>
<td>0.520</td>
<td>0.543</td>
<td>0.129</td>
<td>0.239</td>
<td>0.151</td>
<td>0.152</td>
<td>0.155</td>
</tr>
<tr>
<td>Adjusted $R^2$</td>
<td>0.486</td>
<td>0.664</td>
<td>0.525</td>
<td>0.503</td>
<td>0.524</td>
<td>0.127</td>
<td>0.230</td>
<td>0.137</td>
<td>0.138</td>
<td>0.139</td>
</tr>
<tr>
<td>Leave-one-out $R^2$</td>
<td>0.478</td>
<td>0.627</td>
<td>0.502</td>
<td>0.482</td>
<td>0.498</td>
<td>0.120</td>
<td>0.216</td>
<td>0.121</td>
<td>0.121</td>
<td>0.121</td>
</tr>
</tbody>
</table>

**Note:** Cluster (at school level) robust p-values in parenthesis. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$.

**Source:** Authors’ calculations based on school committee and teacher certification datasets.
because differences in learning outcomes are more likely due to the quality of budget spending and the quality of the engagement during working group meetings.\textsuperscript{14}

Across the two sets of results there are important differences and similarities. For the teacher certification dataset, for example, much stronger correlations are found with the lagged outcome score than with the school committee dataset. In a related point, the $R^2$ is much higher when the teacher certification data is used, suggesting lower levels of noise in the score variables. The results also differ in the statistical significance of the effect parameters. Some regressors appear statistically significant with the teacher certification, whereas this is not seen with the school committee data.

The results based on the school committee and teacher certification data are similar, however, in the sense that district dummies explain much more of the variation in learning than the substantive variables included in the regressions.

5. CONCLUSIONS

This chapter investigated the importance of district governance and teacher management policies to student learning in Indonesian primary schools. Because Indonesia decentralized responsibility for the delivery of primary education to district governments, variations in teacher management policies and, therefore, learning trajectories could be expected. Indeed, the study documents substantial heterogeneity in learning gains. It also shows that schools with more active teacher working groups and higher qualified teachers achieved better learning gains. However, teacher management policy variables—including school budgets, participation rates in teacher working groups, and student–teacher ratios—explain only a fraction of the differences in learning across districts. It is therefore likely that the quality of operation matters.

The analysis was carried out by investigating correlates of student test-score gains across 737 primary schools across 26 districts in Indonesia. Unlike earlier studies in this field, a school production model was used that tries to explain changes in test scores, rather than test scores in levels.

The heterogeneity in learning gains across districts cannot be explained by financial or human resource indicators such as school budgets, student–teacher ratios and so on. In fact, the study concludes that learning in school does not correlate with these measures. It does find that the general education levels of teachers and the frequency of participation in teacher working groups positively correlate with learning in school. However,
these can also only account for a fraction of the differences in learning observed across Indonesian districts.

Documenting differences across districts is important. The differences suggest that districts that manage to improve their system can actually expect improvements in learning outcomes, which will increase their relative competitiveness in the region. Documenting the differences also serves as a starting point to deepen understanding of what works and what does not in Indonesia’s education system. Future research could focus on understanding why some districts do better than others.

ACKNOWLEDGEMENTS

The authors thank Joanne Asquith, Emmanuel San Andres, Shikha Jha, Anil Deolalikar and other participants in the workshops sponsored by the Asian Development Bank (ADB) at the University of California, Riverside and ADB headquarters in Manila for useful comments on earlier drafts of this chapter. The authors are also grateful to the World Bank and the Government of Indonesia for sharing the data we used in this study.

NOTES

1. Teachers were recorded as absent if they could not be found in the facility for any reason at the time of a random, unannounced spot check. The range is based on representative studies conducted in Bangladesh, Ecuador, India, Indonesia, Peru and Uganda in 2003.
2. Referred to in the study as the unmatched sample. Results from the matched sample are not discussed, as the authors note that “the sample sizes in the matched sample are small, which makes it hard to identify effects”.
3. Gross enrollment measures the number of children enrolled in school as a percentage of the number of children in the corresponding age category. Because children outside this age range can be enrolled, the percentage may end up above 100 percent.
5. Base salary depends on rank and years of experience. In the certification dataset, civil servant teachers reported an average of 1.6 million rupiah per month as their base salary, equivalent to about $160 at the average exchange rate in 2010.
6. The data were collected by Moores Roland under supervision of the Ministry of Education, with technical assistance of the World Bank and with the financial support of the Japan Social Development Fund grant number TF053814 and the Dutch Government.
7. The districts are Brebes, Gunung Kidul, Pemalang, Sragen, Temanggung and Wonogiri.
8. The data were collected by Survey Meter, the Ministry of Education, and World Bank field teams, with technical assistance of the World Bank, and with financial support of the Dutch Education Support Program. The tests used in the analysis are developed by the center for educational assessment of the Government of Indonesia.
9. The 20 remaining districts are Bantul, Bengkulu, Ciamis, Deli Serdang, Gowa, Hulu
Sungai Selatan, Jakarta Timur, Kudus, Lamongan, Lombok Timur, Lumajang, Maluku Tenggara Barat/Maluku Barat Daya, Ogan Ilir, Probolinggo, Purwakarta, Semarang, Tapanuli Tengah, Tebo, Toli and Tuban.

10. The certification dataset has a high share of teachers with a bachelor's degree. This is likely due to the sampling procedure applied for this study. It gave schools that had many teachers eligible for the certification program (those with a bachelor's degree) a higher chance of inclusion. Furthermore, the data for the certification study were collected more recently, and Indonesia's teacher certification program had a huge impact on motivating teachers to obtain their bachelor's degrees through academic upgrading.

11. The evaluations variable is further transformed by adding 1 and calculating logs before they are included in the regressions.

12. Note that it is easy to think of types of measurement error that do not average over students within schools. For example, whether surveyors come to school at the beginning or toward the end of a school day is likely to matter for the performance of the entire class.

13. When including district dummies in this regression, “overfitting” the variation in test score gains across schools is a potential problem. This problem is bigger for the certification data as the school-to-district ratio is lower. To address this concern, the Leave-One-Out $R^2$ is calculated. This measure is much less subject to overfitting problems than the standard $R^2$ or even the adjusted $R^2$. Indeed, the Leave-One-Out $R^2$ indicates that overfitting the outcome variable with the district dummies is mainly an issue with the certification data. The real gain in fit due to the district effects is 15% for the certification data and about 10% for the school committee data.

14. Note that when the district dummies are added to the model presented in column 5, they still explain roughly 15% of the variation.

REFERENCES


sias - mathematics - classrooms - timss - video - study - teaching - practices - student - achievement.


PART III

Role of Empowerment in Improving Public Services
10. Citizen empowerment in service delivery

Babken Babajanian

1. INTRODUCTION

The participation of citizens in the delivery of public services is a prominent issue in the policy agendas of many governments, development agencies and aid donors. Evidence suggests that citizen participation can help improve service delivery, leading to a better match with local needs, greater quality and access, and lower corruption and resource misallocation. Indeed, the last two decades have seen a proliferation of policies and programs promoting citizen empowerment. This chapter examines the different approaches for their effective promotion.

There are different citizen empowerment approaches or models that seek to enhance the ability of citizens to monitor service delivery, voice their needs, demand transparent and fair allocation of benefits and resources, claim their rights and improve quality and accountability. These models include instruments with different objectives, institutional properties and operational procedures.

The chapter examines three empowerment models—grievance redress, participatory performance monitoring and community-driven development. Evidence suggests that all three can enhance people’s capacity to engage with service providers and government agencies. Yet, they are all based on distinct institutional arrangements, accounting for the variety of empowerment and service delivery outcomes that they produce. The study focuses on public sector initiatives (grievance redress and community-driven development) as well as those promoted by civil society (often in collaboration with donor organizations, such as participatory performance monitoring).

In theory, one can classify the origin of participation as either “spontaneous” or “induced” (Oakley and Marsden 1984). Spontaneous participation is grassroots-driven and based on local initiatives and voluntary action. It occurs when people organize without the involvement of external agents. The funding support and project requirements of aid donors,
by contrast, sustain induced participation. In practice, this distinction can be blurred; for example, when government agencies or aid donors collaborate with civil society organizations and community groups or movements involved in service delivery by supporting them with funding and technical assistance.

Three sets of factors that affect people’s ability to influence service delivery are discussed: the institutional properties of empowerment models, the nature and depth of citizen participation, and the responses of public officials and service providers. They have the following characteristics:

**Institutional properties** Each empowerment model has distinct institutional properties, making for a variety of outcomes in empowerment and service delivery; these institutional characteristics affect the scope and nature of participation and therefore the result. In other words, different models vary in their empowerment potential. Institutional properties in this chapter refer to the innate functional characteristics of empowerment models that reflect their intended objectives and the assumptions or theories that underpin their design. For example, grievance redress is designed to provide channels for individual feedback, but participatory performance monitoring seeks to facilitate collective action. Nuanced understanding of the strengths and limitations of empowerment models can help policymakers make informed choices about the appropriateness and relevance of different models and set realistic expectations about their potential impacts. The need for greater clarity is especially important because the existing literature does not adequately discuss the implications of the institutional properties of different empowerment models. For example, a recent World Bank Policy Research Report (Mansuri and Rao 2013) provides a comprehensive and up-to-date review of the literature on citizen participation in local development initiatives, but offers little consideration of institutional, instrument- and sector-specific factors that may affect participation and service delivery outcomes.

**Citizen participation** People’s willingness and ability to participate and express their voice is a major precondition for effective empowerment. Government agencies and civil society organizations have an important role to play in promoting meaningful participation and capacity building.

**Agency responses** The ability of citizens to influence service delivery largely depends on the responses of government officials and service providers. Participation may not lead to change without a commitment by government agencies and service providers to respond to citizen feedback and ensure fair and effective grievance redress.
The analytical differentiation between citizen participation and agency responses is important for designing, operationalizing and evaluating policies. It helps emphasize the importance of structural constraints to citizen empowerment. It is often the case in development practice that measures to promote empowerment are limited to establishing spaces and opportunities for citizen participation. The focus on the role of agency responses accentuates the importance of complementing participatory initiatives with policy actions to address obstacles to empowerment rooted in existing institutions.

For citizen empowerment in service delivery to work, citizens need to be more able and willing to participate and express their voice—and service providers and government agencies need to commit to facilitating fair and effective redress. To address these conditions, policymakers must ensure careful design and effective outreach and support broader policies to allow citizen participation, enforce the rule of law and ensure inclusive access to services.

2. EMPOWERMENT IN SERVICE DELIVERY

Empowerment is defined as the process of enhancing the capacity of individuals or groups to make “purposive choices and to transform those choices into desired actions and outcomes” (Alsop et al. 2006, 1).1 This definition refers to empowerment as a process facilitated by service providers, government agencies or donors. Yet, in many ways, citizens can claim or cease empowerment from the bottom up. This is of course contingent upon a specific constellation of circumstances that tends to involve shared grievances, successful mobilization of citizens and civil society alliances with progressive politicians.

Empowerment can vary in intensity. The World Bank (2003a) defines four sequential forms, ranging from weak to intense. These are (i) passive access, defined as the capacity to be present (but not necessarily exercise voice); (ii) active participation, in which people can exercise voice (but not necessarily exercise influence); (iii) influence, defined as the capacity to influence an agenda; and (iv) control, a position of “ultimate power” whereby people are free to make choices and transform them into desired actions and outcomes.

In operational terms, development interventions seek to foster citizen empowerment by promoting participation in specific aspects and stages of service delivery (Figure 10.1). Participation is the main mechanism for strengthening capacity to express voice and influence service delivery. All empowerment models promote citizen participation in service delivery by
Citizen participation can contribute to empowerment outcomes on two levels: in relation to specific initiatives, programs or services and citizen empowerment in more general terms, which goes beyond specific initiatives or projects. In the first outcome, citizens can participate within a framework of a specific initiative, such as social audits, or be involved in the identification and implementation of community projects supported through community-driven development programs.

In the second outcome, participation serves as a means for empowering people more broadly to engage in community development and local governance outside specific initiatives or projects. The experience of participation in specific initiatives is assumed to build individual and collective capacities, including knowledge, skills, rights awareness, confidence and social capital, which can enhance the willingness and ability of citizens to engage with authorities, local leaders and service providers. It is thought that social accountability initiatives such as community score cards and social audits can enhance awareness of rights and willingness to continue engaging with service providers. Similarly, it is assumed that participation in community-driven development initiatives can “spill over” (Wong 2012) beyond the scope of specific subprojects and empower citizens to take part in local planning and resource mobilization and engage with their leaders to demand greater accountability and transparency.
3. SERVICE ENTITLEMENTS: RIGHTS-BASED AND DISCRETIONARY SERVICES

A citizen’s entitlement to services can be rights-based and discretionary. The first implies that citizens have the right to specific services and that it is the binding obligation of the state to ensure they receive them. This is an enforceable right, enshrined in legal frameworks and recognized in national legislation and constitutions. The legal framework sets out the specific roles and responsibilities of the implementing authorities, such as line ministries, specialized agencies or service providers as well as the criteria for beneficiary eligibility and procedures for identification. In contrast, discretionary services allocate benefits based on program-specific rules establishing eligibility requirements and do not bear legal entitlements.

The rights-based approach to social protection—and more broadly to social services—identifies a set of minimum state obligations to economic, social and cultural rights (Piron 2004). This implies state responsibility to ensure an adequate standard of living for all and, in operational terms, the provision of at least minimum levels of social services that are equally accessible.

Many low- and middle-income countries have adopted a rights-based approach in education, health, access to drinking water and social protection. International support for institutionalizing a rights-based provision of social services is currently strong. In 2009, the United Nations Chief Executives Board for Coordination launched the Social Protection Floor as a tool to promote this approach. It provides an “integrated set of social policies designed to guarantee income security and access to essential services for all, paying particular attention to vulnerable groups and protecting and empowering people across the life cycle” (ILO 2012, xxii). The Social Protection Floor incorporates basic income security in the form of cash or in-kind transfers and universal access to essential affordable social services, including health, water and sanitation, education, food security and housing.

Two important features affect the service delivery potential of citizen empowerment models used in rights-based approaches: they allow citizens to claim rights and, unlike discretionary services, stipulate the importance of legal redress, as noted above. Under discretionary approaches, service entitlement is not guaranteed and involves a significant degree of administrative judgement in determining eligibility. That said, the absence of legal rights for services does not diminish the importance of citizen participation in service delivery. Beneficiaries of rights-based and discretionary services must equally be able to influence service access, responsiveness and performance. Individuals must be able to claim inclusion in non-rights-based programs if they are eligible and feel they were unfairly excluded.
4. GRIEVANCE REDRESS MECHANISMS

This section examines the key features of grievance redress mechanisms and discusses their empowerment potential and issues that affect their fairness and effectiveness. Grievance redress represents formal accountability mechanisms that enable citizens to provide feedback on services and programs. A review of World Bank projects in the human development sector supported between fiscal years 2005 and 2010 found that grievance redress procedures were most commonly integrated into social protection, such as cash transfers and community-driven development programs (Ringold et al. 2012). Grievance redress mechanisms in health care exist at most key levels, including in facilities, line agencies and the judiciary. In education, however, the World Bank review did not find many examples indicating that grievances in primary and secondary education are raised and addressed at the school level. This does not necessarily indicate complete absence of grievance redress; it is likely that grievances and complaint handling outcomes in schools are not formally recorded.

Grievance redress mechanisms are usually integrated in public service delivery systems. They can also be set up as part of contractual obligations of private service providers to program beneficiaries or service users. Grievance redress can also be noninstitutionalized, such as in personal appeals and interaction between service providers and beneficiaries, as for example in schools.

Three types of grievance redress mechanism operate at different levels: redress within government agencies, independent redress and redress through the courts. The first encompasses a plethora of arrangements, including dedicated mailboxes, email addresses, text messaging systems, telephone hotlines, interactive websites and designated officials handling complaints (Ringold et al. 2012). Independent redress includes ombudsmen, tribunals, labour relations boards and community-based organizations. These are located outside the bureaucracy and often do not have the discretionary authority to enforce findings of investigations into complaints. The role of the courts varies depending on country contexts and governance arrangements, but in many instances courts can hear and redress shortcomings of formal agencies and service providers and compel them to comply with their obligations.

4.1 Empowerment Potential

There is limited consolidated knowledge about the outcomes and effectiveness of different grievance redress mechanisms. The effectiveness of specific institutional arrangements is usually examined in program or project
evaluations, based on the results that management information systems and administrative records produce. These can identify patterns of access to the system by individuals with different social characteristics (women, ethnic minorities, the poor), the extent of responsiveness of programs to citizen complaints and actions taken in cases of wrongdoing. Such information is often intended for internal use for program administrators and policymakers to make adjustments in service delivery.

Grievance redress enables individuals to claim entitlements, influence service quality and correct errors, such as from exclusion of benefits or wrongdoing by service providers. It is a useful tool to promote social accountability and enable citizens to pursue their individual interests and entitlements. Grievance redress addresses individual complaints about services rather than collective grievances and is therefore crucial for protecting citizen rights and entitlements enshrined in legal frameworks or contractual obligations with service providers. It can also promote collective interests when groups of people mobilize to appeal a common grievance. Furthermore, when feedback is aggregated, grievance redress can be used to guide improvements at the program or policy level (Ringold et al. 2012). In this way, it can play an important role in improving collective—rather than individual—welfare.

Legal redress is an especially effective channel for claiming and upholding rights. It is a potent instrument for introducing changes into governance systems, such as alterations in rules and their interpretations (Grosh et al. 2008). For example, the Constitutional Court in South Africa lowered the eligibility age for social pensions for men from 65 to 60 to provide equality with women after a case was brought to lower the age for men.

Grievance redress in most cases does not allow participation in deliberative processes, and service providers and program agencies make their decisions based on their consideration of appeals or court decisions. Individuals directly engage with service providers or agencies responsible for their supervision or regulation. In appeals, courts intermediate between citizens and service providers. In most cases, this allows citizens to receive responses to their grievances. This differs from the collective grievance redress used in participatory performance monitoring, whereby individual grievances may not necessarily be addressed, but rather serve as a feedback mechanism to trigger adjustments in service delivery.

Legal redress can be expensive and require an ability to navigate the legal system. There is some evidence that legalizing the demands of social and economic rights may favor the affluent over the poor (Gauri and Brinks 2008). The concentration of litigation cases in the more prosperous southern regions of Brazil rather than the poorer northeast or the higher
number of cases in Delhi rather than the poorer states of India exemplify this. And globally, more litigation cases address university education than primary education, reflecting a middle class bias.

The administrative provisions for service delivery can restrict the ability of disadvantaged individuals to claim inclusion through grievance redress. For example, targeted social transfer programs often set quotas for the number of eligible beneficiaries, which limits coverage even if the number of eligible individuals exceeds the quota.

The analysis of the citizen complaints system set up under Mexico’s Oportunidades conditional cash transfer program in 2003 (Hevia de la Hara 2008) suggests that individual action may not be sufficient to promote the rights of beneficiaries in dealing with government officers. The Oportunidades system allows beneficiary families to directly communicate with program administrators by letter and telephone; however, this does not offer an effective counterbalance to the interests of the elites who often dominate the poor and marginalized. The analysis concludes that grievance redress must allow room for collective action, which can be more forceful in promoting the interests of the poor.

Many programs incorporate mechanisms for the involvement of local community groups and civil society organizations for supporting citizens in grievance redress, such as the pilot Hunger Safety Net Programme in northern Kenya. Grassroots-based older people’s associations in Vietnam (Giang and Wesumperuma 2012) and older people’s groups in India (HelpAge International 2007) have also successfully promoted the interests of people in social pension programs.

4.2 Citizen Participation

The specific design features of grievance redress mechanisms can significantly influence decisions to lodge complaints. In particular, the ability to appeal requires adequate communication channels—physical and virtual venues for lodging complaints (Ringold et al. 2012). This includes proximity to local centers for social services and easy access to internet-based complaint systems. Furthermore, appeals registration must be simple and not require significant time and resource investments from beneficiaries. Information technology can effectively link citizens with service providers and government officials and channel grievances.

Limited information and rights awareness can undermine the articulation of demands for services and rights claims. Effective outreach and information dissemination are therefore crucial. Service providers and sectoral agencies must ensure that grievance redress systems incorporate adequate measures and resources to support widespread
information campaigns, especially in remote areas and among disadvantaged groups.

4.3 Agency Response

Effective accountability requires a comprehensive management information system for monitoring and evaluation. This data management tool can be used at different stages of a program cycle, including planning, implementation, supervision and evaluation (Silva Villalobos et al. 2010). It can help generate and manage information on services and institutions that are linked to a particular program. Management information systems can store information on beneficiary registration, identification, targeting, payments, service delivery, case management, termination and so on, enabling effective program monitoring, management and supervision. They can also help generate readily available information for managers at the central and local level as well as for public dissemination and scrutiny, facilitating accountability and transparency.

It is important to establish and strengthen mechanisms for horizontal accountability, because effective and fair redress largely depends on the strength of democratic institutions and the state’s ability to enforce the rule of law. It is also important that the judiciary is not influenced by public agencies and service providers, and can offer fair and impartial treatment of citizen claims. Institutional checks and balances are important to ensure remedial action and sanctions against the officials who violate rules, thereby enhancing a system’s credibility. As Ringold et al. (2012, 85) argue, “If people are not convinced that they will get a response, they are unlikely to bother to lodge complaints”.

Effective grievance redress requires adequate institutional capacity of government agencies to deliver desired service quality and ensure inclusive access to benefits. Citizen complaints may not be adequately addressed due to constraints in funding and administrative capacity of sectoral agencies and service providers. Rights-based entitlements must be reflected in government budget allocations and annual social spending. There are of course trade-offs in the realization of citizen rights and in the resource constraints that most governments face. Rights have significant resource implications and many economic and social rights in social protection, health and education are particularly “resource-intensive” (Munro 2008, 33).

To facilitate the realization of service entitlements, governments must support broader policy measures to tackle social exclusion and ensure that citizens have inclusive access to services. Sectoral arrangements alone may not be sufficient to promote this for women and other disadvantaged
groups in the context of substantial economic and social inequalities. It is important to address discrimination in households and communities where social norms may preclude individuals from adequate access to services and entitlements. This also implies removing administrative barriers restricting access to services; for example, lack of birth registration and identity documents often exclude individuals from benefiting from their legal entitlements. Table 10.1 summarizes the main strengths and weaknesses of grievance redress mechanisms as well as conditions required for their successful enforcement.

5. PARTICIPATORY PERFORMANCE MONITORING

Participatory performance monitoring in the World Bank's definition entails a process whereby citizen groups monitor and evaluate the implementation and performance of public services or projects, often according to indicators they themselves have selected. Participatory performance monitoring (or social monitoring) can improve service delivery outcomes as it illuminates user perspectives and provides institutional channels for engagement with service providers. The following sections look at the three most popular tools for participatory performance monitoring—citizen report cards, social audits and community score cards.

Citizen report cards gather information about perceptions and views of service delivery performance and usefulness, offering stakeholders an impetus for remedial action. This tool, which produces aggregate quantitative scores, is especially useful in situations in which service agencies do not use participatory beneficiary assessments to solicit feedback and generate understanding of service delivery perceptions and impacts (World Bank 2004). The information generated is usually communicated to service delivery agencies through the media and civil society organizations on behalf of users. Citizen report cards can also be complemented with qualitative information from focus group discussions with users and key informant interviews.

Social audits or public hearings promote the direct involvement of citizens in monitoring service quality, access and performance, a process that often culminates in a direct engagement between citizens and service providers at community interface meetings at which performance assessments are discussed and remedial action plans developed. Civil society organizations in India have actively used social audits since the 2005 Right to Information Act gave citizens unrestricted access to government records (Posani and Aiyar 2009). The Mazdoor Kisan Shakti Sangathan...


### Table 10.1 Grievance redress: strengths and weaknesses

<table>
<thead>
<tr>
<th>Empowerment potential</th>
<th>Conditions for success</th>
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</thead>
<tbody>
<tr>
<td><strong>Citizen participation</strong></td>
<td><strong>Agency response</strong></td>
</tr>
<tr>
<td><strong>Strengths</strong></td>
<td><strong>Weaknesses</strong></td>
</tr>
<tr>
<td>Effective mechanism for claiming rights, influencing service quality and demanding accountability</td>
<td>Does not allow citizen participation in deliberative processes</td>
</tr>
<tr>
<td>Most often institutionalized in service delivery systems</td>
<td>Legal redress may favor more affluent individuals</td>
</tr>
<tr>
<td>Legal redress can promote systemic changes</td>
<td>Relies on individual (rather than collective) action and may be less effective for promoting the interests of disadvantaged groups</td>
</tr>
<tr>
<td>Promotes individual and collective rights</td>
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**Source:** Author.
nongovernment movement in the state of Rajasthan was the first to use social audits. These were replicated and institutionalized in the Mahatma Gandhi National Rural Employment Guarantee Act, the government’s flagship social protection program.⁴

Community score cards combine institutional arrangements used in citizen report cards and social audits. They use participatory tracking of service performance, service providers’ self-evaluation and community interface meetings. Community score cards rely on the information generated by participatory scoring and focus group discussions, while information for citizen report cards is gathered through structured surveys. In contrast to citizen report cards, community score cards rely heavily on citizens’ direct engagement with service providers.

Most participatory performance monitoring initiatives are not integrated in public service delivery systems. They are often undertaken and sustained through the efforts of civil society organizations, often in cooperation with international donors. Often these are one-off initiatives, such as the Citizen Report in Manila or the Report Card on Public Services in Bharatpur, Nepal. But in some instances they have been repeated and carried out on a continuous basis, such as the Report Card on Public Services in Ahmedabad, Parivartan’s Social Audits in Delhi and the Citizens’ Charter of Lok Satta, Hyderabad.⁵ The Mahatma Gandhi National Rural Employment Guarantee Act has successfully institutionalized social audits in Andhra Pradesh (Aiyar et al. 2009).

5.1 Empowerment Potential

Based on their review of social accountability interventions supported by the World Bank, Agarwal et al. (2009) maintain that despite a large number of these initiatives, the existing evidence on impacts of social accountability approaches is thin, and rigorous evaluations that can isolate and measure the impact of these approaches are needed. The existing evidence suggests that participatory performance monitoring tools can be effective in facilitating citizen engagement in service delivery, exposing corruption and improving service quality (Box 10.1).

Participatory performance monitoring mechanisms are effective tools for promoting collective interests, but they are less suitable for promoting individual rights and addressing individual grievances. Citizen report cards, community score cards and social audits represent collective grievance mechanisms, which can be used to solicit feedback from a large number of users. For instance, community score cards in the health and education sectors in Gambia solicited feedback from 3500 stakeholders, including teachers, pupils, health workers and community members.
Social audits of health and family planning services in Bangladesh solicited feedback from 125,000 people, mostly women, from 250 communities.\(^6\) Participatory performance monitoring relies on collective action and thus has greater potential to achieve far-reaching changes in accountability and service performance compared with individual complaints. Sekhar (2010) suggests that the outcomes of these mechanisms have greater credibility in the eyes of service providers and government officials. She maintains that the advantage of citizen report cards is that they represent collective feedback rather than the opinions or complaints of just a few

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**BOX 10.1 SUCCESSFUL PARTICIPATORY PERFORMANCE MONITORING INITIATIVES IN INDIA**

Social audits have been especially effective in India. The Bangalore Citizen Report Card program conducted by the nongovernment organization Public Affairs Centre in 1994 and 1999 contributed to the improvement of public services in Bangalore (Ravindra 2004). A report card in Ahmedabad conducted in 1997 by the Self-Employed Women's Organisation and the Foundation for Public Interest documented women's assessment of municipal services, including water, sewerage and electricity, resulting in improvements in service delivery.

The “activist” state government of Andhra Pradesh has institutionalized social audits in the Mahatma Gandhi National Rural Employment Guarantee Act program across the state (Posani and Aiyar 2009). These have resulted in sanctions against corrupt officials and improved accountability (Aiyar and Samji 2009), as well as raising awareness of rights and strengthening people's voice and confidence. This has been manifested in a twofold rise in the number of people who considered themselves “powerful enough” to confront program officials after the launch of social audits.

Likewise, social audits of the targeted Public Distribution System supported by the administration of Warangal district in Andhra Pradesh enabled local residents to identify discrepancies in the lists of eligible beneficiaries and to verify possible leakage in the distribution of food supplies (Narayanan 2011). The Public Distribution System involves the distribution of essential commodities to vulnerable sections of the population at subsidized rates to ensure food security and adequate nutrition.

The community score card by the Centre of Good Governance in Hyderabad assessed the performance of two primary health centers in Visakhapatnam district, which led to improved customer orientation and transparency (World Bank 2007).

**Note:** For further details on the report card of the Self-Employed Women’s Organisation and the Foundation for Public Interest, see World Bank, ‘Social accountability stocktaking exercise for South and East Asia’, http://www.worldbank.org/socialaccountability_sourcebook/Regional%20database/Case%20studies%20on%20social%20accountability.pdf#page=17.

**Source:** Author.
people. This information is systematized and segregated to represent the views and experiences of different social groups based on careful sampling and research design.

The nature of the decision-making authority of citizens in participatory performance monitoring is limited by the intrinsic institutional properties of this model. In particular, citizens do not take part in deliberative structures and most decisions about adjustments in service delivery are taken by service providers or program agencies (Joshi 2008). In contrast, participatory governance instruments, such as governance councils and participatory budgeting and planning initiatives, enable citizens to take part in deliberative bodies, but they do not adequately support monitoring functions.

A process of social monitoring that involves participatory methods is likely to generate greater empowerment. Community score cards and social audits are more participatory than citizen report cards in that they solicit citizen mobilization from the start. In particular, community members themselves develop the indicators for community score cards, while researchers determine those for citizen report cards. In addition, community score cards and social audits require community participation in the process of joint assessments. The involvement of community members in developing assessment scores and verifying records can also stimulate a sense of ownership and strengthen personal agency.

The immediate engagement of citizens with public agencies and service providers in participatory performance monitoring is likely to prompt action and motivate citizen engagement in service delivery. Citizen report cards do not provide a direct forum for engaging with service providers and their findings are usually disseminated indirectly through the media and civil society organizations. In contrast, social audits and community score cards facilitate direct engagement with stakeholders and provide a forum for immediate discussion and action. Considering that citizens generally have limited space for direct engagement with state officials and service providers, these instruments offer an opportunity to debate and negotiate change. For example, because social audits of the Mahatma Gandhi National Rural Employment Guarantee Act program in Andhra Pradesh provide immediate, tangible grievance redress, they tend to encourage the willingness of the rural poor to participate in the audit process (Aiyar and Samji 2009).

5.2 Citizen Participation

An important precondition to sustaining willingness and capacity among a country’s citizens to act is to ensure that participatory performance
monitoring tools are institutionalized in service delivery or supported through continuous activities of civil society organizations. It is unlikely that one-off initiatives can promote enduring participation in the absence of institutional space for engagement with service providers.

Effective information dissemination and social mobilization are crucial for promoting willingness and the ability to take part in consultations and social monitoring activities. For example, the World Bank’s experience in Gambia suggests that an effective community score card process requires adequate time for information dissemination, consultation and sensitization (World Bank 2005). Introductory workshops with stakeholders therefore need to be followed with community mobilization and social facilitation.

Successful participatory performance monitoring design and implementation require adequate technical capacity for survey design and social outreach. As noted earlier, community score cards rely on the information generated by participatory scoring and focus group discussions, and information for citizen report cards is gathered through surveys. Citizen report cards therefore require technical skills in designing and implementing surveys, but do not necessitate citizen mobilization for scoring and engagement with service providers. In contrast, community score cards and social audits involve less sampling and survey design input, instead requiring resources and expertise to support and facilitate adequate community mobilization and raise awareness. Service providers and community members must be sufficiently trained to develop service performance assessment indicators.

Lessons from Nicaragua and Honduras suggest that successful implementation of social accountability approaches “requires time, money, expertise, patience and commitment” (Agarwal et al. 2009). This has implications for scaling up pilots, which may not be possible to achieve without significant resource commitments. Mobilizing communities and generating awareness is a resource-intensive process, especially when it concerns socially excluded and disadvantaged individuals, who may not be able to take part in social monitoring, express their voice or seek redress. Therefore, effective social outreach requires explicit strategies and dedicated resources. At the same time, the ability of disadvantaged groups to speak up and demand accountability from service providers and local leaders must be encouraged by broader policies designed to tackle constraints to citizen participation in deliberative public forums.

Willingness in government agencies to engage with civil society is essential for promoting citizen mobilization and engagement in the policy domain. Governments can relate to civil society organizations in a number of ways, including by refraining from strong engagement, repression,
co-optation, patronage, and proactive engagement (Manor 1999). States that have sufficient capacity to enforce the rule of law and determine clear rules for civil society participation tend to be most effective in establishing an enabling environment for civic engagement (World Bank 2003b). The ability of citizen groups to articulate organized interests is often contingent upon existing legal and institutional frameworks that allow citizens to register formal organizations.

5.3 Agency Response

The media and information dissemination are essential for reporting the findings of citizen report cards and putting pressure on public sector officials to act upon issues raised by citizens, though this may be insufficient to compel them to identify discrepancies and take action to reduce them. Citizen activism is therefore crucial for effectively negotiating service entitlements and influencing service delivery outcomes. Ravindra (2004, 18), for example, demonstrates that the key stages in citizen action in Bangalore progressed from “limited impact (with dissemination of feedback) to more impact (with dialogue and public pressure for change) to greater impact (with advice on reform).” These correspond to the “reactive, proactive and reformist” roles of citizen action. Citizen report cards solicit information about service performance, but success in service delivery outcomes requires that citizens act on this information and pressure service providers to improve services. The results of the surveys on citizen report cards must be used to advocate policy reform and improvement. Similarly, social audits and community score cards are largely reliant on community mobilization and citizen action to engage with service providers and exact accountability.

Demands for accountability and exposure of corruption are not sufficient to improve service delivery outcomes unless they are accompanied by horizontal accountability measures, such as investigations into corruption and the ability to impose formal sanctions (Joshi 2010). Evidence indicates that monitoring by citizens that improved service delivery outcomes and generated citizen empowerment was accompanied by adequate compensation measures to redress citizens and punish those involved in illegal activities.

There is evidence that reformist leadership within government agencies can be crucial for encouraging citizen action. For instance, the support of senior state officials was essential for the effective institutionalization and implementation of the Mahatma Gandhi National Rural Employment Guarantee Act program in Andhra Pradesh (Singh and Vutukuru 2008). Similarly, the success of social audits in Warangal in the same state was achieved partly because of the commitment and initiative of the reformist
leadership (Narayanan 2011). The success of the citizen report cards in Bangalore was facilitated by the positive environment created through the government’s reform initiatives and driven by the congruence of efforts of proactive civil servants and active citizens (Ravindra 2004).

Service delivery agencies themselves can support citizen participation. Sekhar (2010) notes that a key determinant of the success of citizen report cards in India was visionary leadership within service provider agencies, who realized that citizen monitoring and feedback could help them promote their reform agenda.

Table 10.2 summarizes the main participatory performance monitoring strengths and weaknesses as well as conditions required for success.

6. COMMUNITY-DRIVEN DEVELOPMENT

This section examines the community-driven development model and discusses its empowerment potential and conditions for success. Community-driven development programs provide grant financing for small-scale projects or subprojects generated and managed by local agents, including community groups, local governments, nongovernment organizations, local offices of line ministries and other local actors. Projects under this model include a variety of instruments, such as social investment funds, local development funds and other participatory projects. Most commonly, they provide finance for construction and rehabilitation of essential social and economic infrastructure, such as schools, clinics, potable water and irrigation systems, and roads. Box 10.2 describes prominent programs in Asia.

International development agencies such as the World Bank and the Inter-American Development Bank use the community-driven development model widely to promote local development in developing and post-socialist countries. The World Bank currently supports about 400 such projects in 94 countries in a portfolio estimated at $30 billion (Wong 2012). Over the past 10 years, between 5% and 10% of the overall World Bank lending portfolio was spent on community-driven development. Most of these programs share a bottom-up development model for service delivery and capacity building. In particular, they provide resources and decision-making responsibility for the identification, planning and implementation of important infrastructure and service delivery to community groups. It is assumed that the devolution of resources and discretionary authority can empower such communities to influence local development and exact accountability from service providers, local authorities and informal leaders—and that this will result in greater responsiveness to local needs as well as the fair and inclusive allocation of local resources.
Table 10.2 Participatory performance monitoring: strengths and weaknesses

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<thead>
<tr>
<th>Empowerment potential</th>
<th>Conditions for success</th>
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<tbody>
<tr>
<td><strong>Strengths</strong></td>
<td><strong>Weaknesses</strong></td>
</tr>
<tr>
<td>Provides effective channels for claiming legal rights and program entitlements and influencing service delivery</td>
<td>Often sustained through civil society activism and/or donor actions rather than institutionalized in service delivery systems</td>
</tr>
<tr>
<td>Increases rights awareness and propensity for collective action</td>
<td>Does not directly promote individual rights and address individual grievances</td>
</tr>
<tr>
<td>Improves service delivery performance by generating user perspectives (CRC, SA, CSC) and promoting direct engagement with service providers (SA, CSC)</td>
<td>Does not allow citizen participation in deliberative processes</td>
</tr>
<tr>
<td>Increases user awareness of service standards and actual delivery outcomes</td>
<td>CRC require financial resources and technical capacity to design and implement surveys</td>
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Community-driven development programs often finance multiple sub-projects in the same community to extend empowerment and capacity building.

These programs originated through the initiative and funding of international development agencies and bilateral donors. Initially designed to last from three to five years, their operation was significantly extended in many countries, where they have become an integral part of public service delivery. For example, the Armenia Social Investment Fund has been in operation since 1995, Indonesia’s National Program for Community Empowerment (PNPM) originated in 1998 and the Kapit-Bisig Laban sa Kahirapan-Comprehensive and Integrated Delivery of Social Services (Kalahi-CIDSS) in the Philippines has been active since 2003.

Community-driven development programs are often integrated into public sector strategies and budgets. For example, PNPM is embedded within the country’s poverty alleviation strategy, which comprises three clusters—income support through targeted poverty and social protection programs at the household level, community development and

Table 10.2 (continued)

<table>
<thead>
<tr>
<th>Empowerment potential</th>
<th>Conditions for success</th>
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<tr>
<td><strong>Strengths</strong></td>
<td><strong>Weaknesses</strong></td>
</tr>
<tr>
<td>Generates feedback from a large number of users with strong potential to stimulate change</td>
<td>CSC and SA require significant financial and time investment in community outreach and social mobilization</td>
</tr>
<tr>
<td>CSC and SA are more participatory and can result in greater empowerment than CRC</td>
<td>CRC does not provide forums for direct engagement with service providers</td>
</tr>
</tbody>
</table>

Notes: CRC = citizen report card, CSC = community score card, SA = social audit.

Source: Author.
empowerment, and microfinance and support to small and medium enterprises (World Bank 2011a). Many of these programs have nationwide coverage across rural areas, as does PNPM and the Village Investment Project in the Kyrgyz Republic.

6.1 Empowerment Potential

The bottom-up model of community-driven development is thought to enable citizens to influence service delivery priorities, improving responsiveness or the “demand orientation” in service delivery. In this model, governments do not make decisions about service provision based on their definitions of “needs”; instead, community users can make service delivery choices that correspond to their immediate needs and priorities.

The community-driven development model assumes that subprojects will not only give citizens a voice in community investment decisions, but will help them influence service performance. Because citizens are involved in subproject processes, they can closely monitor their leaders and local contractors and influence service quality in projects supported through
community-driven development funds. They can prevent attempts to misappropriate subproject funds and ensure that local leaders manage allocated budgets transparently and efficiently. Furthermore, it is thought that community-driven development can promote broader empowerment that enables communities to participate in local development outside the parameters of subprojects.

Community members directly participate in subproject identification and prioritization through public consultations, such as focus group discussions and community-wide meetings. During subproject preparation and implementation, members of the broader community participate in the subproject processes indirectly, through intermediary local agents. In particular, they are required to elect implementing agencies or committees, which act on their behalf during subproject preparation and implementation. These then directly interact with local and regional authorities, contractors and service providers.

The evidence suggests that this community participation in identification and prioritization of local services generates positive service delivery outcomes and benefits the majority of community members, including the poor (ADB 2012; Babajanian 2009; PNPM 2011; Wong 2012; World Bank 2011b). More specifically, community-driven development subprojects tend to increase access to and utilization of services, especially in health, education and drinking water.

Nonetheless, such interventions do not necessarily benefit the poorest and most vulnerable members of society. Indications suggest that these people often have limited roles and influence in participatory processes led by community-driven development. Qualitative studies of PNPM Rural, for example, suggest that the influence of female-headed households and household heads with no primary education in the decision-making processes was minimal (Akatiga 2010; Syukri et al. 2010). Many poor residents and women were not confident to speak out at formal meetings, especially in the presence of more affluent and influential community members. Similarly, leadership roles among women in the Village Investment Project in the Kyrgyz Republic were mostly taken up by local activists and influential persons, such as teachers and local administrators, but women from poor backgrounds did not feel confident to take part in meetings and promote their views (Babajanian 2009).

Poor leadership skills and social standing often limit the ability of less vocal and disadvantaged individuals to advance their goals. Evidence suggests that the success of subprojects often depends on the role that local leaders and influential persons play in preparing proposals, mobilizing community contributions and managing subproject implementation (Babajanian 2005; Vaija and White 2008; World Bank 2002). Leadership
skills, formal authority and the informal influence of community leaders are important attributes that enhance the capacity of community groups to comply with the requirements of community-driven development. This implies that individuals with weak leadership capacity may be unable to effectively articulate their interests, mobilize community support and comply with procedural requirements. They are therefore less likely to be successful in initiating subprojects and benefit from community-driven development investments.

In addition to improving service delivery responsiveness, these programs are assumed to influence relationships between citizens and their leaders outside the scope of community-driven development subprojects, which is thought to empower local communities to engage in local development issues and hold their leaders accountable. In the most recent review of community-driven development, Wong (2012) asserts that there is limited evidence of community-driven development governance impacts that draws on “rigorous” quantitative data.

Available evidence indicates that community-driven development projects cannot affect decision-making processes outside their boundaries, which are predominantly governed by existing traditional and religious norms. Qualitative studies suggest that it is especially challenging for ordinary people to utilize participatory structures in contexts with a high degree of clientelism. Patron–client relations make citizens dependent on their leaders and pose a significant constraint to community empowerment. Kabeer (2002, 23) argues that informal relations based on patronage represent an obstacle to claiming and exercising citizenship rights and tend to reproduce social inequalities. She suggests that dependence on patronage networks in obtaining access to resources implies that individuals may choose not to exercise and claim their rights, fearing the consequences for their livelihoods. As a consequence, the public domain remains “privatized” and imbued with inequalities and hierarchies that exist in the private domain.

The qualitative study of PNPM Rural (Syukri et al. 2010) found that citizen participation, transparency and accountability “did not spill over into general local/village governance as the capacity of communities to impact elite control of decision-making was limited” (PNPM 2011, 3, 25–26). The study suggests that the poor have “many layers of relationships”, which restrict their ability to challenge the existing order (Syukri et al. 2010, 17). These include economic relationships as employers and employees, sociocultural relationships between community members, and familial ties. Violating these relationships may include the risk of losing a job, being banned from the community or disowned by the family.

Based on his research in the Kyrgyz Republic, Babajanian (2009)
maintains that the process of collective engagement induced by Village Investment Project interventions did not affect local governance outside the project. The project only managed to “control” local power relations rather than “transform” them. Subprojects were strictly monitored and supervised, which in most cases insulated them from outside interference and ensured that citizen groups were able to pursue their interests. At the same time, the project’s interventions did not alter existing practices in local communities; that is, the ways in which local authorities made decisions, allocated resources and related to the citizens in their communities outside the project’s domain.

The bottom-up model of community-driven development tends to downplay the structural roots of powerlessness and social inequality (Babajanian 2009). It overlooks the complex and unequal relationships between citizens and local leaders outside subproject boundaries. Powerful elites in corrupt contexts are often not willing or committed to serve the interests of citizens as they derive economic and political benefits from patronage and rent seeking. In this context, “project controlled” community-driven development interventions may not be sufficient for altering existing power relations at the local level.

6.2 Citizen Participation

One of the challenging questions pertaining to community-driven development programs is how to ensure that the poorest and most marginalized take part in participatory processes and articulate their interests. It is important that these programs include rules and procedures to ensure that diverse social groups are involved in the subproject cycle. These measures must be incorporated in all aspects of the cycle and be reflected in operational manuals, technical guidelines and supervision and monitoring systems.

Appropriate methodologies and implementation practices for outreach and social mobilization must complement rules and procedures. For example, instituting requirements for the participation of women in implementing committees by itself does not necessarily ensure that they will be willing and able to express themselves and exert influence. Community-driven development programs must have appropriate financial and administrative resources to support participatory processes and hands-on engagement. In addition, community-driven development programs must be combined with broader policies to address discrimination and promote the legal, economic and political empowerment of women and individuals from other disadvantaged groups.

Investment in the capacity building of outreach workers and facilitators
is necessary for supporting effective outreach in local communities. The limited participation of women and marginalized community members in PNPM Rural can be partly explained by the insufficient capacity of outreach workers and inadequate processes of community mobilization (Syukri et al. 2010).

6.3 Agency Response

Community participation is crucial for soliciting the willingness of local leaders to address local demand, but it may not be a sufficient precondition. An important factor that contributes to the success of community-driven development programs to uphold accountability and transparency is the availability of effective monitoring and accountability mechanisms. In particular, such interventions must introduce strict supervision of service delivery processes, including procurement and disbursements.

One mechanism for promoting democratic governance outside the boundaries of community-driven development subprojects is to establish formal requirements for citizen participation in governance. Although the introduction of formal rules does not automatically change informal norms and behavior, it is a necessary precondition for institutionalizing citizen participation.

Community-driven development projects alone may not be sufficient to tackle deeply rooted structural barriers restricting empowered participation. To be effective in tackling governance issues, bottom-up initiatives must be combined with state-driven democratization. Weakness in the broader legal and normative governance framework reinforces local power structures based on rent seeking and patron–client relationships. Bottom-up action cannot be effective without institutional arrangements that sanction violations of citizen rights and ensure that ruling elites comply with legal norms.

Table 10.3 summarizes the main strengths and weakness of community-driven development as well as conditions required for their success.

7. CONCLUSION AND POLICY LESSONS

The empowerment models reviewed in this chapter can enhance the capacity of individuals to participate in service delivery and shape service delivery outcomes. The core institutional properties of these models affect the nature and depth of citizen participation and the ability to influence service delivery outcomes.
## Table 10.3 Community-driven development: strengths and weaknesses

<table>
<thead>
<tr>
<th>Empowerment potential</th>
<th>Conditions for success</th>
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<tr>
<td>Weaknesses</td>
<td>Citizen participation</td>
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<tr>
<td>Agency response</td>
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**Strengths**

- Provides channels for citizen participation in decision making for planning, prioritization, implementation and monitoring
- Promotes demand-driven service delivery
- Promotes collective interests
- Promotes direct citizen engagement with authorities and service providers
- Often integrated in public sector strategies and budgets

**Weaknesses**

- Requires significant investments in outreach and social mobilization
- May not allow meaningful participation of marginalized individuals
- May not benefit disadvantaged groups who are unable to articulate their interests and mobilize other residents
- May not promote participatory governance in the absence of supportive broader policy environment

**Citizen participation**

- Incorporate rules and procedures to ensure inclusion of diverse social groups
- Conduct effective community outreach and information dissemination
- Invest in the capacity building of outreach workers and facilitators
- Support broader policies to promote female empowerment and social inclusion

**Agency response**

- Establish close monitoring and supervision to prevent elite capture and support transparency and accountability
- Establish formal requirements for citizen participation in the governance sphere
- Implement broader policies to support democratic governance

*Source:* Author.
Grievance redress systems enable citizens to claim rights and influence service delivery outcomes. As an integral part of service delivery systems and programs, they can offer regular and direct communication channels for citizen feedback and complaints. And they have the advantage over collective forms of citizen participation, such as participatory performance monitoring and community-driven development, in allowing consideration and redress of individual grievances. Legal appeal in rights-based service delivery systems is an especially potent form of grievance redress; however, marginalized individuals may not use it.

Grievance redress systems usually do not allow citizen involvement in decision-making structures and they largely depend on the discretion of service providers, government agencies or the judiciary. Furthermore, grievance redress relies on individual action, which tends to be less effective in promoting the interests of disadvantaged groups than citizen initiatives based on collective action.

Participatory performance monitoring supports monitoring by citizens and channeling collective grievances. It generates feedback from a large number of beneficiaries and, compared with individual grievance redress mechanisms, has more potential to stimulate changes in service delivery practices and procedures. Participatory performance monitoring tools, such as community score cards and social audits, allow citizens to become immediately involved in assessing service quality and negotiating with service providers and thus can strengthen their personal agency and capacity for future action. These instruments are more participatory than citizen report cards and are likely to generate greater citizen empowerment. Participatory performance monitoring tends to serve collective goals and may not address specific individual grievances. This mechanism also allows limited citizen involvement in deliberative structures, constraining the ability of citizens to share discretionary authority on important service delivery matters.

The community-driven development approach offers an effective institutional channel for promoting citizen participation in local development. It enables citizens to engage in planning, identification, prioritization, implementation and monitoring, and it empowers them to influence service responsiveness and performance. Community members can be directly involved in important decision making by attending public consultations or, indirectly, through an elected committee representing the community.

The ability of community members to influence service delivery in community-driven development, however, is largely contingent on the extent to which these programs solicit genuine participation and establish effective systems of monitoring and accountability. Community-driven development interventions may not necessarily benefit some of the poorest and weakest residents, who often have limited power, leadership capacity
and social connections to engage in public contestation, articulate their interests and mobilize other residents for a common goal. In addition, its bottom-up model may not be effective in promoting participatory local governance without proactive efforts by the state to foster the rule of law and curb clientelism and rent seeking.

Promoting citizen participation in service delivery is challenging. It not only requires the willingness and capacity of citizens, including the poor and marginalized, to claim rights, express their views and demand accountability from service providers, but also the willingness and ability of service providers and government agencies to ensure fair and effective redress and integration of citizen feedback in service delivery.

A number of conditions are required for promoting meaningful participation and for supporting the ability of citizens to influence service delivery. Participation may not be sustained if citizen empowerment mechanisms are not institutionalized in service delivery systems and programs. Aiyar et al. (2009) suggest that institutionalization implies that the deployment of social accountability tools is guaranteed at regular intervals. This can ensure that citizens are not just reliant on civil society organizations and the goodwill of service providers or public officials, but that their participation is supported and sustained through formal requirements. The introduction of predictable and reliable channels for participation and communication can enable citizens to exercise voice and influence service delivery when they choose to do so. The ability to monitor service delivery on a regular basis increases the likelihood that improvements in service delivery practices and procedures will be sustained.

Government agencies and service providers must proactively support citizen participation through effective outreach, information dissemination and social mobilization. It is not sufficient to introduce formal processes and spaces for participation. Evidence demonstrates that successful empowerment requires significant investment in program design and implementation. It is important that service delivery systems incorporate procedures and resources to support effective outreach and participatory processes, and that the established objectives and requirements be upheld in practice. Information dissemination must be accompanied with participatory processes of social mobilization, through which community facilitators and local leaders proactively promote the inclusion of poor and marginalized community members in service delivery processes.

The important question is whether disadvantaged groups can participate in service delivery and whether their voice is heard. The literature expresses concerns about the ability of all three empowerment models discussed in this chapter to promote the inclusion of disadvantaged groups, including the poorest, women, and ethnic and religious minorities. The
participation of individuals from these groups must be explicitly promoted through operational requirements and participatory procedures for outreach, information dissemination and social mobilization. Programs must build in indicators to allow policymakers to assess the effectiveness of outreach efforts. It is important to establish quantitative and qualitative criteria for assessing the nature and depth of participation.

Social inclusion requires broader policies to tackle discrimination and promote equity. For example, the empowerment of women must be promoted as part of broader development policies to advance their economic, political and social status. It is important to strengthen the ability of women to earn independent income, promote their ownership rights and guarantee unrestricted access to education. Policies must seek to counter power relations in households and communities that place restrictions on their public participation and independent decision making.

Meaningful citizen participation and empowerment cannot be fostered in the absence of a favorable governance environment. People’s ability to influence government agencies and service providers depends on the extent to which public institutions enforce the rule of law and tackle discriminatory practices and patron–client relationships. Strengthening the legal and normative governance framework at the macro level can help tackle power structures based on rent seeking and patron–client relationships at the local level. This can help reduce dependence on local patrons and enhance capacity to speak up and challenge injustice.

A strong and independent judiciary is crucial for guaranteeing fair scrutiny of public institutions. It is also important to introduce sectoral reforms to improve the efficiency of public sector institutions and ensure that civil servants have sufficient incentives to deliver public services honestly and accountably. Most importantly, changes in governance require a genuine willingness and commitment of national elites to promote democratic development and establish inclusive institutions.

NOTES

1. The World Bank adopted this definition in its own conceptualization of empowerment. See World Bank, PovertyNet for an overview (accessed April 2013).
2. The fiscal year of the World Bank ends 30 June.
4. The program was initially called National Rural Employment Guarantee Act and renamed Mahatma Gandhi National Rural Employment Guarantee Act in 2009.
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11. Rights, accountability and citizenship: India’s emerging welfare state

Yamini Aiyar and Michael Walton

1. INTRODUCTION

This chapter examines India’s recent experiment with building rights-based welfare architecture. At its heart is a project to transform the state through the reform of service delivery systems and so give citizens new entitlements and spaces to place claims on the state. This relates to two major policy debates: the pros and cons of a rights-based approach to social welfare and the use of social accountability instruments to improve service delivery.

India’s move toward a rights-based welfare approach has its origins in three sociopolitical shifts: the emergence of civil society movements focused on changing state–citizen relations, the expanding role of the judiciary in interpretations of social policy, and the growing salience of the political view that the recent surge in economic growth and turn to the markets has not seen an expansion of inclusion. This view gained ground with the unexpected election victory of a political coalition led by the Congress Party in 2004 and its reelection in 2009. Inclusive growth was the electoral mantra of this coalition.

All three sociopolitical shifts can be seen as responses to the Indian state’s failure to provide quality services. For activists, legalizing basic entitlements is a means of empowering citizens to place claims on the state. To facilitate this, most rights-based laws have procedural requirements to ensure greater transparency and create spaces for citizen involvement. This includes the right to information, social audits and participatory engagement in service provision.

The move to a rights-based approach has been characterized as an innovative state-building project with a distinct social contract designed to shift citizen–state relations by mobilizing popular discontent. The Congress Party has been at the forefront of legislating these rights, and its President Sonia Gandhi has explicitly stated this position: “... our rights-based
approach . . . provides labour entitlements to people, puts pressure on the executives to be more responsive and accountable, and also puts in place a credible mechanism to redress grievances. This approach I believe is bringing about an empowerment revolution in our country” (Gandhi 2013).

Some commentators disagree with this interpretation, arguing that the Congress party was merely pursuing a rights-based approach to increase its re-election prospects. In a democracy, of course, there is nothing wrong with policies adopted on electoral grounds. But whether the party was seeking short-run political support at the cost of longer-term fiscal sustainability and economic dynamism is a genuine issue. That the party then lost the election is of course of interest, but the point here is of the narrative that the Congress Party had while in office.

This chapter offers a preliminary assessment of the rights-based approach in India. Preliminary because the empirical evidence is still sparse and the underlying processes of state transformation are intrinsically long term. We assess the rights-based approach from the perspective of citizen–state interactions and everyday state practices in relation to specific reform instruments. We do so by exploring how reforms were adopted and the nature of resistance, subversion and distortion in implementation. This is based on case study evidence of two kinds. The first set of cases examines rights laws from the perspective of the mechanisms or tools through which they seek to strengthen accountability to citizens. These are the Right to Information and Right to Service laws and social audits in the Mahatma Gandhi National Rural Employment Guarantee Act. We then use a wider lens to examine two cases of sector-wide reforms to understand the interplay between rights, accountability, administrative reforms and improved service delivery. This set of cases examines reforms to the Public Distribution System of food in the state of Chhattisgarh and the provision of basic education in Bihar and Himachal Pradesh.

The central thesis of the chapter is that the missing link in the national rights-based approach has been complementary action to transform the workings of the state itself—in politics and the bureaucracy, and at the levels of the center, state and local administrations. Rights laws and accompanying accountability instruments are placing new pressures on an historically opaque and hierarchical state. But state actors are embedded in political and bureaucratic processes that typically have a different logic. This often leads to distortions and resistance, which threaten to undermine the transformational potential of the new governance processes.

India is not alone in its quest to make a recalcitrant state more accountable to its citizens through the use of rights-based approaches. Brazil is of particular interest, with the street protests of 2013 showing the level of dissatisfaction with services. That said, Brazil’s case should be seen in the
context of longer-term projects in which rights, civil society participation and governmental reform have gone substantially further than India in effecting change.

This chapter first sketches a conceptual framework for interpreting India’s emerging welfare state. It then offers a window into implementation through case studies and, after a brief review of the Brazil comparison, concludes with recommendations for change.

2. ACCOUNTABILITY, CITIZENS AND THE STATE: CONCEPTS AND FRAMEWORK

To help interpret India’s rights-based approach, this section summarizes approaches to defining accountability and places them within a structured account of state-society interactions.

The quest for accountability lies at the heart of the rights-based movement. To quote a prominent Indian activist, “Accountability from a citizen’s point of view is inextricably tied to basic entitlements. Who can I hold accountable if I don’t have an entitlement?” (Dey 2010). Accountability concerns the ability of one actor to demand an explanation or justification of another, and to reward and punish that actor on the basis of performance or explanation (Rubin 2005). Accountability thus involves both answerability and enforcement (Schedler 1999). A classic challenge for creating accountable government systems is developing patterns of behavior within the public system that are based on rules applied equally to all citizens, as opposed to considerations of personal connections, group-based identity, power or money.

The accountability of state actors traditionally involved three domains or “regimes” in the administrative law literature (Robinson 2013). With political accountability, citizens hold the government accountable through the vote. Under administrative accountability, public sector workers from the front line up are subject to controls by their superiors. Legal accountability involves the recourse of affected parties to judicial bodies; here, the public sector’s behavior is specified in law.

From the mid-1990s, both the literature and activism emphasized the limitations of these approaches. Voting was seen as a blunt instrument, often embedded in clientelism, while other forms of within-state accountability coexisted with poor service delivery. This led to the practical and conceptual exploration of the potential for citizens to make direct claims on the state, echoing Albert Hirschman’s famous formulation of “voice” as an alternative to “exit” (Hirschman 1970). This has been referred to as “hybrid” and increasingly as “social accountability” (Goetz and Jenkins 2001; Jayal 2008).
Social accountability has been variously defined. Here we draw on a definition by Houtzager and Joshi (2012) which describes social accountability as “the ongoing and collective effort to hold public officials to account for the provision of public goods which are existing state obligations.”

The concept of social accountability needs to be placed within a structured view of state functioning. We build on the “accountability framework” developed by the World Bank (2004) with a focus on the functioning of a state organization (Figure 11.1). Citizens have influence via politicians (through the vote and other means) and direct claims on providers. Politicians and senior bureaucrats set policies. Implementation is through typically hierarchical organizations, partly on the basis of official policies, rules and resources, but also through the influence of a variety of internal and external stakeholders. Behaviors are products of underlying interests, capacities (aspirations, skills, capacity for collective action) and ideas, in particular the “cognitive map” held by different groups of the potential repertoires of policy design and actions.2
Politics is a fundamental driver of service delivery (Devarajan et al. 2014). Figure 11.1 refers to a political settlement between various groups in a society that is stable if the distribution of benefits from the institutional arrangements is consistent with the underlying distribution of power (Khan 2010). A settlement can occur under authoritarian or democratic government, and with varying degrees of formal, rules-based or informal “deals”-based processes (Levy and Fukuyama 2010). At one extreme are “neo-patrimonial” political societies and at the other is the ideal of competitive democracy with limited government, in which the opportunistic, exploitative or predatory behavior of political elites is constrained by formal structures. The creation and sharing of economic rents (via preferential regulation, contracts, bribes or government position) often underpins the stable functioning of a settlement.

India is a genuine democracy, but it is also a hybrid of a rules-based system; informal, rent-sharing arrangements (especially between politicians and business); and clientelistic and populist electoral strategies. Furthermore, the functioning of India’s democracy varies considerably from state to state, from neo-patrimonial to something closer to social democratic (Kohli 2012).

The cognitive maps of India’s political elites also present a varied picture. In the “Nehruvian” postindependence era, the dominant cognitive map was of both a commitment to democratic process and a top-down view of the state’s role. This coexisted with more decentralized views of desirable political processes, which culminated in the 73rd and 74th constitutional amendments, passed in 1993, mandating the creation of an elected third-tier of government. A further shift occurred in the early-2000s when the combination of civil society and judicial activism put the concepts of rights, accountability, participation and citizenship firmly in the welfare discourse. In 2004, when the Congress-led United Progressive Alliance came to power and set up the National Advisory Council, this became the dominant frame through which politicians came to regard the legitimacy of the state—especially among Congress Party elites, but also more broadly. Even opposition party-led state governments have begun framing welfare legislation in the language of rights.

Civil society can help solve citizens’ collective action problems. Civil society comes in many forms, from autonomous spaces of deliberation to social structures that perpetuate inequality. Baiocchi et al. (2011, 26) argue for an interpretation that involves “associational freedom, communicative power, and publicness” and define civil society as “the institutions, practices and networks of voluntary life that are oriented toward and legitimate themselves in terms of publicness.” This distinguishes civil society organizations from purely social groups and involuntary or exclusionary
groups. Civil society organizations can be autonomous or dependent on the state, and demands can be institutionalized or contingent on particular relations (Baiocchi et al. 2011). In an ideal of a “mobilized democracy” civil society is autonomous and engages with state actors in institutionalized processes.

India represents a striking mix, with clearly autonomous membership-based organizations, such as the Self-Employed Women’s Association; major issues-based organizations that seek to both influence and work with the state, such as education-focused Pratham; and organizations linked to particular sectional groups. A category of particular interest is a set of civil society organizations and social movements led by middle class activists that explicitly push social rights and social accountability on the national and local stage. Among these are the Mazdoor Kisan Shakti Sangathan and the Right to Food movements. There are also civil society organizations created by the state, with varying degrees of dependence and autonomy (village education committees, self-help groups and so on). There are nongovernment organizations (NGOs) that are essentially vehicles for rent extraction by politicians and exclusionary associations as varied as traditional caste associations and Rashtriya Swayamsevak Sangh, a Hindu-nationalist group. Despite the vitality of civil society, most of India is far from a “mobilized democracy” with the possible exception of the state of Kerala (Heller et al. 2007).

The spaces available for civil society organizations to engage with the state saw a dramatic shift in 2004, with the creation of the National Advisory Council, which is headed by the president of the Congress Party and includes civil society activists. This became a center for designing the government’s social policy agenda and was instrumental to the rights-based welfare project. Indeed, the council was the first time that the Indian state had opened its doors to active, formal engagement with civil society.

However, it is the behavior of state organizations that is central to the daily lives of citizens. While there are particular moments in which system-wide issues are being pursued (corruption, for example) it is the functioning of the school, police force, irrigation system, water supply, sanitation system and garbage removal that is the immediate concerns of citizens.

The behavior of actors in a state organization is shaped by the overall political settlement and societal functioning. In a neo-patrimonial polity, public sector workers are more likely to be driven by loyalty to their political patron than ideals of public service. In the extreme, the organizational apparatus may look like a state, but operates under quite different principles of personalized engagement and rent extraction.4

Most organizations are formally hierarchical structures with layers of authority from the top official to those at the front line. This raises
“principal agent” issues when the interests of an agent—a middle level or street-level bureaucrat—are not aligned with those of their boss. And things are typically more complicated than this, with multiple stakeholders with an interest in and influence over the behavior of an organization trying to extract advantages.

Indian bureaucracy is a hybrid of formally highly rule-bound structures and a particular culture of writing and filing records. It has a tradition of meritocratic recruitment to particular services, notably the elite Indian Administrative Service, but the core bureaucratic norm is a formally “legalistic” one (Mangla 2013). Yet large parts of the bureaucracy are embedded within a rent-sharing, corrupt and often clientelistic system, and the motif of the “corrupt state” has been around for decades. In some areas there is an informal, internal market for jobs if they offer rent-extracting possibilities (Wade 1985; Béteille 2009). And when bureaucrats resist participating in rent-extracting processes, politicians can compel them to do so.

Indian bureaucracy is also fragmented, with often tortuous lines of responsibility, and with limited staff on the ground. India has one of the lowest rates of per capita public sector employment of all Group of Twenty countries (Vaishnav and Swanson 2013). Public sector employment has been declining since 1995, but expectations on what the state should deliver have been rising, particularly for social welfare programs.

The bureaucracy is marked by extensive heterogeneity across spatial domains and organizations. Bureaucratic capacity is generally higher in southern India than the north and east. The state of Tamil Nadu, for example, is a particularly interesting case of high levels of corruption, patronage and populist political strategies alongside a relatively effective bureaucracy. Bihar, historically a highly neo-patrimonial state, has been effective in specific service delivery areas since the 2005 election, expanding access to schools, building roads and improving law enforcement. In Bihar, political pressures emerging from a realigned state-level political settlement are now linked to “good enough” bureaucratic behavior. Mangla (2014) argues that in the Himachal Pradesh education service, the dominant norms are “deliberative” in the sense that they involve problem solving, both within the bureaucracy and with civil society.

Legal rights have always played a large role in social issues in India. In its original version, the Indian Constitution made a clear distinction between fundamental political liberties and civic freedoms enforceable by the courts and the aspirational goals of socioeconomic rights. The latter were included in the constitution’s Directive Principles of State Policy, conceptualized as fundamental rights requiring state action, which, in the absence of resources, would initially be impossible for the state to
provide (Jayal 2012). Ruparelia (2013) argues that the constitution’s framers believed the democratic process would empower India’s citizens to demand the application of the directive principles through political processes rather than the courts. B.R. Ambedkar, the constitution’s principal drafter, emphasized this point in Constituent Assembly debates. Here, he argued that: “Whoever captures power will not be free to do whatever he likes with it. In the exercise of it, he will have to respect these . . . directive principles” (Ruparelia 2013).

In the 1990s, civil society activists began drawing on public interest litigation as a tool to engage the judiciary in enforcing the directive principles. The judiciary, in turn, took on an activist role and interpreted a number of the directive principles as fundamental rights, thus laying the foundations for the rights laws that were to come.

Also relevant are other formal organizations of accountability within the state, particularly auditing and regulatory authorities. For social rights, the most important institution in the Indian context has been the Comptroller and Auditor General, which has played a high profile role in assessing the implementation of government programs in relation to stated objectives. Accountability and citizenship need to be understood within this broader context.

How does service delivery reform occur? And when and how will reform be resisted, subverted or distorted? The concern here is with the drivers of reform designs, especially implementation. Much of the emerging literature on rights and accountability is focused on design, with much less work done on implementation, particularly from the perspective of how change interacts with bureaucratic organizations, the political dynamics at the local level and the successes, resistance and distortions.

3. CASE STUDIES OF INDIA’S TRANSFORMATION TO A RIGHTS-BASED APPROACH

The following case studies examine two domains of India’s emerging welfare state. The initial focus is on specific reform instruments introduced through rights-based laws. These include substantive rights—the right to information and the right to services—and procedural entitlements, such as social audits, that are embedded within the right to work. Case studies in the public distribution system and elementary education are then examined, both showing evidence of successful service delivery reform in particular states. While these two areas have entered the domain of legally enforceable rights, this was not the starting point of the process of change in these states—and that is part of their interest to this discussion. In all
the case studies, we explore the links between political changes, civil society and the bureaucracy in both design and implementation.

3.1 Institutionalizing Accountability Instruments

3.1.1 Right to Information Act

In 2005, Parliament passed the Right to Information Act, an important instance of the centrality of the alignment between civil society and a shifting political settlement in institutionalizing change. What is remarkable about the passage of this legislation is that a movement in one part of India, the state of Rajasthan, was able to connect to high levels of policy making. The movement for its passage built on a specific political moment: the unexpected 2004 election victory of the Congress Party and the formation of the National Advisory Council. While the role of the movement and the shifting political settlement has been well documented (Roberts 2009), recent research (Sharma 2012) points to the role of the broader global environment and the shifting political economy context in India, which together created an environment that favored the passage of the Right to Information Act. This included international movements on transparency that influenced the cognitive maps of major players. In addition, the changing economic environment in India resulted in elite bureaucrats moving to the private sector, thus reducing potential resistance from this quarter (Sharma 2012).

Citizens have responded enthusiastically to the Right to Information Act, with some 4 million information requests filed in 2012 alone. However, there have also been limitations and distortions, bred of systemic resistance to attempts to change government practice.

To evaluate India’s experience with implementing the Act, it is important to examine how it defines and articulates the practice of transparency in government. Mathur (2012) argues that its ideological roots lie in the belief that transparency emerges from access to and control over government documents. This emphasis on transparency through documents is rooted in a unique characteristic of the Indian bureaucracy—its “passion for paper” (Baviskar 2007). Meticulous paperwork is the hallmark and files the modus operandi of the bureaucracy. The Act’s genius is that it appeals to the passion for paper as the primary means through which citizens can pursue transparency in government. All right-to-information applications are made in writing and the government is obligated to provide receipts and responses to applications on paper. In this way, the Act empowers citizens to speak the language of the state.

This can have a powerful impact, as evidenced in a study by Peisakhin and Pinto (2010) who conducted an experiment in Delhi using four
different ways of getting a ration card. They found that the Right to Information Act was almost as effective as paying a bribe. Applicants who paid a bribe received their cards within two and a half months, while those who filed under the Act received their cards within a median time of four months. And for those who neither paid a bribe nor filed under the act, very few received their cards during the period of the experiment.

The Right to Information Act can also be used to influence politics. In 2008, Satark Nagrik Sangathan, a Delhi-based NGO, began using the Act to access information on the performance of members of the legislative assembly for the state of Delhi across a range of indicators, including legislative performance, use of their budgets and attendance at committee meetings. This information was widely disseminated in the run up to the 2008 state elections. Banerjee et al. (2011) undertook a randomized control trial to examine the effects of the campaign on voter behavior in 10 electoral constituencies; they found that the information campaign improved voter turnout by 3.5 percent and increased the vote share of high-performing members of the legislative assembly. Moreover, incumbent politicians attending ration and police committee meetings increased their vote share by over 7 percentage points.

While this emphasis on transparency has successfully imposed pressures to pry open government documents, the government has drawn on this emphasis on paper to limit its responsiveness to the Act. The emphasis has been on responding to right-to-information requests. However, little has been done on substantive reforms, such as reviewing internal rules and procedures, building official capacity to record information, and reorganizing data collection and filing systems that are critical to ensuring effective transparency. Moreover, crucial provisions like section 4 of the Act that mandates the proactive disclosure of information have been largely ignored. So, in practice, the Act has become a reactive law that induces responses to specific citizen requests for information rather than a law that proactively builds the foundations of transparent government.

And what of decision making? In 2008, the RTI Assessment and Analysis Group (2009) undertook a series of interviews with stakeholders in government to understand bureaucratic perspectives on the Right to Information Act. These interviews present a complex picture. While it is widely agreed that decision-making processes have changed as a result of the Act, this has not always been in desirable directions. Some bureaucrats have said the Act is often used deliberately to remind decision makers of the possibility of scrutiny of their decisions. But for the most part, the Act has fostered practices for circumventing public scrutiny. One interviewee referred to the “post-it” phenomenon, where removable sticky notes replaced “file notings” (actual on-paper notings on the physical file) when
frank views have to be expressed. Others say that tough decisions are now being taken verbally rather than through written notes.

The Right to Information Act’s influence is still ambiguous. Decision makers are clearly more cautious given the expectation of increased scrutiny. But this has yet to translate into a fundamentally more open and rules-based system. In fact, the government’s response to increased transparency has often been to close ranks and further entrench practices of secrecy, often bringing the system to a standstill. It is our contention that for decision-making systems to change, the Act will need to be anchored in a larger project for administrative reform, an argument that is resumed later in this chapter.

3.1.2 Right to service acts

In 2010, the state government of Madhya Pradesh passed the Public Service Guarantee Act, covering 52 basic services, including ration cards and income certificates that the state is obliged to provide to citizens within a stipulated time frame. The Act includes an appeals mechanism for aggrieved citizens, which empowers appellate officers to penalize errant officials.

The Act marked the beginning of a new right for Indians—the right to time-bound public services. By 2013, 15 more states had passed their versions of the Right to Public Service Guarantee Act. A national citizen’s right to grievance redressal bill was tabled for debate in parliament in 2012 and, at the time of writing, it was being debated by a parliamentary standing committee.

The right to service laws (as they are commonly referred to) is an important addition to the current basket of available rights, but their evolution has been markedly different from that of other socioeconomic rights. In state governments, these laws were not rooted in civil society activism, but emerged out of an alliance between chief ministers keen to project themselves as champions of good governance and top bureaucrats. That politicians and bureaucrats chose to adopt rights rhetoric indicates how deeply this language has shaped cognitive maps and practices on how to resolve failures in service delivery. This also highlights the shifting political settlement at national and state government levels in which the ideas of “development” and “governance” have emerged as an important electoral strategy.

As state governments began rolling out laws guaranteeing rights to public services across India, civil society activists began to articulate the demand for a grievance redressal bill. This reflects an important analytical step in the accountability movement in its shift from transparency to enforcement. As activists Nikhil Dey and Anjali Bhardwaj argue: “An
effective GR [grievance redressal] . . . builds on the transparency regime of the RTI [Right to Information Act] by encouraging citizens to use information to enforce accountability” (Dey and Bhardwaj 2013). Activism for a grievance redressal law gained ground during the anticorruption movement of 2011. The India Against Corruption movement proposed that a grievance redressal structure be built into the institutional framework of the Lokpal, the country’s ombudsman. Others, notably the National Campaign for the People’s Right to Information, pushed for an independent grievance redressal system, which resulted in the grievance redressal bill that is now in parliament.

The route to accountability in the right to service is through technology and penalties rather than opening platforms for citizen-state interaction. Top bureaucrats have used right to service laws to introduce new technological innovations to streamline paperwork. For instance, the state of Karnataka is implementing its Right to Service Act through a computerized system to generate data related to process flows on transactions, registered complaints and pendency. These reports also allow citizens to track the status of their applications. The states of Madhya Pradesh, Bihar and Jharkhand have also created computerized databases to generate receipts when applications are submitted and enable senior officials to monitor progress.

This emphasis on penalties and computerization has led observers to argue that the right to service acts primarily aim to strengthen internal administrative processes rather than empower citizens (Robinson 2012), thereby creating distortions. For one thing, penalties as a route to accountability can divert attention from the administrative failures that caused the problem in the first place. This can result in building an accountability regime that emphasizes what Gauri (2013) calls “retrospective accountability” rather than “indirect policy-level, forward looking accountability”.

Studies on the right to service also point to the distortionary effect of penalties on the lower bureaucracy, especially if they are not accompanied by other reforms related to workflow management. Robinson (2012) reports that widespread fear of penalties caused bureaucrats to prioritize processing applications at the expense of their other work. Hasan and Narayana (2013), in their study of bureaucracy in Karnataka, argue that the pressure to follow time limits caused officials to tweak rules to avoid being held accountable. For instance, the “delivery” of income and caste certificates under Karnataka’s Right to Service Act has been restricted to the preparation of the certificate by the bureaucracy rather than the actual handover of the certificate to the beneficiary, which is where the bottlenecks lie. This enables the welfare department to show high levels of achievement without actually influencing the quality of delivery.
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In the final analysis, the jury is also out on the right to service acts. On the one hand, it is increasingly becoming a political necessity for state governments to have right to service legislation, and this is a significant achievement for the accountability movement. However, these laws interpret accountability as something to be achieved through high-powered incentives on the front line, as opposed to reorganizing how the state works and institutionalizing norms of behavior around public service and solving problems.

3.2 Social Audits

In 2006, Parliament enacted the Mahatma Gandhi National Rural Employment Guarantee Act, which legally enshrined the right to work. The Act incorporated a number of transparency and accountability provisions, including a mandate to undertake social audits on work sites covered by the act. The idea of social auditing traces its roots to the clamor for a Right to Information Act, when the Mazdoor Kisan Shakti Sangathan social movement experimented with the idea of public hearings to create platforms for citizens to directly place claims on the state. The audit is therefore a tangible articulation of the idea of citizenship and democratic deepening embedded in the rights approach.

Despite the legal mandate, only one state—Andhra Pradesh—implements regular social audits. Between 2006, when the Mahatma Gandhi National Rural Employment Guarantee Act was launched and 2012, Andhra Pradesh conducted social audits in 21,000 village-level local government units known as gram panchayats across the state. Understanding why social audits were successfully institutionalized in Andhra Pradesh is particularly relevant to this chapter’s concerns.

The primary factor was a political shift driven by the 2004 electoral victory of the Congress Party led by Y.S. Rajashekhar Reddy, twice chief minister for Andhra Pradesh, after several years in opposition. This victory came amid an election campaign that promised expanded social welfare schemes and its success resonated in the Congress Party’s national campaign. When the Congress-led United Progressive Alliance enacted the Mahatma Gandhi National Rural Employment Guarantee Act in the city of Anantapur in Andhra Pradesh, it was putting the spotlight on the state. Andhra Pradesh had a dismal record implementing rural employment programs, and addressing corruption became a political necessity. The presence of an activist bureaucrat in a strategic position complemented this political moment. The bureaucrat sought support from civil society activists from the Mazdoor Kisan Shakti Sangathan to set up systems for conducting regular social audits across the state.
The experience in Andhra Pradesh contrasts sharply with that in other states, notably Rajasthan, the home of the social audit experiment. Local politicians severely resisted efforts to institutionalize audits along the lines of the Andhra Pradesh model, particularly gram panchayat presidents who joined forces to oppose audits. Their opposition made its way to the Rajasthan high court, which issued a stay order against conducting social audits and the process to institutionalize them lost momentum.

Ironically, one of the incentives behind this resistance was the democratizing design of the Mahatma Gandhi National Rural Employment Guarantee Act to have 50 percent of funds actually managed by the gram panchayats. But this financial devolution was not accompanied by a complementary devolution of roles and accountabilities for implementation. The gram panchayats became managers of large sums of money with little authority and responsibility for their spending. In the absence of accountability for delivery, the Mahatma Gandhi National Rural Employment Guarantee scheme became an important source of rents.

In Andhra Pradesh on the other hand, Reddy was keen to consolidate the political gains made in the 2004 elections and deepen his popularity. He saw social audits as an opportunity to break the local contractor–politician–bureaucrat nexus and disempower local politicians (Aiyar et al. 2011; Mariano 2014). To maintain greater control over the Mahatma Gandhi National Rural Employment Guarantee Act in Andhra Pradesh, the state did not actually devolve funds for the scheme to gram panchayats (thereby failing to abide by the nationally legislated requirement of the Act). In doing this, Andhra Pradesh retained bureaucratic control over the funds. We think that this led to weaker resistance to the social audit process there compared with Rajasthan. This illustrates the inherent tension between stronger local democracy in clientelistic democratic systems on the one hand and greater local accountability on the other.

Any analysis of the implementation of social audits in India needs to examine its effects both on citizen engagement and on state behavior. Studies on the effects of social audits are unanimous in the view that they have enhanced awareness of the Mahatma Gandhi National Rural Employment Guarantee scheme. This is evidenced in one of the earliest studies on the audit in Andhra Pradesh (Aiyar and Samji 2009). Based on a random sample of over 800 beneficiaries, the study found that before the audit only 30 percent of respondents were aware that the scheme offered 100 days of guaranteed work per household and that the use of machines for construction was forbidden. A month after the audit, awareness of both these issues was 88 percent.

Social audits have also altered citizen-state interactions. In a qualitative study of eight villages in Andhra Pradesh, Aiyar and Mehta (2013) found
that the audits shifted the nature of engagement between citizens and officials because the audit design forced government officials to justify their decisions to villagers. To illustrate from the study, a Mahatma Gandhi National Rural Employment Guarantee scheme field assistant was quoted as saying:

The villagers complained that they did not get job cards and that muster rolls [attendance registers] were not properly updated . . . because of which wages were not paid completely. The MPDO [senior administrator] . . . ordered an enquiry to verify the muster rolls. After verification, the complaint was proved to be genuine and complete wages were paid.

This kind of answerability, Aiyar and Mehta argue, was effected by social audits.

In the normal course of events, when citizens interact with the state, they are usually positioned as passive recipients of government patronage. In a social audit, by contrast, the government is being pushed to justify its actions, rather than just handing out benefits. And this public justification serves to pressure officers to take immediate action, including physically returning money to aggrieved citizens and firing officials during audits (Aakella and Kidambi 2007). While the long-term effects of this shift need further research, Aiyar and Mehta’s study suggests that social audits resulted in a positive shift. Asked whether they were an effective means to interact with local officials, 92 percent of survey respondents agreed and 85 percent said social audits had increased their confidence to seek information from officials about the Mahatma Gandhi National Rural Employment Guarantee Act.

Despite these gains, the state’s capacity to respond to the audit has been limited. To ensure effective grievance redressal, the Rural Development Department in Andhra Pradesh took many concrete steps, such as appointing vigilance officers at the state and district level, instituting a system of reports on action taken and setting up fast-track courts. However, data on grievance redressal suggests that these measures have had limited impact. Administrative data shows that after six rounds of social audits, 1.4 billion rupees (Rs) ($23 million) in fraud was identified, but only Rs230 million recovered. Of the 49 194 officials implicated, action has been taken against about 30 percent.8

This failure to redress grievances is partly a consequence of administrative weaknesses. Aiyar and Mehta (2013) argue that the current reporting and management structure for implementing the Mahatma Gandhi National Rural Employment Guarantee Act makes it difficult for enforcement authorities to impose sanctions. In Andhra Pradesh, key officers overseeing the implementation of the scheme such as branch post masters
and the local implementing officers—many of whom are regularly implicated in cases of wrongdoing through social audits—report to authorities outside the rural development line agency. However, rural development officers, including vigilance officers, have no authority over these officials, since their lines of authority fall outside the Rural Development Department and they can only recommend action be taken against those accused of wrongdoing. In the absence of powers to pursue such cases, the ability of the department to ensure grievance redressal is severely constrained.

Finally, no analysis of the social audit is complete without addressing the question of its effects on corruption. This is particularly relevant because reducing corruption—and ensuring that beneficiaries receive their due—is the primary goal of the social audit. To answer this question, it is important to understand the corruption market for the Mahatma Gandhi National Rural Employment Guarantee Act. A key characteristic is that the market operates like a syndicate. The Act is designed in such a way that every step of the process has to be documented and all paperwork needs to be correlated before money is released. This applies even for small amounts of fraud; for example, a field assistant siphoning off wages needs to ensure that the muster roll, pass book and job card data tally. To do this would involve collaborating with a branch post master, who is in charge of making payments, and job-card holders. In such an environment, acts of corruption can only be pursued in partnership with other stakeholders, thus making networks necessary for this type of corruption.

Corruption syndicates derive their power from their political connections. Here, political connectedness operates, quite literally, from the bottom up to the political elites. Figure 11.2 shows how these different networks operate and aggregate upward to the state level. Breaking the corruption market requires breaking these political networks.

So how have social audits interacted with the corruption market? The emerging assessment in recent empirical work on the Mahatma Gandhi National Rural Employment Guarantee Act in Andhra Pradesh is that the nature of corruption reported through the social audit process in recent years has shifted perceptibly. Afridi and Iversen (forthcoming) analyzed social audit reports from 300 gram panchayats across three rounds of social audits held during 2007–2010; they found a disproportionate increase in corruption related to material procurement for construction in public works sites. Wage-related complaints also increased. Afridi and Iversen draw two important conclusions from this data. First, social audits overall have not been able to deter malpractice and, second, the nature of corruption is shifting, perhaps because transgressors are adapting to the new monitoring regime by looking for new avenues of rent extraction.
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Anecdotal evidence and some early studies on the audits (Shankar 2010) suggest that social audits have helped reduce or at any rate contain wage-related corruption. This is not surprising, as wages directly affect people, providing immediate incentives to put pressure on the system. Aiyar and Mehta (2013) cite bureaucrats arguing that public pressure generated around wage-related theft in a social audit is impossible to resist. But newer forms of corruption related to material procurement are harder for social audits to catch. Moreover, the sanctioning capability of the state remains weak, limiting its capacity to dismantle the local politician–bureaucrat nexus. This is partly an issue of administrative organization, but initial evidence on the operation of corruption markets suggests that the issue is more fundamental and lies, essentially, in the rent-extracting

Notes:
GRS = Grameen Rozgar Sahayak (village level officer), ZPTC = Zilla Parsihad Territorial Constituency (district government).
A Mandal coordinator is an implementing official in charge of making Mahatma Gandhi National Rural Employment Guarantee scheme payments at the local level.
Source: Aiyar and Mehta (2013).

Figure 11.2 Networks and political connections among Mahatma Gandhi National Rural Employment Guarantee scheme actors

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and rent-sharing system at local levels. Breaking these structures requires stronger political commitment and, from a design point of view, this will only emerge if there is a link between the implementation of the Mahatma Gandhi National Rural Employment Guarantee Act and electoral performance. The bureaucratic nature of the Act in the state makes this hard to achieve. And in the absence of this, social audits are unlikely to make a significant dent in reducing corruption.

That Andhra Pradesh successfully institutionalized the social audit process and that the audits have been powerful enough to alter the corruption market by reducing wage corruption is impressive. However, the experience of implementing audits also substantiates the thesis developed in the conceptual framework—that in the absence of an effort to transform the state’s modes of doing business, top-down accountability instruments will only have a limited effect.

4. SECTOR-WIDE SERVICE DELIVERY REFORMS

We now turn to two sectors—food and basic education—in which reform of service delivery emerged from state-level interactions between politics, bureaucracy and civil society.

4.1 Improving the Public Distribution System and the Right to Food

India’s Public Distribution System, the institutional architecture for providing subsidized food to the poor, is infamous for its high level of corruption and inefficiency. Efforts to reform the Public Distribution System and secure a right to food were propelled, like most of the cases reviewed in this chapter, by an alliance between civil society and the judiciary, which culminated in the passage of the Right to Food Security Act in August 2013.

Parallel to the national push to enact a right to food, various state governments have undertaken efforts to reform the Public Distribution System and improve its delivery since the early 2000s. These state-level experiences illustrate the primary interest in this chapter—the underlying conditions for state transformation in public services.

This case study focuses on the now widely acknowledged successful reform of the Public Distribution System in the state of Chhattisgarh. Chhattisgarh is interesting because there appears to have been an effective alignment between politics, bureaucracy and civil society that led eventually to the passage of the first state-level law on the right to food. To make the case here, Chhattisgarh’s experience is contrasted with Madhya Pradesh, which had some similar starting conditions (both Chhattisgarh
and Madhya Pradesh were part of the same state until 2000), but made very different design choices.\footnote{11}

Let us first look at Chhattisgarh. Unusually good performance was a product of many years of reform. In the early 2000s, the Public Distribution System in the state had all the characteristics of a corrupt, rent-extracting system. Major changes occurred under the administrations of the state’s Chief Minister Raman Singh of the Bharatiya Janata Party, who was elected in 2003, reelected in 2008 and elected again in 2013.

The first set of reforms was designed to change ownership in the administration of the Public Distribution System. These included “deprivatization” of ration shops and placing them under the control of gram panchayats or other collective bodies, increasing the commission paid to the shopkeepers and introducing competition by offering only one-year contracts for running ration stores. These reforms were accompanied by technological innovation. Records were computerized, smart card technology was used to produce ration cards, delivery trucks were brightly painted a unique color to identify them and a system was set up for villagers to send text alerts to the authorities if they saw the trucks being diverted from their normal delivery routes. In addition, grievance redressal mechanisms were formalized so that citizen complaints could be recorded.

In the second set of reforms, Chhattisgarh substantially expanded the scope of the Public Distribution System. The food subsidy was increased—with rice priced at just Rs2 per kilogram for families below the poverty line and Rs1 per kilogram for those living in extreme poverty. The range of beneficiaries was also expanded so that nearly two-thirds of the state’s population was covered under the scheme, making it nearly universal.

What led to such far reaching reforms? Resonating with our conceptual framework, Tillin et al. (2013) interpret the specific drivers of reform under the following three factors: the judiciary, particularly the Supreme Court rulings on the right to food that put pressure on the state government to undertake reforms; the presence of reformist bureaucrats who willingly formed alliances with civil society activists to experiment with innovative reforms; and, above all, a shifting political settlement.

In the mid-2000s, the Public Distribution System had emerged as a central political concern. The catalyst was a Bharatiya Janata Party politician losing a by-election to the former Congress Party chief minister’s wife in 2006. The electoral defeat was partially attributed to poor delivery of the Public Distribution System, which led the Bharatiya Janata Party chief minister to make reforming the system a political priority.

The emergence of Public Distribution System reform as a politically salient issue underpinned the reform effort in Chhattisgarh.\footnote{12} It led to
direct support for the expansion of the Public Distribution System under the Mukhyamantri Khadyann Sahayata Yojana, with additional finance from state revenues. Crucially, it also provided support to efficiency and leakage-reducing reforms. Legislators and bureaucrats knew that the Public Distribution System should not be tampered with even while other aspects of governance in Chhattisgarh were mired in controversy, notably the state’s action against a Maoist insurgency. In effect an island was created on which political alignment, bureaucratic incentives and cooperation with civil society prospered. This allowed key reformist bureaucrats to pursue a coherent strategy that brought together the various parties and used this space to develop the innovations outlined above. Other parts of the state in Chhattisgarh undoubtedly remained entrenched in rent extracting and clientelistic practices. All the same, Chhattisgarh’s government, in 2012, became the first state to introduce a food security law.

The crucial lesson from Chhattisgarh is that structural reforms in service provision need to accompany rights laws. As this case study shows, efforts to strengthen accountability are only effective if they are embedded in a larger project of service delivery reform. Here, these included restructuring the ownership of ration stores and broadening the beneficiary base.

4.2 Basic Education: Rights, Quality, and State Functioning

The following case studies look at experiences in the elementary education sector in the states of Himachal Pradesh and Bihar and examine some of the characteristics of a responsible and accountable bureaucracy.

4.2.1 Himachal Pradesh

The northern state of Himachal Pradesh is well known for its considerably better educational performance than much of the rest of India, as documented by school attendance data and assessments of the functioning and motivation of its schooling system. Evidence also shows that the state has relatively good basic learning outcomes. According to the Annual Status of Education Reports, rural children in Himachal Pradesh have lower educational deficits than Kerala, which is well-known for its good human development indicators.13

To understand what differentiates Himachal Pradesh, this analysis draws on research by Mangla (2013 and 2014) in which extensive interview-based and archival work is used to compare bureaucratic behavior in the education sector in the state with the adjacent hill states of Uttarakhand and Uttar Pradesh, both of which have substantially worse education outcomes. Mangla finds the difference lies not in formal
structures, but in contrasting norms of behavior in the different bureaucracies of these states.

The main contrast lies between what Mangla calls “deliberative” and “legalistic” norms of bureaucratic behavior. The former are “norms that encourage bureaucrats to work collectively to solve problems, bend official rules and promote civic participation”. These are characteristic of education bureaucrats in Himachal Pradesh. Legalistic norms involving “adhering strictly to formal rules and procedures while discouraging citizen engagement” were typical in Uttarakhand and Uttar Pradesh and are probably dominant in most of India’s bureaucracy. According to Béteille (2009), these are often interlaced with norms of corruption both on the interface with citizens and, internally, in the market for jobs.

Himachal Pradesh’s education bureaucrats displayed three distinctive behavioral features. First, they focused on solving educational problems in their domain; for example, providing mobile teaching for the children of nomadic groups or ensuring every village has a school—and doing so even when these actions involved breaking government norms. Second, relative to typical patterns in India, they showed a striking willingness to engage with front-line workers in the system—both education bureaucrats at the block level (that is, below district level, with a block typically covering 100 schools)—and through them to teachers. And third, there was proactive engagement with societal groups, involving both organized civil society movements and more informal local organizations. Bureaucrats in particular worked with the Himachal Gyan Vigyan Samiti, a 50000-strong association of professionals promoting literacy in the state. Mangla (2013, 2014) surmises that the deliberative, problem-solving norms in the state’s bureaucracy led to greater openness to participation with civil society and that this in turn led to reinforcing pressures to solve problems.

Politicians played an active role in facilitating this deliberative culture and promoting education. Mangla found that bureaucrats engaged regularly with legislators and were often involved in what would generally be characterized as clientelistic practices in relation to building schools or employment. However, these were seen as another means of connecting with social demands—another case of alignment between local politics and getting things done on the ground.

Where did these deliberative norms and associated participatory practices come from? This is less well-researched, but the origins seem to lie in the political origins of the state, and particularly the role of the first Chief Minister, Y.S. Parma. Parma was chief minister in 1952–56 (before Himachal Pradesh had the status of a state) and 1963–77 (when it gained formal statehood in 1971). He had a political vision of an economically sustainable, hill-based economy, and worked with the local bureaucracy
to foster collective approaches to solving development problems, initially on road networks and then education. The question of how such an initial formation was perpetuated remains, but one can speculate that the bureaucratic and associated participatory norms became self-sustaining, and were supported by political processes. The second case study, of Bihar, offers some insights into how norms can shift.

4.2.2 Bihar
Bihar has historically been infamous for its large-scale educational deficit, extreme poverty, embedded corruption, caste-based divisions, violence and weak administrative capacity. Yet the education story turned in 2005 when Nitish Kumar was elected chief minister on a largely developmental platform. Kumar made educational expansion and school enrollment one of the major thrusts of his first administration and pushed the Bihar education service to implement measures to achieve these goals. These efforts included innovative practices such as implementing incentive-based programs, including giving bicycles to girls to encourage them to go to secondary school. Even so, the state’s provision of public education and learning quality remained a serious challenge.

A case of interest comes from the district of Jehanabad. In 2012, the district collector forged a partnership with education NGO Pratham to implement a unique set of reforms to improve education quality. The experiment built on Pratham’s experience in shifting pedagogies from grade-based curriculums to a system based on initial learning levels (with effectiveness documented in a number of rigorously studied experiments). What made the Jehanabad experiment unique was not just the choice of pedagogy (which breaks from government rules promoted in the right to education that make age-grade teaching mandatory), but its implementation architecture. In this experiment, the frontline officers—cluster resource coordinators in charge of 10–15 schools—were put at the center of the action. They underwent rigorous training, after which they were charged with leading the pedagogical reform effort in the state’s schools. The coordinators gradually gained confidence in implementing these teaching strategies in their schools and the results were truly impressive. At the start of the intervention, 40 percent of students in grades 3, 4 and 5 had basic reading skills; six months later this improved to 60 percent.

This is interesting as a case of change flowing from within the bureaucracy and then effectively empowering the lowest level of the educational bureaucracy to effect change in schools—with no change in incentives and with an NGO supporting the process (but not implementing the frontline interaction). Even more interesting was the follow-up. Soon after this success, Kumar pushed for a strategy to tackle the issue of the quality of
education. The Jehanabad success emerged as a model and the chief minister asked his education bureaucracy to scale-up the experiment—again in collaboration with Pratham.

At the time of writing, guidelines have been drawn up, but it is not clear whether the innovations in Jehanabad can be replicated across the state or whether Jehanabad’s success depended on the activism and commitment of an activist district collector or other special features of the project. Even so, this case does highlight the pathways through which change can occur. Pushing reforms needs a combination of political pressure and civil society demand. But for this to happen, India’s governance systems need to be designed to reward problem-solving by the bureaucracy and others, and to foster a more local approach to planning and decision making.

5. LESSONS FROM BRAZIL

Among experiences from other countries, Brazil’s is particularly interesting for India’s efforts to build a welfare state. Brazil has had a shorter continuous period of democracy than India. It emerged in the 1980s with deep inequalities across lines of geography, identity (especially race) and class, as well as a history of severe human development deficits and widespread problems in service provision. These included dismal education and health-related services in the northeast of the country, to extensive problems around urban services and violence in the informal settlements in major urban areas of the south.

The large-scale street protests in the summer of 2013 started as a protest against fare increases for urban buses and then spread to protests against corruption and the poor quality of public services—in stark contrast with the lavish spending on stadiums in preparation for the 2014 World Cup.

Against this backdrop, Brazil does not, at first sight, look much of a model. But the country is actually of immense interest to India, both because of its genuine accomplishments and because, like India, it is a hybrid between an unequal, clientelistic, populist and corrupt polity and important traditions in civil society mobilization, bureaucratic engagement and legal action. And Brazil, like India, has been purposively seeking to build a welfare state in a middle-income country, based to a significant extent around citizen rights in terms of specific rights (for example, health and education) and a participatory process. A further parallel is the rising aspirations of the populations of both these countries. Many observers attributed the scale of the Brazilian protests in part to the very gains of an emerging lower middle class (The Economist 2013).

Brazil is much richer than India, having enjoyed its “miracle” growth in
the 1960s and 1970s (Figure 11.3). Brazil now has much lower infant mortality than India (Figure 11.4) and has practically achieved full secondary school enrollment (Figure 11.5).

As in India, social provisioning in Brazil is linked to constitutional rights. Brazil’s critical juncture in this respect came with the return to democracy in the 1980s, which was associated with a broad range of social movements. The 1988 constitution sought to legally capture aspirations through a set of social rights (for example, to education and health rural pensions) and participatory processes. However, these had to be implemented in the context of a political-bureaucratic system with a mix of patronage and vested interests alongside relatively functional, rule-bound elements.

From the 1990s, change occurred when there was an alignment (at the national and sometimes the state level) of political junctures that favored transformation and political entrepreneurship. This further involved a range of civil society movements working within a variety of formal and informal arrangements with the state and activists within the public sector. As in India, rights-based approaches were conceptualized as a

Notes: GDP = gross domestic product, PPP = purchasing power parity.

Source: World Bank, World Development Indicators online database (accessed August 2014)

Figure 11.3 Real GDP per capita of selected countries
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![Bar chart showing infant mortality rate for selected countries, 2012](chart1).

**Source:** World Bank, World Development Indicators online database (accessed August 2014).

**Figure 11.4  Infant mortality rate of selected countries, 2012**

![Bar chart showing secondary school enrollment for selected countries, 2012](chart2).

**Source:** Education Policy and Data Center (2013); World Bank, World Development Indicators online database (accessed August 2014).

**Figure 11.5  Secondary school enrollment of selected countries, 2012**
means of shifting citizen–state relations. But a common difference was a more concerted range of projects to make the state work better through a mix of internal reform, deeper engagement with society and more decentralization.

Actual reforms only started in earnest in the mid-1990s under the administrations of former president Fernando Henrique Cardoso (1995–2002), which laid the basis for a shift toward a form of social democracy. This was extended and consolidated during the administration of former president Luiz Inácio Lula da Silva (2002–10) and now that of President Dilma Rousseff. Cardoso was from a center-left party and Lula and Rousseff from the Workers Party, but all of them pursued an essentially social democratic path.

In many areas this involved a dual shift: a set of legal participatory instruments in health, education and urban councils, and within-government reforms. These had greater reach than the more famous, and indeed more profound, changes that occurred in the institution of participatory budgeting that first emerged in the city of Porto Alegre (Baiocchi et al. 2011). The balance of influences on outcomes is hard to assess, as these developments were occurring in parallel. Bresser-Pereira (2007) argues that public sector reforms were intrinsic to the change.

The area of health provides an example of how the rights-based approach worked in practice. A right to health is part of Brazil’s constitution, influenced by a combination of civil society movements and activist health professionals (Paim et al. 2011). This involves the conception of a “unified health system” from primary to tertiary care that is accessible to everyone, and it includes formal arrangements for social participation at various levels. A beautifully documented case is that of reforms in the poor, unequal and traditionally clientelistic northeastern state of Ceará early in the transition to democracy (Tendler 1997). An elected governor from the elite empowered health professional activists to innovate in the design, recruitment and implementation of an alternative strategy. This was based on the development of community health workers with substantial discretion over interactions with communities. It also involved active use of radio campaigns to raise social awareness and put political pressure on municipalities to move into the new system (despite the loss of patronage possibilities).

However, the right to health care in Brazil created new distortions. Ferraz (2009) argues that the interaction between the types of cases brought to the courts and interpretations of this right by the courts has led to significant and inequitable biases. Better-off individuals claim for expensive medical treatments and judges have interpreted this “as an entitlement of individuals to the satisfaction of all their health needs with the most advanced treatment available, irrespective of its costs” (Ferraz 2009).
Education also involved a mix of influences. A right to education was initially aligned with the political salience of the issue. Then implementation was effected through the confluence of substantial resource increases from the center to the states with concerted pressure on the public sector schools to deliver quality learning both from the education bureaucracy and civil society. An emphasis on public information on quality and associated incentives for school behavior led to substantial quality gains, with Brazil showing major improvement in Program for International Student Assessment scores (Bruns et al. 2011). This is in sharp contrast to India’s experience, in both design and implementation.14

Corruption and the low quality of services remain pervasive problems in Brazil. More broadly, its social democratic model has become associated with a wide range of entrenched interests (as in India), with many privileged groups disproportionately benefiting; for example, in a highly generous pension system. Brazil’s public spending is over 38 percent of gross domestic product and the “custo Brasil”—the cost of doing business—is a longstanding concern. These problematic features only underscore the value for India of learning from Brazil.

6. IDEAS FOR CHANGE AND CONCLUSION

This chapter explored India’s rights-based approach to the expansion of state provisioning of social welfare. Scripted largely by an alliance between civil society activists and a few influential members of the political elite, the push toward a rights-based welfare state is best seen as embedded in a more ambitious project that aims to deepen citizenship by shifting the dynamic of citizen-state interactions.

An issue not analyzed is fiscal affordability. As Box 11.1 argues, the fiscal position is a cause of concern, but the big issues are not rights per se but populist political strategies that could occur with or without a rights-based approach.

Rights-based accountability instruments have opened up new space for citizens to place direct claims for accountability on the state, and these have been used enthusiastically. This is evident in the large numbers of right-to-information applications and the high awareness and participation in social audit village meetings. But these increased pressures have not, as yet, been met with a parallel transformation in the workings of the state. The Act has empowered citizens to scrutinize the bureaucracy, but has not led to systemic changes within it to promote openness and proactively share information, even though this is mandated by law. Social audits of the implementation of the Mahatma Gandhi National
Rural Employment Guarantee Act, when they occur, allow citizens to directly deliberate over implementation. But in most states, politicians and bureaucrats have avoided them. Where they have been systematically implemented, as in Andhra Pradesh, they have not been accompanied by shifts in bureaucratic structures and decision making, nor have they broken underlying political resolutions that facilitate local rent extraction.

Similarly, the right to services has not been embedded in a broader agenda of administrative reform. Rather, it primarily constitutes instruments for higher-level bureaucrats to increase control over frontline workers through performance standards on specific service delivery. The result is often distortionary behavior to satisfy particular service requirements, as opposed to developing an institutionalized culture for making claims on state services. The push by parts of civil society for grievance redress is fine in principle, but it focuses on symptoms rather than causes.

### BOX 11.1  IS INDIA’S RIGHTS-BASED APPROACH AFFORDABLE?

An often-voiced concern is that the approach to service provision of the past decade or so, and especially expanding social rights, is unaffordable. Kelkar and Shah (2011) frame this as the unaffordability of a substantive shift toward social democratic commitments at India’s level of economic development. Although proper analysis is outside the scope of this chapter, a brief perspective is that balance for the center and states has been running around 8–10 percent of gross domestic product, with only a temporary fiscal consolidation in the 2006–07 and 2007–08 fiscal years. Moreover, India now has a higher inflation rate and government deficit than comparable emerging markets. Fiscal consolidation is necessary—in the short term to stabilize macroeconomic conditions and in the medium term to ensure a sustainable debt burden.

However, a different perspective is warranted in that the first-order issues are not over the extension of specific rights, but rather the broader political economy of fiscal behavior. The rights now being extended could magnify fiscal issues, but this depends on the ways in which designs interact with populist political strategies. This could work, for example, through political incentives for state governments to raise minimum wages for the Mahatma Gandhi National Rural Employment Guarantee Act beneficiaries or to keep teachers’ salaries above market levels or in resistance to efficiency-improving reforms of the public distribution system for food. It should also be possible to provide for the services affected by rights within reasonable fiscal resource constraints.

But this will require tackling subsidies in the budget, reducing tax expenditures and implementing tax reform. Subsidies and tax expenditures are typically tied to particular interests and forms of rent sharing, and have nothing to do with basic provisioning or the deepening of citizenship.

Source: Authors.
In summary, articulating rights through legislation and accountability tools is insufficient to fundamentally change state behavior and may be counterproductive if it diverts effort from deeper issues. So why has an approach based on legal rights and social accountability not ushered in a significant transformation of the state? What would lead to structural shifts in state capacity and where do social accountability instruments contribute to these shifts?

First, politics matter. This is critical to the passage of national legislation and also in cases of support for action in states as well as for social audits. In contrast to formal narratives around devolution, rights and social accountability and national and state-level political settlements still support an essentially top-down approach to service delivery. To a substantial extent, this is linked to political resolutions involving rent extraction and rent sharing, and associated electoral strategies that remain a mix of the populist and clientelistic. Genuine devolution has been limited and half-baked in India.

Second, although individual “reformist” bureaucrats have been agents of change, in general the bureaucracy and service-delivery organizations have remained embedded in local patterns of political behavior and rent sharing. Ingrained mentalities of top-down control over resources and service delivery continue.

This is overlaid on a set of issues associated with the elusive concept of lack of “capacity”. This is undoubtedly partly linked to India’s small bureaucracy relative to its population, but it is also associated with issues related to technical capacity, organizational structure and processes. These are not addressed here, but they are an essential although still missing ingredient of the process of transformation. Civil society activism on state reform has yet to translate into a meaningful public debate on administrative reform. The Second Administrative Reforms Commission reports—published in 2008 under the leadership of the very same political formation that promoted rights-based legislation—offer a useful starting point for developing an administrative reform agenda. But their recommendations have yet to be implemented. It is crucial that the debate on accountability also addresses the practical questions of institutional design and aligning incentives so that government actors respond to rewards and sanctions.

And third, the exit from state provisioning of services that is occurring in some domains could reduce broader pressure for tackling bureaucratic and organizational performance issues. The exit is partly driven by household choice, notably in education and health, but also by political and bureaucratic leaders, whereby private–public partnerships are seen as a solution to state weaknesses. But this fails to account for the frequent
need for more effective state regulation—and associated accountability mechanisms—in social and infrastructure services.

So how can a more fundamental change in state behavior occur? This is where the other cases studies offer important insights. In Chhattisgarh’s Public Distribution System, reform showed that structural shifts in behavior occur as a consequence of alignment between politics, the bureaucracy and civil society on the ground. But perhaps more importantly, social accountability instruments are only effective when embedded in larger structural changes—in this case through, among other things, reorganizing ownership of Public Distribution System ration stores, universalizing access to the system’s benefits and citizen report mechanisms to monitor the flow of food. These structural reforms contributed to substantial improvements in service delivery, but these would only have been possible with political alignment. In Chhattisgarh, social accountability and rights-based influences played a role, both through the influence of Supreme Court rulings and, eventually, state-level right to food. But they worked because of the substantive changes. Collectively these processes resulted in a shift in behaviors in the political system and the local bureaucracy. At one level, these involved changes in norms of behavior away from rent-extraction from the Public Distribution System to what we called an island of change. This study did not find evidence of broader changes in the bureaucracy and political functioning of the state.

The education cases give further insights into understanding drivers of state transformation. The Himachal Pradesh case study highlights that a bureaucracy is most effective when it develops norms that encourage a deliberative approach to problem solving in which bureaucrats are willing to bend rules and promote civic participation. An important characteristic of this culture of problem solving in Himachal Pradesh was a breakdown in the rigid hierarchies that characterize bureaucracy in India, with senior officials willing to interact and work collectively with frontline bureaucrats in the system.

How does one build these deliberative, problem-solving norms of behavior? It is our view that the origins in Himachal Pradesh flow from the initial political settlement in the state, though this requires further research. By contrast, in the Bihar case study, a district level bureaucrat was willing to experiment with new methods of improving learning levels, and succeeded in shifting bureaucratic culture and education outcomes through effectively engaging with and “empowering” the frontline of education bureaucrats and teachers. Organized civil society—as opposed to local user groups—played an important role in supporting these changes. In Bihar the broader context is what looks like a shift in the political settlement, with developmental action—including in education—becoming
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politically salient over the past two elections. Change can therefore come through islands of innovation at the local level if civil society and activist bureaucrats are willing to invest in changing decision-making cultures at the local level. Crucially, it also highlights the importance of building spaces for experimentation, though the question of scaling-up remains open.

What is the way forward? State transformation requires a comprehensive approach to bureaucratic behavior, developing norms of delivery and deliberation rather than of legalism and extraction. This is only likely to occur if there is both political change and associated social pressure. These can come from various sources, such as the movements against government corruption, increasing electoral rewards for better governance and electoral punishment for poor governance. It is too early to assess the consequences of the dramatic success of an insurgent political party in Delhi, the Aam Aadmi Party, in the December 2013 elections. But this at least shows the strength of societal demands for better governance and may galvanize established parties to reform.

While we have emphasized the need for comprehensive change, this is actually more likely to occur in particular “islands” in some sectors in some states, as the case studies have shown. However, where these are, or could become, politically salient and recognized by both the bureaucracy and civil society, there is hope for consolidation and extension to other areas. The approach emphasized here contrasts with some of the current debates on state reform in India. One strand focuses on introducing “high powered” incentives to push a rule-bound bureaucracy to do its job. It is striking that both civil society movements and some higher level bureaucrats emphasize increased high-powered incentives for the front line, especially through penalties (whether judicial or administrative). This approach will be insufficient and could well be counterproductive through the distortions created and costs to behavioral norms.

Another important issue concerns the renewed demand for protecting bureaucracy, which found voice in a recent public interest litigation pushed by a group of retired bureaucrats. However, rather than try to secure a transformatory shift in administrative reform, the litigation focused on insulating bureaucrats from politician influence. This technocratic view of bureaucratic change is also evident in the issue of transforming state service delivery through biometric identification and direct cash transfers through the financial system.

Under the unique identification system, every resident of India will get a unique number linked to his or her personal biometric features. It has raised hopes of circumventing problems around the provision of services and transfers to entitled citizens, as well as linking to financial inclusion
and making transfers directly into the bank accounts of beneficiaries. Both biometric identification and direct cash transfers have an important role to play in the government system, and are increasingly used throughout the world (for example, in Brazil’s famous Bolsa Familia scheme). However, it is a profound mistake to see these as an alternative to the broader project of transforming the state. For ensuring citizens receive entitlements, the unique identification system can at best complement other measures. Wherever there is targeting, there has to be another administrative process that assesses whether an individual or household is indeed entitled.

Many Indian schemes—notably the below-the-poverty-line categorization—are riddled with errors of exclusion and inclusion. More broadly, problems of identifying and ensuring entitlements for the poor are just a part of the current malaise. Indeed, the central issue for the state is the delivery of quality services to the middle groups that are emerging from poverty, as well as giving special attention to the poor. The unique identification system cannot fix the real issues of identifying the poor, managing work flows and decision-making systems, and incentivizing politicians to press for better services.

Rights have a role to play in improving services. At a minimum they articulate the government’s intent to redress deeply entrenched power dynamics between citizens and the state. But for rights to fulfill their potential, a more serious effort at overhauling state administrative systems is needed. This will only occur if it is aligned with political shifts at the level of states, local politicians and at the grassroots. Rights-based accountability instruments can help build the political momentum for change and be important elements of a more comprehensive project. But you cannot legislate your way out of state failure.

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NOTES

1. See Ruparelia (2013) and Mehta (2013). See also Drèze and Sen (2013) for a broad interpretation of India’s development transition.
2. See Mehta and Walton (2014) for more on cognitive maps.
5. Traditional government filing and record-keeping systems require that all decisions be written in what in bureaucratic parlance is referred to as “file notings”.
9. This draws extensively on Aiyar and Mehta (2013).
10. See Shankar (2010) for a discussion on this.
11. The comparative analysis of Chhattisgarh with Madhya Pradesh draws heavily on Tillin et al. (2013).
12. A vivid account of the experience can be seen in the NDTV (2012) documentary “Truth versus Hype”.
13. See, for example, ASER (2013). But this is relative to otherwise awful Indian standards: according to the Organisation for Economic Co-operation and Development’s international program for the International Student Assessment study of 15-year-olds in school, Himachal Pradesh and Tamil Nadu tied with the Kyrgyz Republic for last place. No other state in India participated in this survey.
14. See Mukerji and Walton (2013) for a discussion and critique of India’s right to education.

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12. Using ICT to improve governance and service delivery to the poor

Subhash Bhatnagar

1. INTRODUCTION

Information and communication technology (ICT) can improve governance and the delivery of public services to the poor. A large body of literature by multilateral organizations already suggests that ICT can be used in diverse applications to accelerate the dissemination of information on public services, improve their efficiency, increase the transparency and accountability of government in their administration and so reduce corruption and facilitate citizen participation in local governance.¹

However, few analytical studies or impact assessments confirm that such benefits have been delivered in large-scale projects. Bhatnagar and Singh’s 2010 study is among those that have, and Bhatnagar (2013) recognizes the important role of ICT in reducing corruption, but points out that it has not been easy to harness its potential. The United Nations (2012) recommends that the scope of e-government—ICT used in delivering government services—be widened to transform the role of government toward cohesive, coordinated and integrated processes and institutions. Since e-government in developing countries in Asia is nascent,² there is clearly scope to expand its deployment to include improvement in governance. But it is important to understand the full potential of deploying ICT to improve service delivery, and the challenges in harnessing this potential, by identifying the success factors for its wide-scale deployment.

The benefits of using ICT within organizations have been conceptualized in many ways. ICT can reduce asymmetry in access to information and thereby better manage the principal–agent problem (Gurbaxani and Whang 1991). Similarly, expanding access to markets and suppliers, efficient processing of transactions with stakeholders and enhancing access to knowledge through electronic publishing are other benefits applicable to all types of organizations. Figure 12.1 shows this in the context of activities and processes that directly impact rural populations.

Four types of applications are indicated in the four panels in the lower
Using ICT to improve governance and service delivery to the poor

The first consists of ICT interventions in existing programs for delivering public services. In a pilot public health project in Karnataka state in India, beneficiaries were given cards with microchips containing beneficiary data allowing for instant updating by field workers using a hand-held device. Local public health officials were also better able to monitor service delivery, evaluate beneficiary experience, identify service delivery gaps and respond promptly to concerns, such as supply shortages, lack of community involvement and the need for further training (World Bank 2013).

In an ongoing experiment in Ethiopia, community health workers are using mobile-phone-based tools to register patients, send out appointment reminders and manage inventory (Otto 2012). In a program to provide subsidies for food and fertilizer to poor farmers in India, currently in the pilot stage, e-banks in rural areas are being used to transfer cash subsidies based on unique identity numbers and finger scans to identify recipients (Isthiyakh 2012). Such a system can reduce corruption by weeding out “ghost recipients” for a variety of subsidies and so free up funds for development initiatives. In many Indian states, pensions to rural residents, women and the handicapped are already paid through e-banking.

In the second type of application, ICT enables electronic delivery of government services, such as caste and income certificates to rural populations in India, which provide entitlements to the poor for subsidized food,
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fertilizers and health services. Copies of land titles are e-delivered to facilitate access to farm loans and reduce the cost of land transactions, improving access to these services and reducing their cost (Gupta et al. 2010).

In the third type of application, ICT is used to share information on local government development expenditure to give communities a say in the allocation of these funds so as to best meet their needs. Similarly, information on government agency performance shared with citizens can promote community audits of project execution.

The fourth type of application focuses on enhancing rural incomes by providing information on economic opportunities, knowledge of best practices and real-time prices of agricultural commodities through websites, call centers and mobile phones. In Sri Lanka, a multilingual government call center provides fast and easy access to government services. By dialing 1919, callers can find out how to get a loan from a government bank or obtain an ID card. In 2009, 120 government institutions used the service, up from 20 in 2006. More than 2500 services are now available (Low 2009), with nearly 1.6 million calls handled in 2013. In the informal sector in Bangalore, the Babajob website matches job vacancies with job seekers, helping to create employment for the urban poor (Ranganathan and Sarin 2009).

India and a few other developing nations are home to a very large number of experiments using ICT for sustainable development. Organizations including government, private sector enterprises, civil society and cooperatives have launched these initiatives (UNESCO 2011). But because very few of the experiments have been scaled up, the impact on broader society remains marginal. Policymakers need to identify scalable initiatives and design institutional mechanisms that can help in their wider replication.

This chapter looks at some of the few projects operating on a reasonably large scale that have contributed to the empowerment of the poor and inclusive development, and analyzes why they are succeeding. It is hoped that the lessons identified will be of use to policymakers and practitioners looking at how ICT can improve service delivery to the poor, better governance and development impacts.3

2. PENSIONS AND WAGE PAYMENTS USING ELECTRONIC BANKING IN INDIA

In India’s National Old Age Pension Scheme, monthly payments in most states are made to pensioners, widows and the physically handicapped by panchayats—committee selected representatives at the village level that form the lowest tier of local self-government. For wages, beneficiaries
under the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) scheme—which guarantees at least 100 days of wage employment to adults to do unskilled manual labor on public works—were originally paid in cash by local officials and later through workers’ bank accounts. However, malpractice was rife in both payment methods; among the abuses were large numbers of ghost recipients and corrupt officials pocketing part of the wages.

The state of Andhra Pradesh came up with a solution. It initiated e-payments to large numbers of these recipients in rural areas, which resulted in a sea change in both a convenient payment mechanism and in reducing corruption. The approach was a partnership between the state government of Andhra Pradesh and the Zero Mass Foundation (ZMF), a nongovernment organization (NGO) specializing in monthly payments to rural pensioners and MGNREGA scheme beneficiaries. Payments are made directly to their bank accounts, which beneficiaries can withdraw without having to visit their banks or panchayat office. ZMF now operates in 127 of the country’s 671 districts and across 27 of 29 states, with nearly 6000 customer service point operators serving 1.5 million MGNREGA beneficiaries and some 700,000 pensioners.

It was possible to implement such a project because the Reserve Bank of India, under its Financial Inclusion Program, permitted scheduled banks to appoint so-called business correspondents as bank agents who are authorized to open accounts and perform deposit and withdrawal transactions from beneficiary accounts.

ZMF acts as the business correspondent for six banks that have been assigned specific districts in Andhra Pradesh for making pension and MGNREGA payments. In each district, customer service points have been set up. These are run by women from village self-help groups, who use general packet radio service (GPRS) enabled mobile phones to electronically process bank deposits and withdrawals by real-time exchange of information with bank databases (this type of phone is particularly useful as it does not require a regular power supply and is easy to operate). Customers are provided banking services at a specified location in their villages, with the self-help group acting as guarantor for the member selected as the customer service point operator. ZMF selects and trains the operators and provides the phone kits.

Once the list of beneficiaries is made available to the banks, teams of bank employees, ZMF workers and local government officials conduct enrollment camps in villages. Fingerprints, photo and other personal details of the beneficiaries are taken, and the enrollment data stored on mobile phones to be later downloaded to ZMF servers through GPRS. The data is digitized and transferred to the bank’s central branch; its
server passes the validated data of beneficiaries to a link branch, which reviews the data and authorizes the opening of an account, which takes about three weeks.

To access the service, the customer service point operator does a biometric log-in through a fingerprint reader. The operator’s mobile phone has details of beneficiary accounts and when a withdrawal is made, the beneficiary’s fingerprint is captured on the biometric device, which pulls up a photo of the beneficiary. The customer service point operator then generates a receipt in duplicate. This project demonstrates the potential of using GPRS-enabled mobile phones for e-payments—and doing so with a low initial investment and operating costs. The project delivers a service that offers greater convenience to users and is difficult to manipulate for corrupt purposes. And the government saves nearly 30 percent of its monthly pension pay-out by weeding out ghost pensioners.

ZMF has demonstrated the potential of transferring cash subsidies to the poor using biometric identification in a way that prevents leakage to ineligible claimants. However, collecting biometric data for the poor in any country is a gigantic task that organizations like ZMF cannot easily do alone. Perhaps the answer lies in providing a unique ID to every citizen that can be easily verified, as India and the Republic of Korea have tried. India’s efforts are examined in the following section.

3. INDIA’S UNIQUE IDENTIFICATION PROGRAM

The Unique Identification Authority of India was created in 2009 and charged with issuing a 12-digit unique identification number—known as a UID and linked to an individual’s basic demographic and biometric information—to residents for a voluntary national ID system. A headshot photograph, a full set of fingerprints and an iris scan are stored in a central database for every UID holder. UID numbers are not classified by caste, creed, religion or place of residence. A person’s identity can be verified using a handheld device linked to a mobile phone network by sending the fingerprints to the central database. The system is designed to verify an individual’s identity within eight seconds.

Obtaining a UID requires proof of identity, an address and date of birth. The UID system has two main benefits. First, only a small fraction of India’s population is able to verify its identity through documentation. The inability to prove one’s identity is a major handicap for the poor, as access to benefits under the government’s anti-poverty programs, such as old-age pensions and subsidized food grains, are often denied because of
this. Individuals without identification can obtain a UID if an existing participant in the scheme introduces them to the issuing agency.

Second, the UID is particularly useful in weeding out corruption in the Public Distribution System. This provides subsidized food grains to 180 million poor people through a network of half a million licensed shops at an annual subsidy of 400 billion rupees (Rs) ($8 billion). Around 40–50 percent of the subsidy is fraudulently claimed by households inflating the number of family members and cards for claiming benefits made out to nonexistent beneficiaries obtained by bribing officials. A significant proportion of India’s population is enrolled in the system, some 498 million residents as of December 2013 (Unique Identification Authority of India 2014). Impressive though this is, a very significant measure of the system’s success will be its ability to collect error-free information. A considerable number of checks have been built into the application software to ensure the quality of the biometric data captured and each state has an agency responsible for this very task. The work is contracted out to private companies, which must invest in the organization and equipment to capture the data in the field. These companies, in turn, subcontract the work to smaller outfits, which may lead to problems with data quality. Once accuracy in data capture is ensured, duplications need to be weeded out. Problems of data quality also surface when the UID is used in the delivery of services on a large scale.

This is an important issue because some government agencies recently started using UIDs for delivering services. For this, front-end delivery points need to electronically capture basic transactions. For example, half a million shops linked to the Public Distribution System will need to obtain fingerprints and seek authentication from the central database. Keeping the handheld fingerprint readers in working condition and training shop owners to use them are challenges that still need to be overcome. So far, there has only been very limited pilot testing of UIDs for end-to-end service delivery. Any procedural reform that reduces the lower bureaucracy’s capacity to delay or deny services is likely to be resisted. A major pilot initiative using UIDs for providing direct cash transfer in 51 districts in lieu of subsidized commodities has yet to take off; indeed, it has already been scaled down to 20 districts and fewer services. Commenting on the pilot, a newspaper editorial observed that limiting coverage makes sense because it is better to do a thorough job than fumble an enormous task since the infrastructure is simply not in place (Economic Times 2013). The critical role of a low-cost organization such as ZMF that can support operations in rural areas needs to be highlighted. In the context of using the UID system to operate the cash-transfer scheme, policymakers ought to have recognized the need to partner with ZMF-like institutions. One
concern is that another reason that the lower bureaucracy may resist using UIDs is because it will curb opportunities for malpractice.

Although enrollment in UID is not mandatory, state agencies have made it so for some groups by linking it to the delivery of welfare benefits to households living below the poverty line. Karnataka and other states plan to use UID numbers as record identifiers in the databases on residents maintained by different agencies, and to link the databases and analyze the number of different benefits that are being used. Some quarters worry that the creation of a centralized database would be open to abuse by police and security agencies (Bidwai 2010). It is well known that governments have targeted political opponents by mining data on land ownership, income tax payments and other records to uncover evidence of malpractice. Given the slow workings of India’s judiciary, residents will likely have no relief from the courts even if there is strong legislation to prevent abuses. Concerns over the privacy of data have also been raised.8

The UID system has had to overcome major obstacles. Even as it was being rolled out, the census commissioner was proposing a parallel program issuing identity cards with embedded chips to store data on the entire population (Hickok 2013). With the strong backing of the ruling party some of the problems have been resolved. UIDs began with the promise of making the delivery of government services to the poor efficient, convenient and corruption free. But with so many implementation challenges and turf battles, such a promise may be harder to keep than originally anticipated.

Even in technologically advanced countries, early attempts to create a unique resident identity number were not particularly successful. The Republic of Korea’s 13-digit resident registration number for all adult citizens was implemented with a different objective than India’s UID—to deny access to electronic services to noncitizens.9 The resident registration number profiles a citizen by age, place of birth and gender. But identity theft occurred in its early non-biometric implementation.

4. COMPUTERIZED MANAGEMENT OF LAND RECORDS

Nearly 15 states in India have implemented an e-governance project to manage land records and issue copies of records of ownership. Among other uses, this document is required for getting crop loans from banks, a service used by millions of rural land owners. In Karnataka, for example, nearly 10 million copies of land records are issued every year. A study commissioned by the Department of Information Technology (2008)
to ascertain the directly measurable and perceived impact on citizens of e-governance applications in the service delivery of seven departments across 10 states showed that computerized delivery reduced the cost of accessing such services by Rs100 per service transaction. The study used a common measurement framework on the number of trips to delivery points, waiting time in minutes per trip and the percentage of respondents paying bribes to complete transactions. Nearly 700 respondents from some two dozen locations in each state were surveyed to capture their experiences of using each service in a manual mode and the same service after computerization.

Figure 12.2 shows the impact on key dimensions in the land record project across 10 states where the study was conducted. The results indicate a poor state of service delivery in the manual system: on average users needed three or four trips to government offices, waited two hours (and up to six hours in some states) in each trip, and frequently paid bribes (the percentage of transactions with payment of bribes ranged from 20 percent to 90 percent). After computerization, rural land owners experienced significant improvement in service delivery on all three parameters, according to a Department of Information Technology study (2008). Overall, the number of trips to government offices was reduced by 1 from an average of 2.7 and waiting time was reduced 30 percent. In five of 10 states surveyed the proportion of transactions in which a bribe was paid declined significantly, indicating considerable potential to reduce corruption.

E-governance can do this in several ways. It takes discretion away from government functionaries, curbing opportunities for arbitrary action that often result in corruption. For example, in the computerization of land records in Karnataka (in a project called Bhoomi), a “first in, first out” requirement, imposed on the order of processing applications for changes in records in the work-flow system, prevents government employees from allowing queue jumping. Date and time are automatically stamped on service requests and cannot be rejected arbitrarily—a reason must be recorded if an application is rejected. Bio-login by operators and audit trails track officials who change data.

By making rules on land record management simpler and more transparent, e-government emboldens citizens and businesses to question unreasonable rules and procedures and their arbitrary application. Through kiosks, websites and mobile phones, citizens can check the status of service requests and draw attention to errors. Unlike the manual system, reducing physical contact with government officials helps protect the vulnerable from bribe seekers.

Projects like Bhoomi demonstrate that well-designed ICT can enable service delivery with process reforms that enhance transparency and
% of respondents who paid a bribe

Average waiting time per trip, minutes

Average number of trips

Source: Department of Information Technology (2008).

Figure 12.2 Impact of land record computerization in India
accountability, reduce discretion vested with civil servants, enhance efficiency and reduce corruption. However, the Department of Information Technology’s study shows considerable variation in project impact across states in post-computerized delivery. In a few states, performance actually worsened because they did not follow best practice, with service delivery processes neither standardized nor reengineered before computerization.

ICT-enabled reforms can take many years to deliver full value. Bhoomi’s success can be traced to the six-year tenure of its project leader. The second phase of this project saw ICT reforms deepened, with the three agencies processing land transactions—the sub-registrar’s office and the revenue and survey departments—integrated through information sharing. The registration of a land transaction in the sub-registrar’s office automatically triggers a “mutation process” in the revenue department’s database. In registering a land transaction, the land record database automatically picks up the details of the owner’s land, preventing fraudulent registration. A private partner has established nearly 1000 cyber cafes under the project in rural areas to offer online land-related services.

5. ICT USE IN EDUCATION AND HEALTH PROGRAMS

Many initiatives use ICT to improve the quality of school education. Children in urban areas have greater access to laptops and the internet in schools and the home, but children in rural areas face a wide digital divide. To help bridge it, many initiatives distribute laptops to poor children and rural schools, such as the One Laptop per Child program, which provides $100 laptops to developing countries (Quelch and Knoop 2008). The project initially only took orders in lots of 1 million, hoping to cut production costs, but there were not many takers. When order lots were lowered, prices rose. Furthermore, some countries found the education content to be unsuitable to their primary problems. Many of the distributed laptops malfunctionsed or lacked technical support. In Uruguay, for example, some 27.4 percent of the 400,000 distributed laptops were found to be out of commission (Shah 2011). India, for its part, decided to develop its own tablet, costing $60 per unit to produce, but this target could not be met during actual production and the project was deemed a failure. A number of states now have projects that distribute laptops for educational purposes to the poor—a scheme that makes the government appear both pro-poor and tech savvy. However, such schemes are widely criticized as a waste of government resources.11

Experiments with using ICT in education that have focused on
improving the teaching–learning process have not been independently assessed to measure the outcomes and determine the degree of success. The Digital Study Hall initiative in South Asia is a user-generated video sharing system intended to overcome the shortage of qualified teachers in poor and remote rural schools. The initiative digitally records live classes, stores them in a database and distributes them to schools in rural and slum areas. The project has produced over 2000 videos covering the entire school curriculum since it started in 2010. The digital classes also address gender equity by covering topics such as child marriage, domestic violence and sexual abuse. Some 3800 adolescent girls from underserved communities in 41 schools have seen the videos. The project works on the spoke-and-hub principle, with four hubs in Lucknow, Kolkata, Pune and Nepal serving over 6000 students in more than 100 schools. It is also running a capacity building project with 70 district institutes of education and training with some 140 teachers and 140,000 trainee teachers (Digital Study Hall 2012). It is doing pilots in many states in India and other countries to better understand the cost structure of putting together these programs and to demonstrate their value by building systems that solve end-to-end education problems and developing technology and pedagogy in harmony with each other. Such a system, of course, goes well beyond the approach of just providing internet access in schools.

In other uses, ICT-enabled monitoring and incentives to reduce absenteeism have been tried in pilots. In selected schools in India, researchers monitored teachers’ attendance using cameras, with their salaries made a nonlinear function of attendance. An impact assessment of this study through randomized experiments showed that teacher absenteeism fell 21 percentage points relative to the control group, and children’s test scores increased 0.17 standard deviations (Duflo et al. 2012).

An important lesson gleaned from case studies of ICT in teacher education compiled from more than a dozen countries in Asia and the Pacific (UNESCO 2007) is that success depends largely on teachers and their skill level in integrating ICT into the teaching process and using it to provide learner-centered, interactive education. Training teachers to do this is therefore crucial.

In a World Bank workshop in 2009 for Jordan and Indonesia, Jordan’s minister of education drew attention to the following lessons on the use of ICT in education systems for policymakers: (i) the need for patience—it takes time to profit from ICT, (ii) ICT cannot fix a bad education system, (iii) ICT in education is not about purchasing computers for schools, but upgrading skills and the knowledge of teachers, (iv) education systems have to develop e-content materials, and (v) change management is needed at the school level (Trucano 2009).
6. ICT USE IN HEALTH PROGRAMS

Recognizing the growing penetration of mobile phones among health workers, many recent initiatives in ICT in health have been in so-called m-health. Examples of mobile phone use in health sector administration and care delivery are well documented. These have focused on empowering field health workers by providing mobile-phone-based aid to collect and manage client data, and spend less time compiling reports and planning field activities. The need to improve these areas and outcomes in public health programs was recognized as far back as three decades ago, but the needed computational tools were not available. As personal computers became less expensive, many pilot projects were launched to improve management information systems and the activity planning of health workers. Mobile phones are ideal because of their low cost, easy maintenance and mobility.

In a pilot m-health project in eastern Uganda, a significant reduction in maternal mortality was achieved when traditional birth attendants used VHF radio and “walkie-talkies” to communicate with public health centers (Bhavnani et al. 2008). In ongoing experiments, the ability of mobiles to store and display video images and text data is being used as an interactive training tool for health workers. This section discusses projects in developing countries that offer particularly useful lessons for the wider implementation of m-health.

In 2010, for-profit social enterprise Dimagi launched the CommCare-Accredited Social Health Activists project in India. It uses open source software to send short message service (SMS) reminders to accredited social health activists (community health workers) for visits to clients and provides education materials to improve the effectiveness of the workers. Given varied literacy rates among accredited social health activists and their clients, a variety of mobile phone prompts, such as prioritized checklists, danger-sign monitoring and educational prompts with multimedia clips, provide the activists with tools to engage and educate their clients. In Bangladesh, Dimagi and international development organization BRAC developed short, interactive audio courses that can be taken using a mobile phone keypad to answer questions. Each course conveys a few essential points, such as the importance of clinician-assisted birth, proper hand washing techniques and knowledge of HIV-transmission. Each course builds on prior courses, which take the form of an “audio soap opera” with a story and characters. Each call ends with a short quiz, which if passed earns the caller free airtime that can be used to make personal calls.

In a similar use of m-health for supporting accredited social health
activists, IntraHealth International, India has developed mSakhi, a multimedia interpersonal communication tutorial application designed to improve the knowledge of accredited social health activists in prenatal and delivery care. mSakhi, which means “mobile friend” in Hindi, is an interactive tutorial that offers 153 key health messages using a combination of text and audio messages that are contextualized with localized illustrations and dialects. Preliminary results from its implementation with frontline health workers, reported in a workshop in 2012, were positive even with first-time mobile users.\(^\text{14}\)

In Bangladesh, the Mobile Alliance for Maternal Action information program, known as Aponjon, aims to create mass awareness about good health practices to help reduce maternal and child mortality. It is run as a partnership between Dnet, a registered society, and the Department of Health and Family Welfare.\(^\text{15}\) The messages delivered on registered mobile phones are targeted not only at pregnant women and new mothers but also husbands, mothers and mothers-in-law, and other relatives. During the pilot in 2012, Aponjon reached almost 1500 mothers and family members. The information is delivered twice a week either as an SMS or a 60-second “skit” of voice message, with actors playing the roles of a doctor, pregnant woman, mother and mother-in-law. In December 2012, Aponjon launched its service nationwide and, as of May 2013, had 59,520 subscribers, with the program aiming for 3 million. To get there, the program is advertised in print, radio and television media. The service costs two taka (about 2.5 US cents) per message and is free for 20 percent of the poorest subscribers.

In the Philippines, the Department of Science and Technology launched a telemedicine initiative in 2011 using an RxBox, a portable device containing instruments for transmitting a patient’s electrocardiograms and audio signals from heart, lungs and abdomen. The device enables consultation between experts in large hospitals in Manila with doctors treating rural patients through unused frequencies in TV broadcast channels.

There are significant challenges in scaling up such projects. Often the mobile devices used in pilot projects are high-end models—the kind health workers do not normally use. Providing functionality and speed in the application software using inexpensive devices is a very considerable challenge. In addition, most of the pilot programs have not had systematic impact evaluations. Other concerns pertain to the quality of training programs and whether interest in these applications can be sustained once the novelty wears off. It is clear that ICT cannot be seen merely as a technology solution, but has to be part of other interventions to make entire service delivery systems work more effectively.

Even though health-related information for the poor may not always produce the desired behavioral change, there are some areas in which
focused education can improve and save lives.\textsuperscript{16} Mobile phones are an extremely attractive channel for health messaging, because they offer an easy way to deliver an individualized educational session to a multitude, compared with the effort required to disseminate this information by traditional means, such as flyers and billboards, as is still done in many public health systems. The latter can be costly and arduous to update and gather feedback; deploying and updating automated messages on a massive scale on mobile phones is fast and simple.

7. PROMOTING CITIZEN ENGAGEMENT THROUGH INFORMATION SHARING

Citizens engage with government at the individual and community level to demand services, influence policy and, of course, file complaints. Past experiments in developing countries in which governments at various levels shared information to engage with citizens were generally not successful. In recent years, several governments have created websites to distribute a part of the information in their databases to help create a culture of open data. But even if open data initiatives were to work well in developing countries, they would largely serve urban, internet-savvy populations. For open government, the World Justice Project Rule of Law Index for 2012–2013 places most countries in East and South Asia roughly in the middle, between 35 to 59 among 100 countries.\textsuperscript{17} Indonesia is placed at the top in the region for open government and Pakistan and Bangladesh in the 90s. While information technology in Indonesia used to support the structure of state domination over the public, internet access is now widely available and largely independent of government rules and regulations (Pendit 2003). Specific examples of information sharing in the region that benefit the poor are discussed below.

A successful example of citizen engagement is an initiative in the Indian state of Chhattisgarh, which tracks grain pilferage in the Public Distribution System. Participants receive on their mobile phones details of trucks carrying grains to fair-price shops, a process that has helped in checking that consignments are indeed delivered (One World Foundation 2011). A program called e-Panchayat, implemented under the government’s National e-Governance Plan, focuses on computerizing local government functions so that information on development expenditure and the performance of executing contractors can be shared with communities. This empowers communities to demand a fair allocation of development expenditure that best meets their needs (Upadhyay 2009).

It has been reported that the number of citizens willing to be constantly...
engaged with government is very small (Bhatnagar 2009). For example, Karnataka introduced the Pancha Tantra Online System, a robust system of double-entry accounting. It did so under the 2007 Amendment to the Panchayat Raj Act 1993 in all self-governing gram panchayats at the village level to electronically monitor and evaluate the work undertaken by these local authorities. Under the traditional system, the gram panchayats maintained accounts manually. The new system enables citizens to view a variety of comparative performance reports of their panchayat. However, its impact has been disappointing. Numerous articles in the media have praised the value of disclosing this information, but there has been little discussion of its content. Such experiments in monitoring generally fail to gain traction in rural communities unless NGOs are used as catalysts.

Harnessing ICT for human development goals would be more effective if combined with community initiatives (Banuri 2004). For example Mazdoor Kisan Shakti Sangathan, a group that was active in the right to information movement in India, organized a series of public forums to hear and redress grievances in the state of Rajasthan in 2012. These so-called Right to Hearing forums were held in four panchayats to assess the delivery of services by 16 government departments. Government officials were present to receive complaints over services and entitlements and answer queries on the nonpayment or nondelivery of services or entitlements. The forums are an exercise in making the system work from the bottom up, creating a space in which citizens have the individual and collective power to demand their rights and push the state to deliver them. The Citizen Report Card is another initiative gathering momentum in many South Asian countries, whereby citizens are engaged in monitoring the performance of local government agencies with the help of NGOs.18

With 60 million Facebook and 16 million Twitter users in India (Socialbakers 2014), social media has emerged as a powerful platform for opinion forming as well as generating mass support for a social cause in urban India. Social media remains largely an urban phenomenon and currently has limited potential for having a positive impact on rural citizens. As in other countries, social media has had a considerable impact as a mobilizing force, and this has already been felt in India on at least two significant occasions in which citizens have confronted government using social media platforms (Singh 2012). As a result, the Ministry of Information Technology has drawn up guidelines for the use of social media by government agencies for constructive citizen engagement (Department of Electronics and Information Technology 2012).

Government agencies are likely to use social media to present their points of view rather than to seek feedback on policy and performance. A mindset change is needed within the upper echelons of government
for it to become more receptive to feedback—positive or negative—from citizens and concerned groups. Government policies on regulating the use of internet and social media need to be consistent with international practice and take a balanced approach. Government curbs on the free flow of information have to be the exception—such as in instances of national security—rather than the rule. The overriding consideration should be to encourage communication among stakeholders on social issues.

8. EMPOWERING FARMERS IN SHARING KNOWLEDGE AND PRICE INFORMATION

Throughout the developing world, mobile phones are playing a significant role in trade and commerce. For example, the Kenya Agricultural Commodity Exchange sends functionaries to Nairobi markets to collect prices from the local traders and then send them via SMS to a central database of prices that farmers can access on their mobile phones or through call centers. Similarly, fishermen in the Indian state of Kerala use their mobiles to check fish prices to ensure that they can sell their catch at the quayside market for the highest prices. These simple uses of mobiles have a high economic impact on individual producers by eliminating middlemen. Indeed, many small enterprises have doubled their income simply by using mobiles to trade directly with customers.19

The internet-based initiative e-Choupal—started in 2000 by ITC, a large Indian agribusiness firm—is empowering farmers through access to information on prices and weather conditions and free expert advice on agricultural practices (Kumar 2004). Because of a lack of information on prevailing prices, farmers are vulnerable to exploitation by middlemen operating in traditional markets. ITC has set up 6500 e-Choupal centers across eight states, reaching more than four million farmers in about 40 000 villages to directly procure 13 commodities, including oilseeds, grains and coffee, thereby streamlining the procurement process.20

Farmers can view information on a computer at an e-Choupal center, which can access a special web portal maintained by ITC. A local farmer, selected and trained by ITC, operates the center. By bringing samples of their produce to e-Choupal, they can also find out ITC’s offer price, presenting an alternative to selling to government-controlled agricultural markets. Since the project was started, ITC has developed a loyal set of farmers who sell their produce to the company and earn higher incomes through competitive prices, a transparent procurement process and lower logistic costs. Furthermore, farmers have been able to increase yields, improve crop quality and reduce transaction costs. For its part, ITC,
through e-Choupal, has been able to expand its range of services to include soil testing, tractor maintenance, medical services and restaurants at its warehouse complexes. All these services are offered at a price that allows ITC to recover the cost of e-Choupal, though it does not make a profit from it.

A number of lessons can be drawn from the ITC experiment. Its success can be attributed to the provision of free access to information and expertise to the farmers and streamlined procurement processes, which minimize handling and transport costs for farmers. And by providing them complementary services, ITC becomes a one-stop-shop for the major needs of rural communities.

The Digital Green initiative in India works with existing agriculture extension systems to improve cost effectiveness and broaden community participation. Its partners produce 8–10 minute videos on better agricultural practices, market links and government schemes for farmers. Community members shoot the videos using pocket cameras, domain experts review the contents and the videos are screened to groups of 10–12 farmers using battery operated projectors and ports for memory cards containing the videos. The real value of the initiative is the opportunity it gives farmers to interact and discuss issues presented in the videos. Local social networks are also tapped to connect farmers with experts. Digital Green has produced 2600 videos and screened them to 150 000 viewers across six states. The Digital Green team has 22 core members, 102 partner staff and 524 community intermediaries.

9. **EMPOWERING THE UNBANKED THROUGH MOBILE PHONE BANKING**

Perhaps the most significant way ICT can empower communities is to provide the poor with a means to enhance incomes. Once free of poverty through better education, and without being burdened by loans, the poor are then in a position to assert and demand their rights. For pension payments, for example, the potential of mobile phones as a low-cost substitute for processing the delivery of banking services was highlighted earlier in this chapter. The M-Pesa project in Kenya shows how simple, low-cost mobiles in the hands of the poor themselves can be leveraged.

Before M-Pesa’s launch in 2007, mobile banking initiatives were tried in the Philippines (Smart’s Smart Money in 2003 and Globe’s GCash in 2004) and in South Africa in 2005 (WIZZIT) (Rangan and Lee 2011). In the Philippines, clearly defined regulations for mobile banking allowed multinational organizations to operate as remittance agents without a
banking license or a partnership with a banking institution. Collectively these initiatives offer many insights into how to make mobile-phone banking a profitable and sustainable venture and an effective means of financial inclusion for the unbanked poor.

The success of M-Pesa can be traced to the fact that its three partners brought complementary skills to the table and learned to work together. Vodafone provided the technology and application development inputs. Safaricom, the mobile service provider, provided a ready-to-go sales and service network of their agents. Faulu, a local microfinance institution with several thousand borrowers who typically run small businesses, provided the initial customer base. Senior sponsorship within each organization, along with a committed project team, was another success factor.

An important catalyst for the venture was the Financial Deepening Challenge Fund established by the Department for International Development of the United Kingdom in 2000. The fund made £15 million available for joint investments with the private sector on projects that helped improve access to financial services in developing countries. Through the department's matching challenge grant, corporations were able to reduce internal competition for capital, allowing socially beneficial projects that might hold higher risk or have lower returns on investment to go ahead.

M-Pesa's high-profile success spurred policymakers and donors to support similar initiatives in other developing countries. In India, Vodafone and HDFC Bank set up a pilot mobile banking service in 10 rural villages in a district in Rajasthan (Bhattacharjee and Bhargava 2010). Fifty-four retailers from Vodafone's network were appointed business correspondents in these villages, and its branchless banking service was designed to enable users to do basic banking transactions without the need for a bank branch.

10. KEY LESSONS FROM SUCCESSFUL PROJECTS

Very few ICT projects for service delivery in rural areas in developing countries have been scaled up. So the full potential of ICT as an enabler of empowerment and development has yet to be tapped. Many of the projects discussed in this chapter have, however, been able to do this despite many constraints. An analysis of how they have achieved this indicates that issues of choice of application, use of appropriate technologies and the type of organizations that can implement large-scale projects are crucial in the execution of such projects. Often the enabling role of policy, whether it is for financial inclusion or for private participation in commodity
procurement, has encouraged ICT-based innovations. In cases like M-Pesa, funding support helped a large company to innovate. The broader lessons for policy and for developing strategies for deploying ICT in government are now discussed.

**10.1 ICT is Not a Complete Solution for Improving Governance**

Decision makers should not treat the “digital divide” as the only impediment to empowering poor citizens through ICT-enabled service delivery. This chapter provides several examples in which, despite very low internet penetration in rural areas and limited availability of broadband connectivity, significant benefits nevertheless reached the poor through services delivered through mobile phones and community service centers.

Investments in rural electrification and enlarging the footprint of mobile phones are nevertheless key to the improved delivery of e-services. In countries where unique citizen identification can be provided, a variety of social benefits can be delivered directly to households in cash or kind. Successful projects point to a three-step approach in thinking about deploying ICT for development. It begins by understanding the needs of the poor people in their context, analyzing how these needs are being met and then determining whether ICT can better help fulfill those needs. In addition to ICT, other factors are invariably necessary to improve existing systems. For example, the quality of primary education cannot be improved in India by simply introducing e-learning or a biometric attendance system for teachers. Midday meal schemes to ensure attendance, recruitment and training of teachers and new methodologies for teaching may all be necessary to have impact.

Often, technologists focus only on the introduction of ICT and neglect other aspects. In school education, for example, frequent attempts are made to provide laptops to rural children and enhance access to broadband in rural areas. Given India’s large population, poor coverage of electricity supply and the huge organization needed for maintenance, it may be better to empower teachers by providing them with convenient internet access. More knowledgeable teachers are likely to improve the quality of teaching. A European Union report on information technology in schools noted that the technology used in schools was not intended to change teaching–learning processes or to explore new possibilities, but to enrich the existing curriculum. However, the ability of teachers to use ICT in an exploratory mode in the classroom was limited (Punie et al. 2006). Similarly, other intermediaries in the flow of knowledge and information such as health and extension workers may need to be empowered by providing convenient access to technology and training, as illustrated in examples in this chapter.
That many e-governance projects have failed to curb bribery reinforces the need for extensive process reform that will take away the unnecessary discretion that the corrupt abuse by favoring those who pay bribes. In such cases, new legislation, modified rules and procedures and extensive training may be needed to change attitudes.

The conceptualization phase of ICT projects defines the overall vision, mission, objectives and the outcomes, as well as the scope and scale of the project. All stakeholders, particularly citizens for whose benefit ICT is being deployed, need to be consulted during project conceptualization. The objective needs to be defined in the context of a government’s overall development and governance agenda. Outcomes need to be defined as measurable benefits to be delivered to different stakeholders, and the successful implementation of projects requires a clear focus on the purpose for which the application is being built.

10.2 All Technologies Have a Place in Development

Under the conventional approach to development, geographic isolation, infrastructural resources, market information failure and skills shortages are often obstacles. In these cases, ICT is seen as helping to overcome these hurdles in a cheaper and sustainable way. Most information technologies can be used interchangeably and in different combinations to achieve a specific purpose. In the ZMF-run pension payments, the entire transaction processing is done through a mobile device that works like a computer. Data transfer takes place through GPRS, rather than via internet connectivity. The data at the back end is processed on computers and there is seamless connectivity between the computers of all the partner-banks, ZMF and the organization that developed and provided the technology and application software.

Applications delivering agricultural commodity market prices use a variety of channels such as radio broadcast, SMS alerts through web portals accessed via the internet and call centers accessed by phone. In the Bhoomi application, an SMS alert can be sent to a landowner whenever a document is ready for collection.

The high penetration of mobiles among the poor remains largely unexploited for the delivery of services. M-Pesa in Kenya shows how a profit-making enterprise can leverage mobile technology to enhance the incomes of the poor. Mobile-based service delivery can also be popularized by creating freely downloadable applications from a public store and providing a delivery gateway for any provider serving rural populations. In Karnataka, a mobile-based application offers services that are currently available on the internet (The Hindu 2013).
10.3 Partnerships are Vital for Operating in Rural Areas

Development is a complex process and the use of ICT for enabling development requires expertise of different kinds. Most successful projects are therefore implemented through partnerships in which different kinds of agencies bring their skills to the table. In e-Choupal, ITC uses weather forecasts developed by government agencies, commodity prices gathered from different government-controlled agricultural markets and expert advice. In the ZMF-run pension payments, six distinct actors are involved, with the Department of Social Welfare of Andhra Pradesh the main user and pensioners the key beneficiaries. As the project shows, unless the incentive structure is especially designed to ensure that every partner earns revenue that is greater than its cost, the entire ecosystem is not viable. The success of M-Pesa can be traced to the fact that the three partners brought complementary skills to the table and learned to work together.

Unlike a commercial contract—which defines government’s partnership with the private sector and NGOs for service delivery for empowering communities through information disclosure—this kind of scheme requires government agencies to be more trusting of NGOs and the media and encourage them to analyze information and present it to citizens in a form that can be acted on. In both cases, identifying small and medium enterprises and NGOs with a presence in rural areas is extremely important.

10.4 Emphasize Content

In most countries, e-delivery of services has lagged far behind the creation of infrastructure providing access points where services can be delivered. For example, the state government of Goa has set up a data center, established a wide area of broadband connectivity up to the panchayat level and distributed laptops to almost all 18-year-old students. Yet very few services in Goa are delivered through this infrastructure because traditional mindsets and methods of working have not changed in government back offices. Computerization and process reform is generally lacking and very few organizations deliver useful content. Therefore priorities in national information technology plans have to be reversed by reforming the back-end and emphasizing the creation of useful content.

The Indian government’s Citizen Service Centers initiative launched in 2006 is another example of the preoccupation with infrastructure and inadequate thought to its use, resulting in wasted effort and missed opportunities. For delivering services such as certificates and licenses to rural populations, creating 100,000 Citizen Service Centers was a pragmatic
step. But delays in implementing the government’s e-district program for computerizing government offices in districts so that service requests could be processed electronically rendered the centers inoperable. As a result, 70 percent of them were closed. In spite of this, the government plans to create another 150,000 Citizen Service Centers. Similarly, in the e-delivery of municipal services in South Africa, the emphasis was on connectivity and bandwidth rather than delivery of services (Averweg 2012). However, there are examples of organic growth of telecenters (which provide computing resources and internet connectivity) in other countries, including Peru (Averweg and Villanueva 2009) and Cambodia (Parks 2003).

Lack of content is an age-old issue. Production of content that is current and useful for the poor is often not economically viable in the short run. There are also demand-side constraints. Demand for ICT-enabled services is fragmented (physically dispersed across small habitations) and is often latent. Low levels of basic literacy and ICT literacy act as barriers in the acceptance of new modes of communications for accessing knowledge and information. However, the impact on social services, such as education and health, depends on the availability of useful content, as was shown by projects discussed in this chapter. Furthermore, the revenue generation potential from user fees for these services is limited, making rural projects economically unviable. A social venture fund may be needed to attract developers and, to this end, the contours of a Social eApplications Rollout Venture Fund were proposed in a workshop sponsored by the World Bank in Ahmedabad in 2004 (Rathore and Mukerji 2004).

11. CONCLUSION

ICT can increase efficiency, speed and transparency in the delivery of services and help generate and disseminate knowledge. This chapter has argued that both these attributes need to be exploited for the benefit of the poor.

Governments are the largest provider of information and services important for the poor. But methods of service delivery have not changed for decades, making them inefficient and vulnerable to corruption. Yet, ample evidence suggests that well-designed e-governance projects with process reforms that enhance transparency and accountability reduce the discretion vested in civil servants, enhance efficiency and can lower corruption. Nevertheless, very few such projects have been implemented to their fullest potential. Thus, there is a clear need for faster implementation of e-governance and building capacity to reform the process of service delivery.

But two caveats are in order. First, with current levels of access to ICT
among the poorest of the poor living in remote areas, the benefits are likely to trickle down very slowly. So the functionaries responsible for community access centers need to be the sort of people willing to go the extra mile to help the poor. Second, it would be useful to design ICT applications in a manner that ensures data security. As more and more data gets stored in large data centers, it becomes a target for sabotage and abuse, compromising the privacy of individuals and institutions. When a large number of service delivery procedures get automated, it becomes difficult to deal with exceptions. In large and diverse countries with low ICT literacy, a larger number of citizens may face problems because their service requests do not conform to a standard mold. Mechanisms need to be designed to handle such cases.

As stressed in this chapter, the limited impact of ICT on governance and empowerment in developing countries results from the failure to scale up and replicate successful pilots (Harris 2003). Proactive organizations that can spot scalable and successful innovations in the use of ICT and support those involved in their innovation need to be created.

Multilateral agencies such as the Asian Development Bank have important roles to play in promoting ICT for development. An inventory of best practices in ICT applications in key development sectors, such as the management of land records, improving school education and training health workers, could be made by documenting case studies of successful projects. Workshops could be organized to bring together functionaries from different countries interested in replicating such projects. Support could also be provided through small grants to develop detailed project reports for countries that agree to replicate successful projects. Such reports would incorporate essential process reforms carried out in best practice cases in the local context of countries.

Multilateral agencies can also provide strategic advice on how ICT can be deployed for helping the poor. Workshops attended by political executives from different countries could be organized to highlight the complex nature of implementing large-scale ICT initiatives, the need for sufficiently long tenures of project champions and the need to invest in ICT infrastructure in tandem with application developments, as well as developing plans for ICT deployment that focuses on low-hanging fruit. A few initiatives to define pro-poor ICT policies and strategies for Asia and the Pacific have already been taken (Sayo et al. 2004).

Many ideas have been floated in developing nations for deploying ICT for development—and some projects have demonstrated the workability of some ideas. Governments, the private sector and civil society together need to sift through these ideas and begin to replicate the best of them widely.
NOTES

1. For examples, see case studies on empowerment from many developing countries on the World Bank’s PovertyNet website and Indian case studies in Bhatnagar and Schware (2000).
2. The E-Government Development Index varies between 0 and 1. East Asia was placed at 0.6334 and South Asia at 0.3464 against a world average of 0.4872. See United Nations (2012).
3. Because of India’s long-standing deployment of ICT, projects from this country are strongly represented in this chapter.
4. This is abstracted from a case study by the author commissioned by the think tank LIRNEasia as a part of its Mobile 2.0@BOP research project (LIRNEasia 2008).
5. Financial inclusion is the process of ensuring access to financial services and timely and adequate credit to weaker segments of society and low-income groups at an affordable cost. Only 58% of households in India had access to banking services at the time of launch of a program to take banking services to rural areas.
6. Discussions with a proprietor of a company responsible for the data capture in a few districts in a large state revealed that the compensation paid for this work to different actors is not properly aligned to the tasks they perform. Whereas the bulk of the payment per transaction is kept by the agency, which takes the overall responsibility, the entrepreneur keeps enough to recover his investment in the equipment within six to eight months. The bottom rung of people who capture the data are paid the least at Rs15 per transaction. The quality of the service provided at this level varies across districts.
7. The article looks at the use of UID in cash-subsidy transfers and is critical of the implementation strategy. It argues that pilot schemes must stabilize to show the benefits of the cash transfer system.
8. The Kractivist website carries a number of articles on problems and challenges in implementing Aadhar. For example, Challenges/Problems of Aadhaar/UIDAI Systems inIndia, http://kractivist.wordpress.com/2013/04/02/challenges-problems-of-aadhaar-uidai-systems-in-india-uid/.
13. The National Rural Health Mission in India is training over 750,000 accredited social health activists with demonstrated potential to substantially improve health outcomes, notably in maternal health, in areas of extreme poverty.
14. Based on a presentation made at the ‘ICT in health for Uttar Pradesh: opportunities and challenges’ workshop in Lucknow, 20 February 2012.
16. A profound example is the popularization of treating diarrhea with homemade oral rehydration therapy in the 1970s in Bangladesh.
20. For a more detailed discussion on e-Choupals see http://www.echoupal.com/.
21. A study conducted by LIRNEasia in India reported that 45% of bottom-of-the-pyramid households had at least one family member owning a mobile phone.
22. Based on observations made by officers of the Goa government in the workshop ‘Leadership in governance’ on 9–10 January 2012.

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Using ICT to improve governance and service delivery to the poor


13. Concluding remarks

Anil B. Deolalikar and Shikha Jha

Governance is a complex and difficult concept to pin down. An expansive definition of governance would include the nature of political regime (for example, the process by which governments are selected); state capacity to formulate, implement and deliver policies and services for the welfare of citizens; and respect for social and legal institutions (rule of law).

According to most indicators, developing Asia ranks low in the quality of governance; indeed, the only other region in the world placing lower is sub-Saharan Africa.

Despite poor performance on governance, however, many countries in developing Asia have achieved remarkable economic success as well as impressive social progress over the past three decades. There are many possible reasons for this. For one, the effects on economic growth from other growth-determining factors, such as capital accumulation and trade openness, may have neutralized the negative influence of poor governance on development. In the initial stages of development, these factors tend to have an inordinate influence on growth, but the importance of governance increases once a certain level of income per capita has been attained. This could mean that poor governance may well constrain further growth and development in the region.

It could also be the case that different elements of governance become important at different stages of development. At low levels of income, strengthening government effectiveness through civil service reform, improving regulatory quality and rule of law, combating corruption and improving the quality of public services appear to be among the most important governance reforms. Improving these aspects of governance can provide entry points for wider governance reform and accelerate a country’s attainment of middle-income status. On the other hand, for middle-income economies trying to transition to high-income status, maintaining an environment conducive to growth remains important, although governance reforms that acknowledge people’s rising economic aspirations and demands for a better quality of life may be even more
important, because higher-income citizens demand greater transparency, participation and accountability from their governments.

This book focuses on service delivery, which is the face of governance in developing countries and one—sometimes the only—point of contact that citizens in a poor country have with their governments. When public services cannot be accessed, or when the quality of services is substandard, people rightly believe that the government is not working. Despite large improvements in the provision of public services during the last three decades, the region still ranks poorly in this area compared with most other world regions. Even the somewhat better performing East Asia and Southeast Asia subregions lag far behind Organisation of Economic Co-operation and Development and Latin American countries.

Within developing Asia’s countries, service access varies considerably, with the poor typically having the worst access and the lowest quality. This is particularly appalling because public services are vitally important for poor people, who do not have the purchasing power to buy high-priced private services. Indeed, the raison d’être of a well-functioning public distribution system is that it can bring livelihood essentials within easy reach of people whose lives may remain otherwise untouched by economic growth. The same holds true of regulatory services: small firms routinely face significantly more hurdles than larger, well-connected firms in obtaining government services, such as license approvals, property titles and electricity connections. The differential in access is partly because small firms are typically located in the informal sector or in remote regions with poor access to public services. But the inability of small firms to pay as much as larger ones in bribes for business services to civil servants is also a reason for the differential.

So how can public service delivery—and, more generally, governance—be improved? Although there is no magic bullet, this book discusses four broad policy options.

The first option to improve public services is decentralization of service provision. The idea behind decentralization is that local governments have better knowledge of their citizens’ needs and are likely to be more accountable to them. By contrast, central governments, being farther removed from citizens and communities, often lack the knowledge about local needs and preferences to provide the right public services. As such, giving local governments greater responsibility for delivering public services can improve service delivery. And this has been the trend in recent decades, as central governments across Asia have increasingly shared responsibility for providing public services with local governments to improve public accountability and responsiveness.

Sometimes, accommodating regional demands for autonomy has been
a driving force behind decentralization efforts (as in Sri Lanka and Nepal). In Indonesia and the Philippines, the regionalization process is largely driven by the need to prevent the centrifugal pressures present in these large and diverse countries from becoming stronger. But the quest for efficiency is another strong motivation driving decentralization, especially in education, because most Asian countries have a clear perception of the positive and needed impact of better educational outcomes on growth.

Although decentralization can improve service delivery, the positive effect depends on the way in which decentralization is pursued. In some cases, central governments assign delivery functions to subnational governments without a legal framework regulating the transfer, which leads to weaker accountability because of the lack of clarity about assignments. The clearest case is in public education where the responsibility for providing primary and secondary schooling is assigned to subnational governments, but teachers remain employees of the central government. Being unable to discipline or fire substandard or absent teachers, local governments and communities are severely constrained in their efforts to improve the quality of teaching.

Another complicating factor in decentralization is the unfunded mandate, whereby central governments require subnational units to provide services but do not remunerate them. Unfunded obligations harm subnational finances and service delivery.

Education in Indonesia illustrates how the context and content of decentralization matters for effectiveness. Indonesia decentralized most government functions, including basic education, in 2001. Districts receive most of their revenues as block grants from the central government and have considerable leeway in how they spend them. District governments form working groups that allow teachers to discuss work issues with educators from other schools on common tasks, such as curriculum development, teaching aids and the design of tests. The central government supports these groups by providing funds for travel and training activities, and they have resulted in concrete student learning gains.

So in this respect, the ability of decentralization to improve service delivery depends not just on the intensity of decentralization, but even more on how it is implemented. Unfortunately, there are no cookie-cutter solutions to ensure effective service delivery, but a basic requirement is accountability. And when that is missing, decentralization is partial, often resulting in higher costs, accumulating budget imbalances and scant—if any—improvements in service delivery. Even so, there are mechanisms and institutions, such as partnering central governments with subnational governments, asymmetric financial arrangements and coordination, and
civil service reform that can make decentralization more effective in service provision.

In some cases, however, local governments lack the administrative capacity to design or administer public services efficiently. Here, the non-government sector—nonprofit organizations, civil society and for-profit companies—can help fill the gap.

Partnering with private providers and nongovernment organizations (NGOs) is the second option to enhance the scale, scope and quality of public services. In several countries in developing Asia, essential public services such as microcredit, health, sanitation and education are already contracted out for delivery to such agencies.

NGOs often have a wider reach than government providers, especially for marginalized communities in remote regions. Contracting with NGOs to supply social services on behalf of the government can improve their access to the public. And since private providers are more vulnerable to sanctions from consumers, they have a stronger incentive to be more responsive to consumer needs and concerns, reflecting client power. Furthermore, NGOs often have lower unit costs of service delivery, enabling the provision of more services within a given budget.

A hybrid model for public service delivery is a public–private partnership (PPP), whereby public services are funded and operated through a partnership between the government and a private company or citizen-based organization. Public–private partnerships in Asia are proliferating and becoming more complex. But at their best they infuse service provision with social dynamism. Contracting with a nongovernment entity is a type of PPP. With careful design and management, this can improve the quantity and quality of public services.

There are numerous examples of successful partnerships throughout developing Asia between key stakeholders, including NGOs, governments at all levels, corporations and citizens. Examples include the Cambodian government’s decision since 1999 to contract out the management of all government health services to NGOs, and Indian NGO Pratham, which works closely with the central and state governments to improve the quality of elementary education. Some PPPs are huge; for instance, the four largest microfinance NGOs in Bangladesh have some 14.2 million borrowers.

Clearly, the success of PPPs is not guaranteed. It is important for government to match a provider—whether a private company or an NGO—with the service being contracted out based on the comparative advantage of the provider and the nature of the service (that is, the provision of a public good, private good or both to a target population). For instance, the possibility of charging user fees for private goods will appeal
to for-profit firms, but the prospect of achieving social or equity goals in the delivery of public goods or private goods will appeal more to NGOs.

The success of PPPs also depends on motivating private or NGO providers whose goals or preferred ways of achieving them may not necessarily be identical to those of the government. In general, the prescribed incentive scheme is to tie payments for services to performance so that a firm will be motivated to expend effort toward the desired outcome of its partnership. In extreme cases, a firm could be made the residual claimant; that is, the party that absorbs the net revenues or losses.

Although private contracting can alleviate weak administrative capacity in the provision of services, it does not eliminate the need for government intervention in other areas, particularly in state regulation, enforcement of contracts, and controls for ensuring accountability and performance. The shift in the role of government from service provider to service facilitator must be accompanied by stronger state oversight.

Much of the service delivery problem in developing Asia is because of the lack of accountability on the part of government agencies and service providers. One way to overcome this is to empower consumer-clients and communities.

Empowerment of citizens is the third policy option to improve public service delivery. The concept of empowerment is motivated by Amartya Sen’s rights and capability approach. This emphasizes freedom of choice, capability and opportunity. In other words, people should be free to choose what they want to do, have the functional ability to put those choices into action and have an enabling environment that allows them to perform those actions. Empowerment therefore enables deprived people to be effective agents of their own development. It enables citizens and communities to hold the state accountable for the delivery of basic services. Client-citizens also have the option to influence the quality of services by directly exercising client power over service providers.

Empowerment can occur through different mechanisms—rights-based entitlements, whereby the state offers citizens the right to information as well as the right to specific social services and basic necessities (such as food, employment, health, and education); participatory performance monitoring, whereby citizens and communities monitor and evaluate the implementation and performance of public services, often according to indicators they themselves have selected, and then demand better performance from service providers; and community participation and community-driven development, whereby groups of users of services or entire communities participate in the delivery of services, thereby directly controlling the quantity and quality of services provided.

Countries in developing Asia have made extensive use of these
empowerment mechanisms. India has probably gone farther than most in putting the rights-based approach into practice. The Indian state has successively legislated more rights and guarantees to its citizens—the right to information, guaranteed rural employment and, more recently, the right to food. The right-to-information in particular has opened the state up to detailed scrutiny and has been used by citizens and civil society groups to monitor government functioning and audit programs. It has also forced the bureaucracy to acknowledge the concepts of transparency, accountability and people’s empowerment.

Participatory performance tools, such as citizen report cards, community score cards and social audits, are also being used by a large number of countries in developing Asia to monitor the performance of service providers and to put pressure on them to improve service delivery—often to good effect. In addition, community-driven development has been common in the region during the past two or three decades. But these empowerment interventions do not appear to have made much of a dent in the service delivery problem.

Why is this? First, there has to be a strong political will to empower citizens and communities. Although empowerment sometimes flows from below (that is, citizens and communities obtain power themselves), it mostly flows from above, as governments grant citizens the entitlement to specific essential services and encourage participatory monitoring and audits of service providers. This requires strong will on the part of governments—to not only grant citizen rights and entitlements, but also to back those entitlements with public funds and resources needed to provide better services.

In addition, there are several prerequisites for empowerment to actually result in improved service delivery outcomes. For one thing, there needs to be a history and culture of strong civil society that can mobilize marginalized citizens and communities to hold local governments and service providers accountable. The success of empowerment initiatives, such as citizen report and community score cards, also depends on awareness creation and significant technical and financial capacity among both communities and governments (for example, designing and implementing surveys, analyzing the data and providing the feedback from the analysis promptly to government agencies and service providers). In many countries, these preconditions seem to be missing, which is possibly why a number of empowerment initiatives in developing Asia have failed to improve service delivery.

Even more importantly, the lesson from developing Asia is that citizen empowerment, even when it is well-designed and well-implemented, is at best a necessary—but not sufficient—condition to bring about service
delivery improvements. Empowered citizens and communities can bring pressure to bear on governments and service providers, but unless this is accompanied by larger administrative reform, it is difficult to get a radical transformation of governance structures. Administrative reform needs to include, among other things, disconnecting the bureaucracy from political patronage, changing the incentives that managers face at the local level, developing career paths for service providers (such as teachers and public utility workers), building official capacity to collect and record information, and reforming record management systems to enable government departments to disclose information more efficiently. For instance, in the education sector, extensive participatory monitoring and community involvement in local schools has often not resulted in improved student learning outcomes because of the unwillingness of governments to penalize errant teachers and principals, who do not see themselves as being directly accountable to the communities they serve.

India is a classic example of a country that has done much to empower its citizens, yet has failed to improve service delivery outcomes. A great deal of rights-based legislation in India over the past two decades, some of it enforced by an activist judiciary, has genuinely empowered citizens to scrutinize the government and hold it to account—and citizens have responded to this enthusiastically. The legislation and its enforcement has shaken up a bureaucratic system that has historically been opaque and maintained its distance from citizens, and forced it to acknowledge the importance of transparency, accountability and people’s empowerment. But there is no evidence that this has led to systemic reform of the bureaucracy and created genuinely transparent governance.

Resource constraints are another major challenge to the rights-based entitlement approach pursued by India and other countries in developing Asia. Many economic and social rights—in social protection, health, education, employment and food—are resource-intensive. It is meaningless for governments to start giving citizens the right to demand public goods that they may subsequently be unable to pay for. In India, some fear that the extensive rights to services granted to citizens could lead to fiscal commitments that are unsustainable and that could crowd out other public sector or private investments.

In the last few decades, information and communication technology (ICT) has emerged as a powerful tool for improving governance, empowering citizens and communities, and enhancing public service delivery. Indeed, ICT is the fourth and perhaps the most potent avenue for improving public service delivery, by acting as a catalyst to enhance the effectiveness of the first three options.

Application of ICT can facilitate citizen and community empowerment;
for example, through access to information on the performance of service providers and on the budgets and workings of government, thereby making it easier for citizens to monitor them. It can also directly improve the delivery of services by cutting out intermediaries (and thereby the opportunities for bribes), streamlining procedures and making delivery more efficient through both public and private service providers.

Most countries in developing Asia have embraced the use of ICT for improving governance and service delivery, although to varying degrees. India has pioneered the use of ICT in service delivery, and many states use it to not only reduce the cost of delivering government services, such as caste and below-poverty-income certificates and land titles to rural populations, but also to enable the poor to obtain subsidized food, fertilizer and health services that they are entitled to. This modern technology is used to share information on public expenditure at the local level and on the performance of government agencies, thereby making budgets transparent and enabling community audits of public agencies. Likewise, ICT is being used to provide information on economic opportunities, knowledge of best practices and real-time prices of agricultural commodities through websites, call centers and mobile phones.

Although ICT holds great promise for fighting corruption, empowering citizens and communities, and improving service delivery, much of this potential has not yet been realized in developing Asia. Few ICT-based projects for service delivery have got past the pilot stage or have been scaled up nationally. One reason is that the development of useful content and software for the e-delivery of public services and information has lagged the expansion of hardware (namely, the high penetration of mobile handsets among the poor). The need is urgent for public–private partnerships and social venture funds to attract private parties to develop ICT-enabled content for the e-delivery of public services.

As with decentralization, private sector involvement and citizen empowerment, it also has to be recognized that ICT is not a panacea for improving governance; it is merely an enabler. For example, the quality of primary education cannot be improved by simply providing a laptop to every child, enhancing access to broadband in rural areas, and introducing a biometric attendance system for teachers. To improve student learning outcomes on a sustainable basis, interventions other than those linked to ICT are needed, such as school lunch programs to encourage student attendance and improve student cognition among undernourished children, rigorous and continuous teacher training, curriculum reform, and performance-based salaries and career advancement opportunities for teachers. But often in developing Asia, the focus is only on the introduction of ICT amid neglect for other aspects to improve outcomes.
This book draws attention to the need for governments to address the problem of poor governance—often manifested in the poor delivery of public services—through a set of interventions consisting of decentralization, private sector participation, ICT, and citizen and community empowerment. To succeed, these interventions must be accompanied by large-scale administrative reform. This entails civil service reform, incentive mechanisms that managers and service providers face at the local level, and developing record management systems and analytical capacity among government agencies. In isolation, it is unlikely that any one of these interventions will be very effective in improving governance and service delivery. But together they will make an appreciable difference.
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GOVERNANCE IN DEVELOPING ASIA

‘This is an outstanding set of essays on the state of, and changes in, public services in developing Asia, paying particular attention to evidence and lessons and examining the role that governance and citizen empowerment can play in improving public service delivery. The themes cover the complex relationship between governance and economic development; the delivery of public services as the face of governance; and the role of empowerment in improving the delivery of public services. Each chapter, written by an acknowledged expert, offers an insightful review of the debates and evidence, and a meticulous distillation of policy implications. A tour de force that will be indispensable for both policymakers and scholars in this field.’
Raghav Gaiha, University of Delhi, India

‘Governance is central to mass prosperity since it affects both the prospects for enhanced and sustained income growth as well as non-income indicators of human development. This volume, edited by Anil Deolalikar, Shikha Jha and Pilipinas Quising, puts together cogent and well-rounded analyses by leading scholars on this topic and hence provides an in-depth and prescient perspective on governance in the Asia-Pacific countries. As such, this is an invaluable contribution and will be welcomed by academics and students as well as policymakers.’
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The contributors present fresh evidence on the relationship between governance and development outcomes, including growth and indicators of living standards. They argue that the Asia-Pacific region must do better in delivering essential public services if it wishes to continue improving the quality of life for millions of its people. They show how the quantity and quality of public services in a country can be improved if the government actively solicits citizen involvement in service delivery.

Researchers and students of public policy and Asian studies will find this to be a useful read. Public policymakers and practitioners in government and non-government agencies will draw important lessons from the issues raised and solutions proposed in this book.

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